

---

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

---

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

If you have sold or transferred all your shares in Chongqing Machinery & Electric Co., Ltd., you should at once hand this circular with the accompanying form of proxy to the purchaser or transferee or to the bank, stockbroker or other agent through whom the sale or transfer was effected for transmission to the purchaser or transferee.

Hong Kong Exchanges and Clearing Limited and The Stock Exchange of Hong Kong Limited take no responsibility for the contents of this circular, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this circular.

---



**Chongqing Machinery & Electric Co., Ltd.\***  
**重慶機電股份有限公司**

*(a joint stock limited company incorporated in the People's Republic of China with limited liability)*

(Stock Code: 02722)

**(1) CONTINUING CONNECTED TRANSACTION  
AND  
(2) REVISION OF THE EXISTING ANNUAL CAPS  
UNDER THE MASTER AGREEMENTS**

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

 **Quam Capital Limited**

---

A letter from the Board is set out on pages 1 to 10 of this circular.

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

A notice convening an extraordinary general meeting of Chongqing Machinery & Electric Co., Ltd. to be held at Empark Grand Hotel, Chongqing, at No. 1, 2nd Branch Jian Xin North Road, Jiang Bei District, Chongqing, the PRC on 25 June 2009 at 12:00 noon is set out on pages 29 to 31 of this circular.

A form of proxy for use at the extraordinary general meeting is enclosed with this circular and such form of proxy is also published on the websites of the Stock Exchange ([www.hkexnews.hk](http://www.hkexnews.hk)) and the Company ([www.chinacqme.com](http://www.chinacqme.com)). Whether or not you intend to attend the extraordinary general meeting, you are requested to complete and return (i) the enclosed reply slip in accordance with the instructions printed thereon not later than Friday, 5 June 2009 and (ii) the enclosed form of proxy in accordance with the instructions printed thereon not less than 24 hours before the time fixed for holding the extraordinary general meeting or any adjournment thereof (as the case may be). Completion and return of the form of proxy will not preclude you from attending the extraordinary general meeting and voting in person if you so wish.

6 May 2009

\* For identification purposes only

---

## CONTENTS

---

	<i>Pages</i>
<b>Definitions</b> .....	ii
<b>Letter from the Board</b> .....	1
<b>Letter from the Independent Board Committee</b> .....	11
<b>Letter from Quam Capital</b> .....	12
<b>Appendix — General Information</b> .....	23
<b>Notice of EGM</b> .....	29

---

## DEFINITIONS

---

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

“Announcement”	means the announcement published by the Company on 22 April 2009;
“associate(s)”	has the meaning ascribed to it under the Listing Rules;
“Board”	means the board of Directors of the Company;
“Company”	means Chongqing Machinery & Electric Co., Ltd.* (重慶機電股份有限公司), a joint stock limited company incorporated in the PRC with limited liability;
“connected person”	has the meaning ascribed to it under the Listing Rules;
“Continuing Connected Transaction”	means the transactions under the Master Supplies Agreement;
“Controlling Shareholder”	has the meaning ascribed to it under the Listing Rules;
“Director(s)”	means director(s) of the Company;
“EGM”	means extraordinary general meeting to be held by the Company to approve, among other things, the Continuing Connected Transaction and the revision of the existing annual caps under the Master Agreements;
“Exceeded Transaction”	the transaction whereby the annual caps of RMB32,000,000 was exceeded by RMB24,900,872 to RMB56,900,872 under the Master Supplies Agreement;
“Group”	means the Company and its subsidiaries;
“H Shares”	means overseas-listed foreign shares of the Company with a nominal value of RMB1.00 each, which are listed on the Main Board of the Stock Exchange;
“Hong Kong”	means the Hong Kong Special Administrative Region of the PRC;
“Independent Board Committee”	means an independent committee of the Board composed of all independent non-executive Directors, namely Mr. Lo Wah Wai, Mr. Ren Xiaochang and Mr. Kong Weiliang to advice on the Supplemental Agreements and the revision of the existing annual caps under the Master Agreements;

---

## DEFINITIONS

---

“Independent Financial Advisor” or “Quam Capital”	means Quam Capital Limited, a licensed corporation to carry out type 6 regulated activity (advising on corporate finance) under the SFO, and the independent financial advisor to the Independent Board Committee and the Independent Shareholders in relation to the Supplemental Agreements and the revision of the existing annual caps under the Master Agreements;
“Independent Shareholder(s)”	has the meaning ascribed to it under Rule 14A.10(5) of the Listing Rules, and in relation to the Company means the Shareholders other than Parent Group;
“Latest Practicable Date”	means 6 May 2009, being the latest practicable date prior to the printing of this circular for ascertaining certain information in this circular;
“Listing Rules”	means Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited;
“Main Board”	means the stock exchange (excluding the option market) operated by the Stock Exchange which is independent from and operated in parallel with the Growth Enterprise Market of the Stock Exchange;
“Master Agreements”	means the Master Sales Agreement and the Master Supplies Agreement;
“Master Sales Agreement”	means an agreement made between the Company and the Parent Company on 16 May 2008, pursuant to which the Group has agreed to sell certain products such as the control valves and parts for steering systems, gears and clutch assemblies and the BV series of electric cables to the Parent Group;
“Master Supplies Agreement”	means an agreement made between the Company and the Parent Company on 16 May 2008, pursuant to which the Parent Group agreed to supply to the Group with the Supplies;
“Parent Company”	means Chongqing Machinery and Electronic Holding (Group) Co., Ltd. (重慶機電控股(集團)公司), a limited liability company established in the PRC on 25 August 2000 and owned by the Chongqing State-owned Assets Supervision and Administration Commission, being one of the Promoters of the Company;
“Parent Group”	means Parent Company and its associates, excluding the Group;

---

## DEFINITIONS

---

“PRC”	means the People’s Republic of China, which, unless otherwise stated, excludes Hong Kong, the Macau Special Administrative Region of the PRC and Taiwan for the purposes of this circular;
“Promoter”	has the meaning ascribed to it under the Listing Rules;
“Prospectus”	means the prospectus of the Company dated 30 May 2008;
“Revised Annual Caps”	means the revised annual caps for each of the Supplemental Agreements for each of the two financial years ending 31 December 2009 and 2010 and subject to the approval of the Independent Shareholders at the EGM as more particularly set out in this circular;
“RMB”	means Renminbi, the lawful currency of the PRC;
“Qijiang Forging”	means Qijiang Qi-Chi Forging Co. Ltd* (綦江綦齒鍛造有限公司) which was established in the PRC on 7 November 2003, through Qijiang Gear, the Company holds 100% equitable interest in Qijiang Forging;
“Qijiang Gear”	means Qijiang Gear Transmission Co., Ltd* (綦江齒輪傳動有限公司) which was established in the PRC on 28 December 2002; a wholly-owned subsidiary of the Company;
“SFO”	means the Securities and Future Ordinance (cap 571 of the Laws of Hong Kong);
“Shareholders”	means holder(s) of the Shares;
“Shares”	means the ordinary shares in the share capital of the Company with a nominal value of RMB1.00 each, comprising the domestic shares and the H shares;
“Stock Exchange”	means The Stock Exchange of Hong Kong Limited;
“subsidiary(ies)”	has the meaning ascribed to it under the Listing Rules;
“Supplemental Agreements”	means the Supplemental Master Sales Agreement and the Supplemental Master Supplies Agreement;
“Supplemental Master Sales Agreement”	means a supplemental agreement dated 22 April 2009 made between the Company and the Parent Company in relation to the Master Sales Agreement for a term from 16 May 2008 to 31 December 2010;

---

## DEFINITIONS

---

“Supplemental Master Supplies Agreement”	means a supplemental agreement dated 22 April 2009 made between the Company and the Parent Company in relation to the Master Supplies Agreement for a term from 16 May 2008 to 31 December 2010;
“Supplies”	means the supply to the Group by the Parent Group with parts and raw materials such as gears, component parts, YB2 series engines, electricity, water, gas and electrolytic copper.

*\* For identification purposes only*

---

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. Sun Nengyi  
Mr. He Yong  
Mr. Liao Shaohua  
Mr. Chen Xianzheng

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

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

*Non-executive Directors:*

Mr. Huang Yong  
Mr. Yu Gang  
Mr. Yang Jingpu  
Mr. Wu Jian

*Principal place of business  
in Hong Kong:*

Suite 2208, 22/F, Jardine House  
1 Connaught Place, Central  
Hong Kong

*Independent Non-executive Directors:*

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

6 May 2009

*To the Shareholders*

Dear Sir or Madam,

**(1) CONTINUING CONNECTED TRANSACTION  
AND  
(2) REVISION OF THE EXISTING ANNUAL CAPS  
UNDER THE MASTER AGREEMENTS**

**1. INTRODUCTION**

Reference is made to the Announcement in which it was announced by the Board that the Supplemental Agreements were entered into between the Company and the Parent Company on 22 April 2009.

\* For identification purposes only

---

## LETTER FROM THE BOARD

---

Reference is also made to the Prospectus.

The Company and the Parent Company entered into the Master Sales Agreement on 16 May 2008, pursuant to which the Group has agreed to sell certain products such as the control valves and parts for steering systems, gears and clutch assemblies and the BV series of electric cables to the Parent Group.

The Company and the Parent Company also entered into the Master Supplies Agreement on 16 May 2008, pursuant to which the Parent Group agreed to supply to the Group with parts and raw materials such as gears, component parts, YB2 series engines, electricity, water, gas and electrolytic copper.

The Parent Company which is one of the Promoters of the Company holding 52.22% interest in the Company, is a connected person of the Company under the Listing Rules. Each of the Master Agreements constituted non-exempt continuing connected transactions of the Company under Rule 14A.35 of the Listing Rules, and were subject to the reporting, announcement and Independent Shareholders' approval requirements under Rules 14A.45 to 14A.48 and the annual review requirements under Rules 14A.37 and 14A.38 of the Listing Rules.

The purpose of this circular is to give you with, among others, (i) details of the Continuing Connected Transaction and the revision of the existing annual caps under the Master Agreements; (ii) a letter from the Independent Financial Advisor to the Independent Board Committee and the Independent Shareholders containing its advice on the Supplemental Agreements and the revision of the respective existing annual caps under the Master Agreements; (iii) the recommendation of the Independent Board Committee in respect of the Supplemental Agreements and the revision of the existing annual caps under the Master Agreements; and (iv) a notice convening the EGM.



---

## LETTER FROM THE BOARD

---

### 2. THE CONTINUING CONNECTED TRANSACTION

According to the Master Supplies Agreement, the Parent Group has agreed to supply the Company with parts and raw materials such as gears, component parts, YB2 series engines, electricity, water, gas and electrolytic copper. The Parent Group has been supplying the Group with the Supplies prior to the reorganization and, due to the long relationship between the Group and the Parent Group, the Parent Group is familiar with the requirements of the Group. The Supplies are not specialized parts or materials and there are other suppliers available from which such Supplies can be sourced. Nevertheless, the Company entered into Master Supplies Agreement with the Parent Company for the sake of maintaining stable supply and cost effectiveness.

At the time of initial listing of the Shares on the Stock Exchange, the Company obtained from the Stock Exchange a waiver from strict compliance with the requirements under the Listing Rules in respect of the Master Agreements and an annual cap stated in the Master Agreements for each of the three financial years ended 31 December 2008, 2009 and 2010. For details please refer to the Prospectus under the section “Connected Transaction”.

It has come to attention of the Company that the transaction amount under the Master Supplies Agreement for the financial year ended 31 December 2008 has exceeded the annual caps by RMB24,900,872 from RMB32,000,000 to RMB56,900,872. At all material times, the Group has been paying the Parent Group in accordance with the terms of each of the invoices issued by the Parent Group from time to time. Therefore, pursuant to Rule 14A.36, the Company is obliged to seek the Independent Shareholders’ approval in respect of the Exceeded Transaction.

Since the Exceeded Transaction exceeds 2.5% of the highest applicable percentage ratios as set out under Chapter 14A of the Listing Rules, the Exceeded Transaction constitutes a non-exempted continuing connected transaction of the Company under Rule 14A.35 of the Listing Rules and is subject to the reporting, announcement and the Independent Shareholders’ approval requirement under the Listing Rules. The Parent Group is required to abstain from voting at the EGM.

The Board confirms that save and except that Exceeded Transaction, the Company has adhered to the terms and conditions of the Master Supplies Agreement. The Board considers that the notwithstanding that the Exceeded Transactions, the transactions under the Master Supplies Agreement are on normal commercial and fair and reasonable and in the interests of the Shareholders of the Company as a whole.

---

## LETTER FROM THE BOARD

---

### REASONS AND BENEFITS FOR THE TRANSACTION

The Group has been purchasing from the Parent Group parts and raw materials such as gears, component parts, YB2 series engines, electricity, water, gas and electrolytic copper from time to time. As a result of the Group's long-term business relationship with the Parent Group, the Parent Group is familiar with the Group's product specifications and has been able to respond quickly and in a cost efficient manner to any new requirements that the Group may request.

### PRICING BASIS FOR THE MASTER SUPPLIES AGREEMENT

The Master Supplies Agreement was entered into in the ordinary and usual course of business of the Company. The terms of the Master Supplies Agreement were negotiated on an arm's length basis and on normal commercial terms. The pricing or consideration of the Master Supplies Agreement has been, and will be, determined with reference:-

- (i) according to the price set by the PRC Government (including the municipal government and other regulatory bodies which govern such Supplies); or
- (ii) if no such price is set by the PRC Government, not higher than the maximum of the guide prices set by the PRC Government for such supplies; or
- (iii) if there is no set price and no guide prices set by the PRC Government, not higher than such open market price between independent parties on normal commercial terms in comparable locality, or if there are no comparable localities, not higher than such open market price between independent parties on normal commercial terms in the PRC generally; or
- (iv) if the Supplies have no set price and no guide prices set by the PRC Government and there is no open market for such Supplies, the parties are to negotiate on normal commercial terms for the supply of such Supplies based on the actual or reasonable costs of supplying such Supplies ( whichever is lower) together with a reasonable profit. A "reasonable profit" is a profit that is agreed between the parties as being no more than 10% of the actual costs or reasonable cost incurred for the provision of the Supplies.

The Directors (including the independent non-executive Directors), after reviewing the basis, are of the view that the terms of the Master Supplies Agreement are on normal commercial terms, and are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

---

## LETTER FROM THE BOARD

---

### REMEDIAL ACTIONS

To avoid repeating the same omission, the Directors will closely monitor volume of the continuing connected transactions with the Parent Group on a quarterly basis. In preparing for the quarterly financial report of the Company, the Directors, will particularly review the amounts of the continuing connected transactions with the Parent Group and take prompt actions to make necessary disclosure and obtain the Independent Shareholders' approval, if necessary, as required under the Listing Rules if the amount of any such the continuing connected transactions exceeds or is likely to exceed the relevant caps.

### 3. THE REVISION OF THE EXISTING ANNUAL CAPS UNDER THE MASTER AGREEMENTS

At the time of listing of the Shares on the Stock Exchange, the Company obtained from the Stock Exchange a waiver from strict compliance with the requirements under the Listing Rules in respect of the Master Agreements and an annual cap stated in the Master Agreements for each of the three financial years ended 31 December 2008, 2009 and 2010. For details please refer to the Prospectus under the section "Connected Transaction".

The Company believes that the economic growths in the PRC will stimulate the demands for commercial vehicle parts and components, power equipment, general machinery and CNC machine tools, the sale performance of the Group will increase steadily in the coming years. Also, with the completion of the acquisition of shares in Qijiang Gear and Qijiang Forging, the transactions between Qijiang Gear and Qijiang Forging and the Parent Group will become a connected transaction of the Company. As such, the Company considers that it is necessary to enter into the Supplemental Agreements to revise upwards the annual caps stated in the Master Agreements initially.

The historical transaction records with of Qijiang Gear, Qijiang Forging and the Group with the Parent Group under the Master Supplies Agreement are:

	Year ending 31 December		
	2006	2007	2008
	<i>(RMB millions)</i>		
Qijiang Gear	18.1	22.5	<b>30.0</b>
Qijiang Forging	0	0	<b>0</b>
The Group	31.9	25.3	<b>56.9</b>
	<hr/>	<hr/>	<hr/>
Total	<u>50.0</u>	<u>47.8</u>	<u><b>86.9</b></u>

---

## LETTER FROM THE BOARD

---

The historical transaction records with of Qijiang Gear, Qijiang Forging and the Group with the Parent Group under the Master Sales Agreement are:

	<b>Year ending 31 December</b>		
	<b>2006</b>	<b>2007</b>	<b>2008</b>
	<i>(RMB millions)</i>		
Qijiang Gear	41.4	98.6	<b>63.0</b>
Qijiang Forging	0	0	<b>0</b>
The Group	35.5	50.6	<b>60.9</b>
	<hr/>	<hr/>	<hr/>
Total	<u>76.9</u>	<u>149.2</u>	<u><b>123.9</b></u>

### DETAILS OF THE SUPPLEMENTAL AGREEMENTS

The Supplemental Agreements was entered into on 22 April 2009 between the Company and Parent Company, to revise upwards the annual caps stated in the Master Agreements initially. All existing terms and conditions of the Master Agreements will remain unchanged with revision made only to annual caps of the Master Agreements as listed below:

	<b>Annual Caps for</b>		<b>Annual Caps for</b>	
	<b>financial year ended</b>		<b>financial year ended</b>	
	<b>31 December 2009</b>		<b>31 December 2010</b>	
	<i>(RMB millions)</i>		<i>(RMB millions)</i>	
	<b>Current</b>	<b>Revised</b>	<b>Current</b>	<b>Revised</b>
1. Master Sales Agreement	68	130	75	160
2. Master Supplies Agreement	35	120	35	140

As per the terms and conditions of the Master Agreements, the Group will pay the Parent Group in accordance with the terms of each of the invoices issued by the Parent Group from time to time.

The revised annual caps under the Supplemental Master Sales Agreement is based on the following:

- (i) the change in the corporate structure of the Group following completion of the Acquisition in February 2009;
- (ii) the estimated demand for commercial vehicle parts and components, general machinery, CNC machine tools and power equipment;
- (iii) the sales volume projections of the Group for each of the two financial years ending 31 December 2010;

---

## LETTER FROM THE BOARD

---

- (iv) the prospect of the PRC economy and the markets relevant to the Group, in particular, the PRC automobile market; and
- (v) the historical transacted amount of the Sales Transactions for the financial year ended 31 December 2008.

The revised annual caps under the Supplemental Master Supplies Agreement is based on the following:

- (i) the change in the corporate structure of the Group following completion of the Acquisition in February 2009;
- (ii) the estimated demand for the Supplies in relation to commercial vehicle parts and components, general machinery, CNC machine tools and power equipment;
- (iii) the sales volume projections of the Group for each of the two financial years ending 31 December 2010;
- (iv) the prospect of the PRC economy and the markets relevant to the Group, in particular, the PRC automobile market; and
- (v) the historical transacted amount of the Supplies Transactions for the year ended 31 December 2008.

### **REASONS AND BENEFITS FOR THE SUPPLEMENTAL AGREEMENTS**

The Group has been purchasing the Supplies from the Parent Group and selling control valves and parts for steering systems, gears and clutch assemblies and the BV series of electric cables to the Parent Group. As a result of the Group's long-term business relationship with the Parent Group, the Parent Group is familiar with the Group's product specifications and has been able to respond quickly and in a cost efficient manner to any new requirements that the Group may request.

In view of the anticipated growth in sales of the Group and the broaden scope of the connected parties, the Board would also to propose a revision to the annual caps stated the Master Agreements. If the proposed Revised Annual Caps is not approved, the Group will have to incur extra time to source the Supplies and the sales volume between the Parent Group and the Group will be severely affected, which in turn will affect the profits of the Group.

---

## LETTER FROM THE BOARD

---

The Group will continue to try to locate prospective purchasers and source the Supplies from other suppliers. However, considering the effective costs of such sourcing, the additional time required and the inconvenience arisen, it would not be commercially viable, which would inevitably erode the profit margin of the Group.

Save and except the Revised Annual Caps, all the terms and conditions of the Master Agreements shall remain unchanged and effective. In light of the aforesaid, the Directors considered that the Revised Annual Caps and the terms and conditions of the Supplemental Agreements are fair and reasonable and on normal commercial terms, and that it is in the interests of the Company and its Shareholders as a whole to continue with the Master Agreements and to enter into the Supplemental Agreements with the Parent Company.

### **IMPLICATIONS UNDER THE LISTING RULES**

The Parent Company, which is one of the Promoters of the Company holding 52.22% interest in the Company, is a connected person of the Company. Since the Revised Annual Caps exceed 2.5% of the highest applicable percentage ratios as set out under Chapter 14A of the Listing rules, each of the Supplemental Agreements constitutes a non-exempted continuing connected transaction of the Company under Rule 14A.35 of the Listing Rules and are subject to the report, announcement and the Independent Shareholders' approval requirements under the Listing Rules. And the Parent Group is required to abstain from voting at the EGM.

### **PRICING BASIS**

The Supplemental Agreements were entered into in the ordinary and usual course of business of the Company. The terms of the Supplemental Agreements were negotiated on an arm's length basis and on normal commercial terms. The pricing or consideration of the transaction contemplated in the Supplemental Agreements have been, and will be, determined with reference:-

- (i) according to the price set by the PRC Government (including the municipal government and other regulatory bodies which govern such transactions); or
- (ii) if no such price is set by the PRC Government, not higher than the maximum of the guide prices set by the PRC Government for such transactions; or
- (iii) if there is no set price and no guide prices set by the PRC Government, not higher than such open market price between independent parties on normal commercial terms in comparable locality, or if there are no comparable localities, not higher than such open market price between independent parties on normal commercial terms in the PRC generally; or

---

## LETTER FROM THE BOARD

---

- (iv) if the transactions have no set price and no guide prices set by the PRC Government and there is no open market for such transactions, the parties are to negotiate on normal commercial terms for the supply of such transactions based on the actual or reasonable costs of supplying such transactions ( whichever is lower) together with a reasonable profit. A “reasonable profit” is a profit that is agreed between the parties as being no more than 10% of the actual costs or reasonable cost incurred for the provision of the transactions.

The Directors (including the independent non-executive Directors), after reviewing the basis, are of the view that the terms of the transactions and the Supplemental Agreements are on normal commercial terms, and are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

#### **4. INFORMATION OF THE GROUP**

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

#### **5. INFORMATION OF THE PARENT GROUP**

The Parent Company is principally engaged in automobiles and ancillary automobile business (including special purpose vehicles, compartments and transmission axle), electronic information business and other business.

#### **6. EGM**

The notice of the EGM is set out on pages 29 to 31 of this circular. At the EGM, resolutions will be proposed to approve, inter alia, the Continuing Connected Transaction, the revision of the existing annual caps under the Master Agreements and the Supplemental Agreements.

A form of proxy for use at the EGM is enclosed with this circular and such form of proxy is also published on the websites of the Stock Exchange ([www.hkexnews.hk](http://www.hkexnews.hk)) and the Company ([www.chinacqme.com](http://www.chinacqme.com)). Whether or not you intend to attend the EGM, you are requested to complete and return (i) the enclosed reply slip in accordance with the instructions printed thereon not later than Friday, 5 June 2009 and (ii) the enclosed form of proxy in accordance with the instructions printed thereon not less than 24 hours before the time fixed for holding the EGM or any adjournment thereof (as the case may be). Completion and return of the form of proxy will not preclude you from attending the EGM and voting in person if you so wish.

---

## LETTER FROM THE BOARD

---

### 7. PROCEDURES FOR VOTING IN THE EGM

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

### 8. RECOMMENDATION

The Directors consider that all resolutions proposed for consideration and approval by the Shareholders at the EGM are in the best interests of the Company and the Shareholders as a whole. Accordingly, the Directors recommend that all the Shareholders should vote in favour of all the resolutions to be proposed at the EGM as set out in the notice of the EGM.

Yours faithfully,

By Order of the Board

**Chongqing Machinery & Electric Co., Ltd.\***

**Sun Nengyi**

*Executive Director, Chairman*





**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)

6 May 2009

*To the Independent Shareholders*

Dear Sir or Madam,

**(1) CONTINUING CONNECTED TRANSACTION  
AND  
(2) REVISION OF THE EXISTING ANNUAL CAPS  
UNDER THE MASTER AGREEMENTS**

We refer to the circular issued by the Company to the Shareholders dated 6 May 2009 (the "Circular") of which this letter forms part. Unless otherwise specified, capitalised terms used herein shall have the same meanings as those defined in the Circular.

We have been appointed by the Board to advise you on the terms of the Supplemental Agreements and the revision of the existing annual caps under the Master Agreements. Quam Capital has been appointed as the Independent Financial Advisor to advise you and us in this regard. Details of its advice, together with the principal factors and reasons it has taken into consideration in giving such advice, are set out from pages 12 to 22 of the Circular and the additional information set out in the appendix thereto.

Having considered the terms of the Supplemental Agreements and the revision of the existing annual caps under the Master Agreements, and taking into account the independent advice of Quam Capital, in particular the principal factors, reasons and recommendations set out in its letter from pages 12 to 22 of the Circular, we consider that the Supplemental Agreements and the revision of the existing annual caps under the Master Agreements are on normal commercial terms and fair and reasonable as far as the Independent Shareholders are concerned and entering into the Supplemental Agreements and the revision of the existing annual caps under the Master Agreements are in the interests of the Company and the Shareholders as a whole. Accordingly, we recommend you to vote in favour of the ordinary resolution to be proposed at the EGM to approve the Supplemental Agreements and the revision of the existing annual caps under the Master Agreements.

Yours faithfully,

For and on behalf of

*the Independent Board Committee*

**Lo Wah Wai, Ren Xiaochang and Kong Weiliang**

\* *For identification purposes only*

---

## LETTER FROM QUAM CAPITAL

---

*The following is the full text of the letter of advice from Quam Capital, the independent financial adviser to the Independent Board Committee and the Independent Shareholders, which has been prepared for the purpose of incorporation into this circular, setting out its advice to the Independent Board Committee and the Independent Shareholders in respect of the Supplemental Agreements and the revision of the existing annual caps under the Master Agreements.*



Financial Services Group

**Quam Capital Limited** 華富嘉洛企業融資有限公司

A Member of The Quam Group

6 May 2009

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

Dear Sir or Madam,

**(1) CONTINUING CONNECTED TRANSACTION  
AND  
(2) REVISION OF THE EXISTING ANNUAL CAPS  
UNDER THE MASTER AGREEMENTS**

### INTRODUCTION

We refer to our appointment as the independent financial adviser to the Independent Board Committee and the Independent Shareholders in relation to the Supplemental Agreements and the revision of the existing annual caps under the Master Agreements (the “Revisions”). Details of the Supplemental Agreements and the Revisions are set out in the circular dated 6 May 2009 (the “Circular”) of which this letter forms part. Terms used in this letter shall have the same meanings as defined in the Circular unless the context otherwise requires.

The Independent Board Committee comprising Mr. Lo Wah Wai, Mr. Ren Xiaochang and Mr. Kong Weiliang, being the independent non-executive Directors, has been formed to advise the Independent Shareholders on whether the terms of the Supplemental Agreements and the Revisions are fair and reasonable and in the interests of the Company and the Independent Shareholders as a whole. We, Quam Capital, have been appointed as the independent financial adviser to give an independent opinion to the Independent Board Committee and the Independent Shareholders in this regard.

---

## LETTER FROM QUAM CAPITAL

---

### **BASIS OF OUR OPINION**

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

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

### **PRINCIPAL FACTORS AND REASONS CONSIDERED**

In arriving at our recommendation in respect of the terms of the Supplemental Agreements and the Revisions, we have taken into consideration the following principal factors and reasons:

#### **1. Background of and reasons for the Revisions**

- (a) **The principal business of the Group and the continuing connected transactions contemplated under the Supplemental Master Sales Agreement (the “Sales Transactions”) and the Supplemental Master Supplies Agreement (the “Supplies Transactions”)**

As stated in the “Letter from the Board” in the Circular (the “Letter from the Board”), the Group is principally engaged in manufacturing and sales of commercial vehicle parts and components, general machinery, CNC machine tools and power equipment. The Parent Company is principally engaged in automobiles and ancillary automobile business (including special purpose vehicles, compartments and transmission axle), electronic information business and other business.

---

## LETTER FROM QUAM CAPITAL

---

As disclosed in the Prospectus, on 16 May 2008, the Company entered into the Master Sales Agreement with the Parent Company pursuant to which the Group agreed to sell certain products such as the control valves and parts for steering systems, gears and clutch assemblies and the BV series of electric cables (the “Products”) to the Parent Group. The Company was of the view that the Sales Transactions provided the Group with a reliable customer base, a stable income and timely payment for the Products sold. The Group has been selling the Products to the Parent Group primarily as parts for the Parent Group’s heavy vehicles businesses prior to its new listing on the Stock Exchange. It is noted that the sales of the Products to the Parent Group amounted to approximately RMB60.9 million for the year ended 31 December 2008, representing about 1.0% of the Group’s revenue for the same year. As disclosed in the Prospectus, notwithstanding that the Parent Group is able to source the same products from independent third parties, the Parent Group intended to continue sourcing the Products from the Group considering that there was no alternative source other than the Group able to meet its requirements in terms of cost, quality and service level as well as after sales service of the Products. On the other hand, the sale of the Products to the Parent Group provided the Group with a reliable customer base, a stable income and timely payment for the Products sold. It was expected that in the future the Parent Group may procure through a competitive tendering process and the Group was intended to participate in the selection process.

On 16 May 2008, the Company entered into the Master Supplies Agreement pursuant to which the Parent Group agreed to supply the Group with parts and raw materials such as gears, component parts, YB2 series engines, electricity, water, gas and electrolytic copper for the manufacture of products of the Group. As disclosed in the Prospectus, the Supplies were not specialised and the Group was able to source from independent third parties. However, considering (i) the quantity and quality of the Supplies; (ii) the long term business relationship and that the Parent Group is familiar with the requirement of the Group as to the quality and services on the Supplies; (iii) the supply of electricity, water and gas are for the benefit of the leased properties from the Parent Group, which are used as production facilities, offices and staff quarters of the Group; and (iv) that the price of the Supplies were determined based on market references at terms no less favourable than independent third parties, the Group intended to secure the source of supply by entering into the Master Supplies Agreement. The monetary value of the Supplies Transactions was approximately RMB56.9 million for the year ended 31 December 2008, representing about 1.2% of the Group’s total cost of sales for the same year.

As disclosed in the Prospectus, the Parent Group was obligated to supply the Supplies contracted at a level and standard that is not lower than the levels and standards supplied to other parties. The Group has the right to source the Supplies from independent third parties at any time. The Group would continue to explore alternative supplies to procure the Supplies which meet the requirement of the Group without increasing the transportation costs.

---

## LETTER FROM QUAM CAPITAL

---

Notwithstanding that the Sales Transactions and the Supplies Transactions are not significant to the revenue and cost of sales of the Group, in view of (i) that the Parent Group represents a stable source of supply or a reliable customer base (as the case may be) of the Group; (ii) the efficiency and cost effectiveness given that the Parent Group is familiar with the Group's product specifications and requirements; (iii) the timely delivery of products and relatively low transportation costs; and (iv) that the terms are determined based on market references and no less favourable than independent third parties as discussed in section (2) below, we concur with the Company's view that the Sales Transactions and the Supplies Transactions are beneficial to the Group.

**(b) Revision of the existing annual caps of the Sales Transactions and the Supplies Transactions and the entering into the respective Supplemental Agreements**

As disclosed in the Letter from the Board, the estimated maximum transaction value of the Supplies Transactions for the two financial years ending 31 December 2009 and 2010 is RMB120 million and RMB140 million respectively (the "Revised Supplies Caps"), which exceeds the existing annual caps as disclosed in the Prospectus of RMB35 million for both financial years (the "Existing Supplies Caps"); whereas the estimated maximum transaction value of the Sales Transactions for the two financial years ending 31 December 2009 and 2010 is RMB130 million and RMB160 million respectively (the "Revised Sales Caps"), which exceeds the existing annual caps as disclosed in the Prospectus of RMB68 million and RMB75 million respectively (the "Existing Sales Caps"). As a result, the Company entered into the Supplemental Agreements to raise the respective annual caps.

As disclosed in the announcement of the Company dated 5 February 2009, the Company entered into an agreement with Shanghai Electric (Group) Corporation\* (上海電氣(集團)總公司) to acquire 51% equity interest in Qijiang Gear and 24.48% interest in Qijiang Forging (the "Acquisition"). Following the completion of the Acquisition, the transactions between Qijiang Gear and the Parent Group will become continuing connected transactions of the Company, and their estimated transaction amounts will be topped up to the Revised Supplies Caps and the Revised Sales Caps. Qijiang Forging does not have any transactions with the Parent Group. The actual transacted amount of Supplies Transactions and Sales Transactions between Qijiang Gear and the Parent Group was amounted to approximately RMB30.0 million and RMB63.0 million for the year ended 31 December 2008 respectively.

Taking into account the changes in the corporate structure following completion of the Acquisition in February 2009 and the Group's recent forecast of the Sales Transactions and the Supplies Transactions, the Company anticipates that there would be deviations in the respective expected transaction amounts for each of the two financial years ending 31 December 2010, from what they originally envisaged in the preparation of the Prospectus mentioned above. Given the aforesaid and for reasons discussed in sub-section (a) above, we believe the adoption of the Revised Sales Caps and the Revised Supplies Caps, which reflects the changes in the corporate structure and the transaction volumes of the Group based on the projection by the Company, are essential for the Group's continued business development.

---

## LETTER FROM QUAM CAPITAL

---

(c) **Conclusion**

Based on the foregoing, we are of the view that the entering into the Supplemental Agreements together with the adoption of the Revised Sales Caps and the Revised Supplies Caps are conducted in the ordinary and usual course of the Group's business, on normal commercial terms, and in the interests of both the Company and the Shareholders as a whole.

**2. Principal terms of the Master Agreements to be amended by the Supplemental Agreements**

(a) **Nature of the transactions**

Pursuant to the Master Sales Agreement to be amended by the Supplemental Master Sales Agreement, the Group agreed to supply the Products to the Parent Group expiring on 31 December 2010.

Pursuant to the Master Supplies Agreement to be amended by the Supplemental Master Supplies Agreement, the Parent Group agreed to sell the Supplies to the Group expiring on 31 December 2010.

(b) **Pricing basis**

As disclosed in the Letter from the Board in relation to the terms of the Supplemental Agreements, the amendments to be made to the respective Master Agreements are relevant to the annual caps for the two years ending 31 December 2010 only.

Pursuant to the terms of the respective Master Agreements, the pricing or consideration of the Sales Transactions and the Supplies Transactions have been, and will be, determined with reference to the followings:

- (i) according to the price set by the PRC Government (including the municipal government and other regulatory bodies which govern such transactions); or
- (ii) if no such price is set by the PRC Government, not higher than the maximum of the guide prices set by the PRC Government for such transactions; or
- (iii) if there is no set price and no guide prices set by the PRC Government, not higher than such open market price between independent parties on normal commercial terms in comparable locality, or if there are no comparable localities, not higher than such open market price between independent parties on normal commercial terms in the PRC generally; or

---

## LETTER FROM QUAM CAPITAL

---

- (iv) if there is no set price and no guide prices set by the PRC Government and there is no open market for such transactions, the parties are to negotiate on normal commercial terms for the supply of such transactions based on the actual or reasonable costs of such transactions (whichever is lower) together with a reasonable profit. A “reasonable profit” is a profit that is agreed between the parties as being no more than 10% of the actual costs or reasonable cost incurred.

It is noted that the pricing of the Products and the Supplies (as the case may be) should be determined based on certain market references and no less favourable than those offered by the independent third parties. In addition, the parties agreed to re-negotiate the terms in good faith if there is any material fluctuation of the prices. The Group is also at its own discretion to determine whether to sell any Products to the Parent Group or to purchase any Supplies from independent third parties in any circumstances. In view of the above, we consider that the respective pricing basis of the Sales Transactions and the Supplies Transactions is fair and reasonable, on normal commercial terms and in the interests of the Company and the Shareholders as a whole.

### 3. Requirements of the Listing Rules

For each financial year of the Company during the terms of the Master Agreements, the subject transactions will be subject to review by the independent non-executive Directors and the Company’s auditors as required by the provisions of Rules 14A.37 and 14A.38 of the Listing Rules respectively. The independent non-executive Directors must confirm in the annual report and accounts that, among other transactions, the Sales Transactions and the Supplies Transactions have been entered into:

- in the ordinary and usual course of business of the Company;
- either on normal commercial terms or, if there are not sufficient comparable transactions to judge whether they are on normal commercial terms, on terms no less favourable to the Company than terms available to or from (as appropriate) independent third parties; and
- in accordance with the relevant agreements governing them on terms that are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

Furthermore, the Listing Rules require that the Company’s auditors must provide a letter to the Board (with a copy provided to the Stock Exchange at least ten business days prior to the bulk printing of the annual report of the Company), confirming that, among other transactions, the Sales Transactions and the Supplies Transactions:

- have received the approval of the Board;
- are in accordance with the pricing policies of the Company if the transactions involve provision of goods or services of services by the Company;

---

## LETTER FROM QUAM CAPITAL

---

- have been entered into in accordance with the relevant agreement governing the transactions; and
- have not exceeded the cap disclosed in the Prospectus.

It was stated in the annual report of the Company for the year ended 31 December 2008 that, pursuant to Rule 14A.37 of the Listing Rules, the independent non-executive Directors have confirmed that for the year ended 31 December 2008, each of the continuing connected transactions of the Group (including the Supplies Transactions and the Sales Transactions) (the “CCTs”) has been entered into (i) in the ordinary and usual course of business of the Company; (ii) on normal commercial terms or on terms no less favourable than terms available to or from (as the case may be) independent third parties; (iii) in accordance with the relevant agreement governing them; and (iv) on terms that are fair and reasonable and in the interests of the Shareholders as a whole; whereas pursuant to Rule 14A.38 of the Listing Rules, the auditor of the Company has provided a letter confirming that (i) the CCTs have been approved by the Board; (ii) the pricing of the CCTs are in accordance with the pricing policies of the Company; (iii) the CCTs have been entered into in accordance with the relevant agreement governing them; and (iv) the amounts of the CCTs have not exceeded the annual caps, except for the Supplies Transactions.

As stated in the Letter from the Board, as remedial actions, the Directors will (i) closely monitor the transaction volume of the CCTs with the Parent Group on a quarterly basis; and (ii) particularly review the amounts of the CCTs with the Parent Group in the preparation of the quarterly financial report of the Company and take prompt actions to make necessary disclosure and obtain independent shareholders’ approval, if necessary, as required under the Listing Rules if the amount of any such CCTs exceeds or is likely to exceed the relevant annual caps.

Given the above, we are of the opinion that there will be sufficient procedures and arrangements in place to ensure that the Sales Transactions and the Supplies Transactions will be conducted on terms that are fair and reasonable and on normal commercial terms as far as the Independent Shareholders are concerned.

#### **4. The annual caps**

##### **(a) The bases of determination of the Revised Sales Caps**

The Revised Sales Caps is proposed to be RMB130 million and RMB160 million for the two years ending 31 December 2010 respectively.



---

## LETTER FROM QUAM CAPITAL

---

In our assessment of the respective reasonableness and fairness of the Revised Sales Caps, we have reviewed the sales projections of the Group and the estimated sales to the Parent Group for the two financial years ending 31 December 2010 compiled by the Group and the underlying bases and assumptions related thereto. We have discussed with the Company regarding the above and noted that it has principally taken into account (i) the change in the corporate structure of the Group following completion of the Acquisition in February 2009; (ii) the estimated demand for commercial vehicle parts and components, general machinery, CNC machine tools and power equipment; (iii) the sales volume projections of the Group for each of the two financial years ending 31 December 2010; (iv) the prospect of the PRC economy and the markets relevant to the Group, in particular, the PRC automobile market; and (v) the historical transacted amount of the Sales Transactions for the financial year ended 31 December 2008. We concur with the Company's view that it will be fair and reasonable and in the interests of both the Company and the Shareholders to set the relevant Revised Sales Caps at the proposed levels, after taking into consideration the following:

- that over 90% of the Sales Transactions are relevant to the commercial vehicle parts and components segment of the Group for the two years ending 31 December 2010;
- the completion of the Acquisition in February 2009 and the estimated transaction amount of the Sales Transactions between Qijiang Gear and the Parent Group for the two years ending 31 December 2010 taking into account (i) the actual transacted amount of approximately RMB63.0 million for the year ended 31 December 2008; (ii) the sales forecast of Qijiang Gear and Qijiang Forging for the two years ending 31 December 2010; (iii) that certain after-sales services function of the Parent Group has been merged with Qijiang Gear prior to completion of the Acquisition; and (iv) the prospect of the PRC automobile industry;
- the estimated growth rate of the revenue of commercial vehicle parts and components segment of the Group (including Qijiang Gear and Qijiang Forging) for each of the two years ending 31 December 2010 of about 10% is not excessive considering that (i) according to the China Association of Automobile Manufacturers, the total sales volume of automobile in the PRC for the year ending 31 December 2009 is estimated to be 10.2 million, representing growth rate of about 8.7% for last year; (ii) the total sales volume of automobile in the PRC in March 2009 was approximately 1.1 million, representing a year-on-year growth rate of about 5.6%, which showed signal of recovery from the downward trend in the fourth quarter in 2008; (iii) the various stimulus packages announced by the government to boost the PRC economy; (iv) the PRC automobile industry was within the scope of the industry-specific revitalisation plans announced by the PRC government with key measures and policies such as elimination of obsolete capacity, accelerating innovation and cutting of export tariffs; and (v) the PRC government announced

---

## LETTER FROM QUAM CAPITAL

---

the Auto Industry Planning in March 2009 which reinforces that the automobile industry is the key composition in the PRC economy and sets out quantitative and qualitative objectives (including a target on average growth rate in sales volume of at least 10% from 2009 to 2011) to ensure the sustainable, healthy, stable and comprehensive development of the PRC automobile industry;

- the expansion plan of the Group and the Parent Group to enhance production capacities in the commercial vehicle parts and components segment in order to accommodate (i) the growing sales target of the Group's major customers, including the Parent Group, in the same segment; and (ii) the expansion strategy to diversify its existing commercial car business into the passenger car market; and
- the transacted amount of the Sales Transactions for the year ended 31 December 2008 of approximately RMB60.9 million, including a one-off project for the construction of new production facilities of the Parent Group completed in 2008.

**(b) The bases of determination of the Revised Supplies Caps**

The Revised Supplies Caps is proposed to be RMB120 million and RMB140 million for the two years ending 31 December 2009 and 2010 respectively.

In our assessment of the respective reasonableness and fairness of the Revised Supplies Caps, we have reviewed the sales projections of the Group and the estimated procurement from the Parent Group for the two financial years ending 31 December 2010 compiled by the Group and the underlying bases and assumptions related thereto. We have discussed with the Company regarding the above and noted that it has principally taken into account (i) the change in the corporate structure of the Group following completion of the Acquisition in February 2009; (ii) the estimated demand for the Supplies in relation to commercial vehicle parts and components, general machinery, CNC machine tools and power equipment; (iii) the sales volume projections of the Group for each of the two financial years ending 31 December 2010; (iv) the prospect of the PRC economy and the markets relevant to the Group, in particular, the PRC automobile market; and (v) the historical transacted amount of the Supplies Transactions for the year ended 31 December 2008. We concur with the Company's view that it will be fair and reasonable and in the interests of both the Company and the Shareholders to set the relevant Revised Supplies Caps at the proposed levels, after taking into consideration the following:

- that over 75% of the Supplies Transactions are relevant to the commercial vehicle parts and components segment of the Group for the two years ending 31 December 2010;
- that the Group maintained a relatively stable gross margin ranging between 17.6% and 20.2% in the recent three financial years;

---

## LETTER FROM QUAM CAPITAL

---

- the completion of the Acquisition in February 2009 and the estimated transaction amount of the Supplies Transactions between Qijiang Gear and the Parent Group for the two years ending 31 December 2010 taking into account (i) the sales forecast of Qijiang Gear and Qijiang Forging for the two years ending 31 December 2010; (ii) the actual transacted amount of approximately RMB30.0 million for the year ended 31 December 2008; and (iii) the prospect of the PRC automobile industry;
- the estimated growth rate of the revenue of commercial vehicle parts and components segment of the Group (including Qijiang Gear and Qijiang Forging) for each of the two years ending 31 December 2010 of about 10% is not excessive taking into account the factors as discussed in subsection (a) above;
- the expansion plan of the Group and the Parent Group to enhance production capacity in the commercial vehicle parts and components segment in order to accommodate (i) the growing sales target of the Group's major customers in the same segment; and (ii) the expansion strategy to diversify its existing commercial car business into the passenger car market; and
- the transacted amount of the Supplies Transactions for the year ended 31 December 2008 of approximately RMB56.9 million.

**(c) Conclusion**

As the aforesaid sales projections of the Group and the PRC automobile market relate to future events and are based on assumptions which may not remain valid for the whole of the relevant period, the actual sales achieved may not necessarily correspond to the projections and, accordingly, we express no opinion on how closely the sales eventually achieved will correspond with the projections.

Based on the factors and reasons discussed above, we are of the view that the Revised Sales Caps and the Revised Supplies Caps are set by the Group after careful and due consideration and are fair and reasonable so far as the Shareholders are concerned and in the interests of both the Company and the Shareholders as a whole.

---

## LETTER FROM QUAM CAPITAL

---

### RECOMMENDATION

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

- the background of and reasons for the Revisions and the entering into the Supplemental Agreements;
- that the Revisions and the entering into the Supplemental Agreements are conducted in the ordinary and usual course of the Group's business;
- that the pricing bases of the Supplemental Agreements are fair and reasonable;
- the control and review procedures and arrangements and remedial actions in place to safeguard the interests of the Company and the Shareholders in relation to the Sales Transactions and the Supplies Transactions; and
- that the Revised Sales Caps and the Revised Supplies Caps have been set by the Company, after careful and due considerations, at a level which will be in the interests of both the Company and the Shareholders,

we consider that the Supplemental Agreements have been entered into with the ordinary and usual course of business of the Group based on normal commercial terms and their respective terms and conditions together with the Revised Sales Caps and Revised Supplies Caps are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

Accordingly, we advise the Independent Shareholders, and the Independent Board Committee to recommend the Independent Shareholders to vote in favour of the ordinary resolutions to be proposed at the EGM to approve the Supplemental Agreements and the Revisions.

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

\* *For identification purposes only*

**1. RESPONSIBILITY STATEMENT**

This circular includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Group. The Directors collectively and individually accept full responsibility for the accuracy of the information contained in this circular and confirm, having made all reasonable enquiries, that to the best of their knowledge and belief there are no other facts the omission of which would make any statement herein misleading.

**2. DISCLOSURE OF INTERESTS**

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

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

As at Latest Practicable Date, so far as the Directors are aware the following persons (not being a director, chief executive or supervisor of the Company) had interests in the shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO and as recorded in the register required to be kept under section 336 of the SFO:

#### Domestic shares of RMB1.00 each of the Company

Name of Substantial Shareholders	Number of shares	Capacity	Note	Percentage of total number of Domestic Shares in Issue (%)	Percentage of total number of Shares in Issue (%)
Chongqing Machinery and Electronic Holding (Group) Co., Ltd.	1,924,225,189	Beneficial owner	(1)	74.45 (L)	52.22
Chongqing Yufu Asset Management Co., Ltd.	232,132,514	Beneficial owner	(1)	8.98 (L)	6.30
Chongqing Jiangong Group Co., Ltd.	232,132,514	Beneficial owner	(1)	8.98 (L)	6.30
China Huarong Asset Management Co., Ltd.	195,962,467	Beneficial owner	(2)	7.58 (L)	5.32
State-Owned Assets Supervision and Administration Commission of Chongqing Municipal Government	2,388,490,217	Interest in controlled corporations	(1)	92.42 (L)	64.82
The People's Republic of China Ministry of Finance	195,962,467	Interest in controlled corporations	(2)	7.58 (L)	5.32

(L): Long Position

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

Name of Shareholders	Class of shares	Number of shares	Capacity	Note	Percentage of number of H Shares (%)	Percentage of number of Shares in Issue (%)
Chongqing International (Holding) Ltd. for Econo & Tech. Cooperation	H shares	180,000,000	Beneficial Owner	(1) and (3)	16.36 (L)	4.89
Fortis Investment Management SA	H shares	99,442,000	Investment manager	(4)	9.04 (L)	2.70
National Council for Social Security Fund	H shares	95,287,470	Beneficial owner		8.66 (L)	2.59
The Bank of New York Mellon (formerly known as "The Bank of New York")	H shares	87,276,000	Custodian	(5)	7.93 (L)	2.37
The Bank of New York Mellon Corporation	H shares	87,276,000	Interest in controlled corporations	(5)	7.93 (L) 7.93 (P)	2.37 2.37

(L): Long Position

(P): Lending Pool

## Notes:

- Chongqing Machinery and Electronic Holding (Group) Co., Ltd., Chongqing Yufu Assets Management Co., Ltd, Chongqing Jiangong Group Co., Ltd. and Chongqing International (Holding) Ltd. for Econo & Tech. Cooperation were wholly owned by State-Owned Assets Supervision and Administration Commission of Chongqing Municipal Government and their interests in 1,924,225,189 shares, 232,132,514 shares, 232,132,514 shares and 180,000,000 shares respectively were deemed to be the interests of State-Owned Assets Supervision and Administration Commission of Chongqing Municipal Government.
- China Huarong Asset Management Co., Ltd was wholly owned by the People's Republic of China Ministry of Finance and the interest in 195,962,467 shares was deemed to be interests of the People's Republic of China of Finance.

3. Chongqing International (Holding) Ltd. for Econo & Tech. Cooperation was interested in 180,000,000 of H shares of the Company by virtue of its 100% shareholding in 中國重慶國際經濟技術合作公司 and 重慶對外建設總公司. 中國重慶國際經濟技術合作公司 and 重慶對外建設總公司 hold 97.56% and 2.44% equity interests in 香港重慶國際有限公司 respectively. 香港重慶國際有限公司 in turn holds a direct interest of 180,000,000 H shares in the Company.
4. Fortis Investment Management SA was interested in 99,442,000 of H shares of the Company by virtue of its control over the following corporations which held direct interests in the Company:

Name of controlled corporation	Percentage of ownership in controlled corporation (%)	Number of Shares
ABN AMRO Asset Management (Asia) Limited	100	90,066,000
ABN AMRO Asset Management (India) Limited	100	776,000
Fortis Investment Management Japan Limited	100	8,600,000

5. 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 is holding 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.

Save as disclosed above, the Directors are not aware of any persons holding any interests or short positions in the shares or underlying Shares of the Company which would fall to be disclosed to the Company under the provisions Divisions 2 and 3 of Part XV of the SFO and were require to be recorded in the register pursuant to section 336 of the SFO as at 31 December 2008.

#### 4. DIRECTORS’ AND SUPERVISORS’ INTERESTS IN ASSETS AND CONTRACTS

As at the Latest Practicable Date, none of the Directors and the supervisors of the Company had any direct or indirect interest in any assets which have been acquired or disposed of by or leased to the Company or are proposed to be acquired or disposed of by or leased to the Company since 31 December 2008, being the date to which the latest published audited accounts of the Company were made up.

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

#### 5. SERVICE CONTRACTS

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



**6. COMPETING INTEREST**

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

**7. LITIGATION**

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

**8. MATERIAL ADVERSE CHANGE**

As at the Latest Practicable Date, the Directors confirmed that there was no material adverse change in the financial or trading position of the Group since 31 December 2008, the date to which the latest published audited consolidated accounts of the Group were made up.

**9. EXPERT'S QUALIFICATION AND CONSENT**

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

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

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

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

As at the Latest Practicable Date, Quam Capital did not have any direct or indirect interests in any assets which had been, acquired or disposed of by, or leased to any member of the Group or were proposed to be acquired or disposed of by, or leased to any member of the Group since 31 December 2008, being the date to which the latest published audited consolidated accounts of the Group were made up.

**10. MISCELLANEOUS**

- (i) The registered office and the principal place of business in the PRC of the Company is at No.155, Zhongshan Third Road, Yuzhong District, Chongqing City, the PRC.
- (ii) The principal place of business of the Company in Hong Kong is Suite 2208, 22/F, Jardine House, 1 Connaught Place, Central, Hong Kong.
- (iii) The Company's H Share Registrars and transfer office in Hong Kong is Computershare Hong Kong Investor Services Limited, Shops 1712-1716, 17/F, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong.
- (iv) The company secretary of the Company is Mr. Wang Xiao Jun, who is a practicing solicitor of the High Court of Hong Kong.
- (v) Unless stated otherwise, in the event of inconsistency, the English language text of this circular shall prevail over the Chinese language text.

**11. DOCUMENTS AVAILABLE FOR INSPECTION**

Copies of the following documents will be available for inspection during normal business hours at the principal place of business of the Company at Suite 2208, 22/F, Jardine House, 1 Connaught Place, Central, Hong Kong from 10 June 2009 up to and including the date of EGM:

- (i) the letter from the Independent Board Committee dated 6 May 2009 as set out in this circular;
- (ii) the letter of advice from Quam Capital dated 6 May 2009 as set out in this circular;
- (iii) the written consent of Quam Capital referred to in the section headed "Expert's qualification and consent";
- (iv) the Master Agreements; and
- (v) the Supplemental Agreements.

---

## NOTICE OF EGM

---

*Hong Kong Exchanges and Clearing Limited and The Stock Exchange of Hong Kong Limited take no responsibility for the contents of this notice, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this notice.*



# Chongqing Machinery & Electric Co., Ltd.\* 重慶機電股份有限公司

*(a joint stock limited company incorporated in the People's Republic of China with limited liability)*

(Stock Code: 02722)

## NOTICE OF THE EXTRAORDINARY GENERAL MEETING

**NOTICE IS HEREBY GIVEN** that an extraordinary general meeting (the “Meeting”) of Chongqing Machinery & Electric Co., Ltd.\* (the “Company”) will be held at Empark Grand Hotel, Chongqing, at No. 1, 2nd Branch Jian Xin North Road, Jiang Bei District, Chongqing, the People’s Republic of China (the “PRC”) on Thursday, 25 June 2009 at 12:00 noon (or at any adjournment thereof) for the following purposes:

### ORDINARY RESOLUTIONS

1. **THAT** the transactions amount which exceeds the annual cap for the financial year ended 31 December 2008 under the Master Supplies Agreement be ratified and approved;
2. **THAT:**
  - (a) the annual proposed caps of being the aggregate purchase price payable by the Parent Company and its associates to the Company and its associates (the “Group”) under the Master Sales Agreement for the financial year ended 31 December 2009 be revised from RMB68,000,000 to RMB130,000,000;
  - (b) the annual proposed caps of being the aggregate purchase price payable by the Parent Company and its associates to the Group under the Master Sales Agreement for the financial year ended 31 December 2010 be revised from RMB75,000,000 to RMB160,000,000;

\* *For identification purposes only*

---

## NOTICE OF EGM

---

- (c) the annual proposed caps of being the aggregate purchase price payable by the Group to the Parent Company and its associates under the Master Supplies Agreement for the financial year ended 31 December 2009 be revised from RMB35,000,000 to RMB120,000,000;
- (d) the annual proposed caps of being the aggregate purchase price payable by the Group to the Parent Company and its associates under the Master Supplies Agreement for the financial year ended 31 December 2010 be revised from RMB35,000,000 to RMB140,000,000;
- (e) the Supplemental Agreements, a copy of each Supplemental Agreement has been produced at the meeting marked “A” and initiated by the chairman of the meeting for identification purpose, as more particularly described in the circular to the shareholder of the Company dated 6 May 2009 of which this notice forms part and all the transactions contemplated thereunder, be and are hereby approved, confirmed and ratified; and
- (f) the directors of the Company be and are hereby authorised to do all such things and take all such actions for and on behalf of the Company as they consider necessary, desirable or expedient in connection with the revision as set out in paragraphs (a) to (d) of this resolution.

By Order of the Board  
**Chongqing Machinery & Electric Co., Ltd.\***  
**Sun Nengyi**  
*Executive Director, Chairman*

6 May 2009, Chongqing, the PRC

---

## NOTICE OF EGM

---

*Notes:*

1. A member of the Company (“Member”) entitled to attend and vote at the Meeting is entitled to appoint a proxy or proxies to attend and vote in his stead. A proxy need not be a Member. A form of proxy for use at the Meeting is enclosed herewith. In the case of the joint holders of any Share, only the person whose name appears first in the register of members shall be entitled to receive this notice, to attend and exercise all the voting powers attached to such Share at the Meeting, and this notice shall be deemed to be given to all joint holders of such Share.
2. To be valid, the form of proxy together with any power of attorney or other authority (if any) under which it is signed or a notarially certified copy of that power of attorney or authority must be deposited with the Company’s H share registrar Computershare Hong Kong Investor Services Limited, at Rooms 1712-1716, 17/F, Hopewell Centre, 183 Queen’s Road East, Wanchai, Hong Kong, and in case of holders of domestic shares, to the Company’s mailing address at No. 155 Zhongshan Third Road, Yuzhong District, Chongqing City, the PRC, not later than 24 hours before the time appointed for holding the Meeting or the time appointed for passing the resolutions or any adjournment thereof. Delivery of the form of proxy shall not preclude a Member from attending and voting in person at the Meeting and, in such event, the instrument appointing a proxy shall be deemed to be revoked.
3. The register of Members in Hong Kong will be closed from 26 May 2009 to 25 June 2009, both days inclusive, during which period no transfer of H shares of the Company will be effected. For the identification of Members who are qualified to attend and vote at the Meeting, all transfer documents accompanied by the relevant share certificates must be lodged with the Company’s H share registrar Computershare Hong Kong Investor Services Limited, at Rooms 1712-1716, 17/F, Hopewell Centre, 183 Queen’s Road East, Wanchai, Hong Kong not later than 4:30 p.m. on 25 May 2009.
4. Whether or not the holders of H shares of the Company who intend to attend the Meeting shall complete the enclosed reply slip for the Meeting and return it, by hand or by post, to the Company’s H share registrar Computershare Hong Kong Investor Services Limited, at Rooms 1712-1716, 17/F, Hopewell Centre, 183 Queen’s Road East, Wanchai, Hong Kong, or by fax on or before 5 June 2009.
5. Whether or not the holders of domestic shares of the Company who intend to attend to the Meeting shall complete the enclosed reply slip for the Meeting and return it, by hand or by post, to the Company’s mailing address at No. 155 Zhongshan Third Road, Yuzhong District, Chongqing City, the PRC, or by fax on or before 5 June 2009.

*As at the date of this notice, the executive Directors are Mr. Sun Nengyi, Mr. He Yong, Mr. Liao Shaohua and Mr. Chen Xianzheng; the non-executive Directors are Mr. Huang Yong, Mr. Yu Gang, Mr. Yang Jingpu and Mr. Wu Jian; and the independent non-executive Directors are Mr. Lo Wah Wai, Mr. Ren Xiaochang and Mr. Kong Weiliang.*