
THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

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

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

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

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

(Stock Code: 02722)

- (1) PROPOSED GRANTING OF A GENERAL MANDATE
TO ISSUE NEW SHARES OF THE COMPANY;**
 - (2) RENEWAL OF A GUARANTEE BY THE COMPANY FOR A LOAN OF RMB37 MILLION
FOR CHONGQING PIGEON;**
 - (3) RENEWAL OF A GUARANTEE BY THE COMPANY FOR A LOAN OF
RMB50.44 MILLION OF CAFF;**
 - (4) RE-ELECTION OF DIRECTORS;**
 - (5) RE-ELECTION OF SUPERVISORS;**
 - (6) REMUNERATION STANDARDS FOR THE SECOND SESSION
OF THE BOARD AND SUPERVISORY COMMITTEE;**
 - (7) RENEWAL OF NON-EXEMPT CONTINUING CONNECTED TRANSACTIONS;**
 - (8) REVISION OF THE EXISTING ANNUAL CAP UNDER THE EXISTING
MASTER SUPPLIES AGREEMENT;**
- AND**
- (9) NOTICE OF THE ANNUAL GENERAL MEETING OF THE COMPANY**

**Independent Financial Adviser to the Independent Board Committee and
the Independent Shareholders in respect of the non-exempt continuing connected transactions**



The letter from the Board of the Company is set out on pages 1 to 16 of this circular and a letter from the Independent Board Committee is set out on page 17 of this circular. A letter from Quam Capital containing its advice and recommendation to the Independent Board Committee and the Independent Shareholders is set out on pages 18 to 30 of this circular.

A notice convening an Annual General Meeting of Chongqing Machinery & Electric Co., Ltd * to be held at Grand Metropark Hotel Chongqing, No. 1598 Jinkai Road, North New Zone, Yubei District, Chongqing, the PRC on Tuesday, 15 June 2010 at 9:30 a.m. is set out on pages 48 to 56 of this circular.

A form of proxy for use at the Annual General Meeting is enclosed with this circular and such form of proxy is also published on the websites of the Stock Exchange (www.hkexnews.hk) and the Company (www.chinacqme.com). Whether or not you intend to attend the Annual General Meeting, you are requested to complete and return (i) the enclosed reply slip in accordance with the instructions printed thereon not later than Wednesday, 26 May 2010 and (ii) the enclosed form of proxy in accordance with the instructions printed thereon not less than 24 hours before the time fixed for holding the Annual General Meeting or any adjournment thereof (as the case may be). Completion and return of the form of proxy will not preclude you from attending the Annual General Meeting and voting in person if you so wish.

28 April 2010

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DEFINITIONS

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

“Annual Caps”	means the proposed annual caps for each of years ending 31 December 2011, 2012 and 2013 of the Master Sales Agreement and the Master Supplies Agreement respectively
“Annual General Meeting” or “AGM”	means an annual general meeting of the Company to be held at Grand Metropark Hotel Chongqing, No. 1598 Jinkai Road, North New Zone, Yubei District, Chongqing, the PRC on Tuesday, 15 June 2010 at 9:30 a.m., to consider and, if appropriate, to approve the resolutions contained in the notice of the annual general meeting which is set out on pages 48 to 56 of this circular, or any adjournment thereof
“Articles”	means the articles of association of the Company currently in force
“associates”	has the meaning ascribed to it under the Listing Rules
“Board”	means the board of Directors of the Company
“CAFF”	means Chongqing CAFF Automotive Braking & Steering System Co., Ltd. (重慶卡福汽車制動轉向系統有限公司), a wholly-owned subsidiary of the Company, which was established in the PRC on 27 June 2003
“Chongqing Pigeon”	Chongqing Pigeon Electric Wires & Cables Co., Ltd. (重慶鴿牌電線電纜有限公司), a 54.69%-owned subsidiary of the Company, which was established in the PRC on 20 January 2001
“Company”	means Chongqing Machinery & Electric Co., Ltd * (重慶機電股份有限公司), a joint stock limited company incorporated in the PRC with limited liability
“Director(s)”	means the director(s) of the Company
“Domestic Share(s)”	means ordinary share(s) of nominal value of RMB1.00 each in the share capital of the Company which are subscribed for or credited as paid up in RMB

DEFINITIONS

“Existing Master Agreements”	means the Existing Master Sales Agreement, the Existing Master Supplies Agreement and the Existing Master Leasing Agreement
“Existing Master Sales Agreement”	means the master sales agreement entered into 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
“Existing Master Supplies Agreement”	means the master supplies agreement entered into between the Company and the Parent Company 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
“Existing Master Leasing Agreement”	means the master leasing agreement entered into between the Company and the Parent Company on 16 May 2008 for the leasing of land and buildings from the Parent Company and its associates to our Group as offices, production facilities, workshops and staff quarters
“Group”	means the Company and its associates
“General Mandate”	the proposed general mandate to allot, issue and otherwise deal with additional Shares representing up to the limit of 20% of the Shares in issue on the date of the passing of the related resolution
“HK\$”	means Hong Kong dollars, the lawful currency of Hong Kong
“H Shares”	means overseas-listed foreign shares of the Company with a nominal value of RMB1.00 each, which are listed on the Stock Exchange
“Hong Kong”	means the Hong Kong Special Administrative Region of the PRC

DEFINITIONS

“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 Annual Caps and the Revised Annual Cap
“Independent Financial Adviser” or “Quam Capital”	means Quam Capital Limited, a licensed corporation to carry out type 6 regulated activity (advising on corporate finance) under the SFO, and the independent financial adviser to the Independent Board Committee and the Independent Shareholders in relation to the Annual Caps and the Revised Annual Cap
“Independent Shareholder(s)”	has the meaning ascribed to it under Rule 14A.10(5) of the Listing Rules, and in relation to the Company means the Shareholders other than Parent Company and its associates
“Latest Practicable Date”	means 22 April 2010, being the latest practicable date prior to the printing of this circular for ascertaining certain information in this circular
“Listing Rules”	means the Rules Governing the Listing of Securities on the Stock Exchange
“Master Agreements”	means the Master Sales Agreement and the Master Supplies Agreement
“Master Sales Agreement”	means the agreement to be made between the Company and the Parent Company on 16 June 2010, 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 the agreement to be made between the Company and the Parent Company on 16 June 2010, pursuant to which the Parent Group agreed to supply to the Group with the Supplies
“PRC”	means the People’s Republic of China, which for the purpose of this circular, excludes Hong Kong, the Macau Special Administrative Region of the PRC and Taiwan

DEFINITIONS

“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
“Promoter”	has the meaning ascribed to it under the Listing Rules
“Prospectus”	means the prospectus of the Company dated 30 May 2008
“RMB”	means Renminbi, the lawful currency of the PRC
“Relevant Period”	means the period from the date of passing this resolution until the earlier of: (a) the conclusion of the next annual general meeting of the Company following the passing of this resolution, unless, by special resolution passed at that meeting, the mandate is renewed, either unconditionally or subject to conditions; or (b) the expiry of the period within which the next annual general meeting is required by the Articles or any applicable law to be held; or (c) the passing of a special resolution of the Company in a general meeting revoking or varying the authority set out in the resolution in approving the General Mandate
“Revised Annual Cap”	means the revised annual cap pursuant to the Supplemental Master Supplies Agreement for the financial year ending 31 December 2010 and subject to the approval of the Independent Shareholders at the AGM as more particularly set out in this circular

DEFINITIONS

“Rights Issue”	means the allotment or issue of Shares in the Company or other securities which would or might require Shares to be allotted and issued pursuant to an offer made to all the Shareholders of the Company (excluding, as the Board may decide, for such purpose any shareholder who is resident in a place where such offer is not permitted under the law or regulation of that place) entitled to such offer, pro rata (apart from fractional entitlements) to their then existing holdings of Shares
“SFO”	means Securities and Futures Ordinance (Chapter 571 of the laws of Hong Kong)
“Shares”	means the Domestic Shares and/or the H Shares
“Shareholders”	means holder(s) of the Shares
“Stock Exchange”	means The Stock Exchange of Hong Kong Limited
“Supervisors”	has the meaning ascribed to it under the Company Law of the PRC and the Listing Rules
“Supplemental Master Supplies Agreement”	means a supplemental agreement dated 16 June 2010 to be made between the Company and the Parent Company in relation to the Existing Master Supplies Agreement for a term from 16 June 2010 to 31 December 2010

LETTER FROM THE BOARD



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

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

(Stock Code: 02722)

Executive Directors:

Mr. Xie Huajun
Mr. He Yong
Mr. Liao Shaohua
Mr. Chen Xianzheng

Non-executive Directors:

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

Independent non-executive Directors:

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

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

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

Principal place of business in Hong Kong:

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

To the Shareholders

28 April 2010

Dear Sir or Madam,

- (1) PROPOSED GRANTING OF A GENERAL MANDATE
TO ISSUE NEW SHARES OF THE COMPANY;**
**(2) RENEWAL OF A GUARANTEE BY THE COMPANY FOR A LOAN OF RMB37 MILLION
FOR CHONGQING PIGEON;**
**(3) RENEWAL OF A GUARANTEE BY THE COMPANY FOR A LOAN OF
RMB50.44 MILLION OF CAFF;**
(4) RE-ELECTION OF DIRECTORS;
(5) RE-ELECTION OF SUPERVISORS;
**(6) REMUNERATION STANDARDS FOR THE SECOND SESSION
OF THE BOARD AND SUPERVISORY COMMITTEE;**
(7) RENEWAL OF NON-EXEMPT CONTINUING CONNECTED TRANSACTIONS;
**(8) REVISION OF THE EXISTING ANNUAL CAP UNDER THE EXISTING
MASTER SUPPLIES AGREEMENT;**
AND
(9) NOTICE OF THE ANNUAL GENERAL MEETING OF THE COMPANY

1. INTRODUCTION

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

* For identification purposes only

LETTER FROM THE BOARD

2. PROPOSED GRANTING OF THE GENERAL MANDATE

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

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

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

LETTER FROM THE BOARD

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

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

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

3. RENEWAL OF A LOAN OF RMB37 MILLION FOR CHONGQING PIGEON

Background of the Pigeon Loans

Chongqing Pigeon requested the Company to continue to provide a guarantee for its loans totaling RMB37 million, including a loan of RMB7 million from Hua Xia Bank Shangqingsi Sub-branch, RMB10 million from China Merchants Bank Shapingba Sub-Branch and a loan of RMB20 million from Bank of Communications Co., Ltd. Chongqing Branch ("Pigeon Loans"). The Company holds 54.69% equity interests in Chongqing Pigeon. Therefore, Chongqing Pigeon is considered as a subsidiary of the Company.

The Company has provided the guarantee to the Pigeon Loans in 2009, and Chongqing Pigeon requested the Company to continue provide the guarantee to the Pigeon Loans.

LETTER FROM THE BOARD

Reasons for and Benefits of Provision of the guarantee for the Pigeon Loans

The Pigeon Loans are for renewal of the loans since the year 2007 and to support the development of Chongqing Pigeons, in order to ensure that Chongqing Pigeons could maintain their productions in the coming year, the Board recommended the Company to renew the guarantee by the Company for the Pigeon Loans.

Terms of the guarantee

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

Chongqing Pigeon is not a connected person of the Group and the provision of guarantee for Pigeon Loans does not exceed the relevant percentage ratios under the Listing Rules. Thus, there is no requirement to comply with Chapter 14A of the Listing Rules. However, since the gearing ratio of Chongqing Pigeon is 78.27%, the renewal of the guarantee for the Pigeon Loans is subject to approval at the general meeting under the Articles.

4. RENEWAL OF A GUARANTEE BY THE COMPANY FOR A LOAN OF RMB50.44 MILLION OF CAFF

Background of the CAFF Loans

CAFF requested the Company to continue to provide a guarantee for its loans totalling RMB50.44 million including a loan of RMB20.44 million from Industrial and Commercial Bank Of China Limited, a loan of RMB20.00 million from Hua Xia Bank and a loan of RMB10 million from China Merchants Bank (“CAFF Loans”). CAFF is a wholly-owned subsidiary of the Company.

LETTER FROM THE BOARD

Reasons for and Benefits of Provision of the guarantee for the CAFF Loans

Since 2008, the Company provided a guarantee of RMB30 million for a term of one year for loans of CAFF for the sum of RMB30 million, in order to support the development of CAFF and to ensure that CAFF would be in position to maintain their productions in the coming year, the Board recommended the Company to renew the guarantee by the Company for the CAFF Loans.

Terms of the guarantee

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

CAFF is not a connected person of the Group and the provision of guarantee for CAFF Loans does not exceed the relevant percentage ratios under the Listing Rules. Thus, there is no requirement to comply with Chapter 14A of the Listing Rules. However, since the gearing ratio of CAFF is 96.06%, the renewal of the guarantee for the CAFF Loans is subject to the approval at the general meeting under the Articles.

5. RE-ELECTION OF DIRECTORS

The Board currently consists of 11 Directors, all of the Directors shall retire by rotation under Article 102 of the Articles at the AGM and, being eligible, offer themselves for re-election as directors. Details of the candidates for the Directors proposed for re-election at the AGM are set out in Appendix III to this circular.

Any shareholder who wishes to nominate a person to stand for election as a Director of the Company at the AGM must lodge with the Company at its principal place of business in Hong Kong at Suite 2208, 22nd Floor, Jardine House, 1 Connaught Place, Central, Hong Kong within the period from Wednesday, 28 April 2010 to Tuesday, 8 June 2010, both days inclusive, (i) his written nomination of the candidate, (ii) written confirmation from such nominated candidate of his willingness to be elected as Director and (iii) the biographical details of such nominated candidate as required under Rule 13.51(2) of the Listing Rules for publication by the Company.

6. RE-ELECTION OF SUPERVISORS

The Company has 6 Supervisors, all of the Supervisors shall retire by rotation under Article 124 of the Articles at the AGM and, being eligible, offer themselves for re-election as Supervisors. Details of the candidates for the Supervisors proposed for re-election at the AGM are set out in Appendix III to this circular.

LETTER FROM THE BOARD

7. THE REMUNERATION STANDARDS FOR THE SECOND SESSION OF THE DIRECTORS AND SUPERVISORS

a. The recommendation for the salary of the executive Director is as follows:-

In accordance with the Assessment and Management Measures Concerning the Annual Salary of Senior Management of Chongqing Machinery & Electric Co., Ltd. (《重慶機電股份有限公司高級管理人員年薪考核管理辦法》), from June 2010 to 2013, the basic annual salary of the executive Directors and the senior management will be RMB450,000 to RMB550,000, the basic salary of each of the executive Director and Chairman and the executive Director and general manager will be RMB10,000 per month and RMB120,000 per year. The basic monthly salary of other executive Directors and senior management will be equivalent to 80% of that of the general manager and will not be linked to our operating results, while others are performance-related basic annual salary linked to our operating results, which will be implemented upon assessment by the Board. The performance-related basic annual salary of other executive Directors and senior management will be equivalent to 70-80% of that of the executive Director and general manager. The specific percentage will be advised by the general manager and implemented upon assessment by the Board. The performance-related annual salary of the executive Director and secretary to the Board will be equivalent to 70-80% of that of the executive Director and general manager, while the specific percentage of which will be advised by the remuneration committee and implemented upon assessment by the Board.

b. The proposed remuneration of non-executive Directors and the Supervisors are as follows:

- (i) The remuneration of independent non-executive Directors who are Hong Kong residents is HK\$12,000 per month;
- (ii) The remuneration of each independent non-executive Director in Mainland China is RMB5,700 per month;
- (iii) The remuneration of each non-executive Director is RMB4,000 per month;
- (iv) The remuneration of the chairman of the Supervisory Committee is RMB4,000 per month;
- (v) The remuneration of each independent Supervisor is RMB3,000 per month;
- (vi) The remuneration of each non-independent Supervisor is RMB2,000 per month.

The above standards will be valid from June 2010 to June 2013.

LETTER FROM THE BOARD

8. RENEWAL OF NON-EXEMPT CONTINUING CONNECTED TRANSACTIONS

Reference is made to the Prospectus in relation to the Existing Master Agreements which constitute continuing connected transactions of the Company under Chapter 14A of the Listing Rules. The Existing Master Agreements will be expired on 31 December 2010 and shall, subject to compliance of the relevant requirements applicable to continuing connected transactions under the Listing Rules by the Group.

On 16 May 2008, the Company entered into Existing Master Sales Agreement 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 (the “Products”) to the Parent Company and its associates.

The Existing Master Sales Agreement is valid for a period of three years from and renewable for another three years by either party giving at least three months’ written notice prior to the expiry of the initial term. The Existing Master Sales Agreement may be terminated by either party giving at least three months’ written notice. The Company wishes to renew the Existing Master Sales Agreement with the Parent Company in the same terms.

On 16 May 2008, the Company entered into the Existing Master Supplies Agreement pursuant to which the Parent Company and its associates have agreed to supply the Group with parts and raw materials such as gears, component parts, YB2 series engines, electricity, water, gas and electrolytic copper (the “Supplies”).

The Existing Master Supplies Agreement is valid for a period of three years from the date of the agreement, renewable at our option for another three years by giving at least three months’ written notice prior to the expiry of the initial term. The Existing Master Supplies Agreement may be terminated as a whole, or the supply of one or more of the Supplies contemplated under the Existing Master Supplies Agreement may be terminated individually, by either party giving at least three months’ written notice. The Company wishes to renew the Existing Master Supplies Agreement with the Parent Company in the same terms.

LETTER FROM THE BOARD

On 16 May 2008, the Company entered into the Existing Master Leasing Agreement for the leasing of land and buildings from the Parent Company and its associates to the Group as offices, production facilities, workshops and staff quarters. The Existing Master Leasing Agreement provides for the terms and conditions for the leasing of certain land and buildings by the Parent Company and its associates to the Group as defined in the Existing Master Leasing Agreement (the “Properties”).

The Properties are leased from the Parent Group instead of being transferred to the Group because these Properties, being land that has been administratively allocated, are not easily transferable and, even if they are transferable, it is not necessarily commercially sound for the purposes of the Group and/or the Parent Group because of the substantial amount of the land premium required to be paid which may put a strain on financial resources the Group.

Under the Existing Master Leasing Agreement, the Group has the right of first refusal for the renewal of the leases relating to the Properties.

The Parent Company and its associates 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. The renewal of each of the Existing Master Agreements (except for the Existing Master Leasing Agreement) 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. Accordingly, the renewal of the Existing Master Agreements (except for the Existing Master Leasing Agreement) would be subject to the compliance of the Listing Rules and the Independent Shareholders’ approval.

Set out below the historical transaction records under the Existing Master Agreements (except for the Existing Master Leasing Agreement):

	For the year ended 31 December 2007 <i>RMB millions</i>	For the year ended 31 December 2008 <i>RMB millions</i>	For the year ended 31 December 2009 <i>RMB millions</i>
Existing Master Sales Agreement	149.2	123.9	83.7
Existing Master Supplies Agreement	47.8	86.9	112.3

The Group wishes to renew the Existing Master Agreements with the Parent Group by entering into the Master Agreements and an agreement for lease. (Given the agreement for lease does not exceed the relevant percentage ratios under the Listing Rules. Thus there is no requirement to comply with the independent shareholder’s approval requirement under Chapter 14A of the Listing Rules.)

LETTER FROM THE BOARD

The proposed annual caps for each of the three years ending 31 December 2013 under the Master Sales Agreement and the Master Supplies Agreement are set out below:-

	For the year ending 31 December		
	2011	2012	2013
	<i>RMB millions</i>	<i>RMB millions</i>	<i>RMB millions</i>
Master Sales Agreement	140	160	190
Master Supplies Agreement	300	360	450

The Directors (including the independent non-executive Directors) are of the opinion that the proposed annual caps are fair and reasonable and that the transactions contemplated under the Master Agreements are in the ordinary and usual course of business of the Group and on normal commercial terms, and the terms of the Master Agreements are fair and reasonable and in the interest of the Shareholders as a whole.

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

- (i) the estimated demand for commercial vehicle parts and components, general machinery, CNC machine tools and power equipment;
- (ii) the estimated sales volume of the Group for each of the three financial years ending 31 December 2013;
- (iii) the prospect of the PRC economy and the markets relevant to the Group, in particular, the PRC automobile and power equipment segments; and
- (iv) the historical transacted amount of the sales transactions for the financial year ended 31 December 2009.

LETTER FROM THE BOARD

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

- (i) the estimated demand for the Supplies in relation to commercial vehicle parts and components, general machinery, CNC machine tools and power equipment;
- (ii) the estimated sales and procurement volume of the Group for each of the three financial years ending 31 December 2013;
- (iii) the prospect of the PRC economy and the markets relevant to the Group, in particular, the PRC automobile and power equipment segments; and
- (iv) the historical transacted amount of the supplies transactions for the year ended 31 December 2009.

PRICING BASIS FOR THE MASTER SALES AGREEMENT

The Master Sales Agreement would be entered into in the ordinary and usual course of business of the Group. The terms of the Master Sales Agreement are negotiated in an arm's length basis and on normal commercial terms. The pricing or consideration of the Master Sales Agreement will be determined with reference to:-

- (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 lower than 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 lower than such open market price between independent parties on normal commercial terms in comparable locality, or if there are no comparable localities, not lower than such open market price between independent parties on normal commercial terms in the PRC generally; or
- (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 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.

LETTER FROM THE BOARD

PRICING BASIS FOR THE MASTER SUPPLIES AGREEMENT

The Master Supplies Agreement would be entered in the ordinary and usual course of business of the Group. The terms of the Master Supplies Agreement are negotiated in an arm's length basis and on normal commercial terms. The pricing or consideration of the Master Supplies Agreement will be determined with reference to:-

- (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 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
- (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 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.

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

REASONS AND BENEFITS FOR THE TRANSACTIONS UNDER THE MASTER AGREEMENTS

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.

In addition, from the perspective of the Group, the sales of the Products to the Parent Company and its amounts would provide a reliable and steady customer base, a stable income and timely payment for the Products sold.

LETTER FROM THE BOARD

GENERAL INFORMATION

The Company

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

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.

IMPLICATIONS UNDER THE LISTING RULES

The Parent Company and its associates, which is one of the Promoters of the Company holding 52.22% interest in the Company, is a connected person of the Group. Since the Annual Caps under the Master Agreements (except for the annual caps for the year 2011 and 2012 under the Master Sales Agreement) exceed 2.5% of the highest applicable percentage ratios as set out under Chapter 14A of the Listing rules, each of the Master Agreements constitutes a non-exempt continuing connected transaction of the Group 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.

9. REVISION OF THE EXISTING ANNUAL CAP UNDER THE EXISTING MASTER SUPPLIES AGREEMENT

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 Existing Master Agreements and an annual cap stated in the Existing Master Agreements for each of the three financial years ending 31 December 2008, 2009 and 2010. For details please refer to the Prospectus under the section "Connected Transaction". The Group revised the existing annual caps in the Existing Master Supplies Agreement on 25 June 2009, for details please refer to the circular of the Company dated 6 May 2009.

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. As such, the Group considers that it is necessary to enter into the Supplemental Agreements to revise upwards the annual caps stated in the Existing Master Supplies Agreement initially.

LETTER FROM THE BOARD

DETAILS OF THE SUPPLEMENTAL MASTER SUPPLIES AGREEMENT

The Supplemental Master Supplies Agreement for financial year ending 31 December 2010 would be entered into on 16 June 2010 between the Company and Parent Company, to revise upwards the annual cap stated in the Existing Master Supplies Agreement initially. All existing terms and conditions of the Existing Master Supplies Agreement will remain unchanged with revision made only to annual caps of the Existing Master Supplies Agreement as listed below:

	annual caps for the financial year ending 31 December 2010	
	<i>(RMB millions)</i>	<i>(RMB millions)</i>
	Current	Revised
Existing Master Supplies Agreement	140	220

The basis for the revision to the annual caps of the Existing Master Supplies Agreement are:

- (i) the estimated demand for the Supplies in relation to commercial vehicle parts and components, general machinery, CNC machine tools and power equipment;
- (ii) the estimated sales and procurement volume of the Group for each of the three financial years ending 31 December 2013;
- (iii) the prospect of the PRC economy and the markets relevant to the Group, in particular, the PRC automobile and power equipment segments; and
- (iv) the historical transacted amount of the supplies transactions for the year ended 31 December 2009.

PRICING BASIS FOR THE SUPPLEMENTAL MASTER SUPPLIES AGREEMENT

The Supplemental Master Supplies Agreement was entered into in the ordinary and usual course of business of the Company. The terms of the Supplemental Master Supplies Agreement were negotiated on an arm's length basis and on normal commercial terms. The pricing or consideration of the Supplemental 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 transactions); or
- (ii) if no such price is set by the PRC Government, not higher than the guide prices set by the PRC Government for such transactions; or

LETTER FROM THE BOARD

- (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 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 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.

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

REASONS AND BENEFITS FOR THE SUPPLEMENTAL MASTER SUPPLIES AGREEMENT

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 Supplemental Master Supplies Agreement. If the proposed Revised Annual Cap 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. The historical transaction receives under the Existing Master Supplies Agreement for the period from 1 January 2010 to 31 March 2010 is approximately RMB35,500,000.

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.

LETTER FROM THE BOARD

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

10. ANNUAL GENERAL MEETING AND PROXY ARRANGEMENT

The notice of the Annual General Meeting is set out on pages 48 to 56 of this circular. At the Annual General Meeting, resolutions will be proposed to approve, inter alia, (i) approve the report of the Board for the year ended 31 December 2009; (ii) approve the report of Supervisory Committee for the year ended 31 December 2009; (iii) approve the audited financial statements of the Company and its subsidiaries and the Audits Report for the year ended 31 December 2009; (iv) approve profit appropriation proposal; (v) re-appointment of Company's auditor; (vi) granting of a general mandate; (vii) renewal of a guarantee by the Company for a loan of RMB37 million of Chongqing Pigeon; (viii) renewal of a guarantee by the Company for a loan of RMB50.44 million of CAFF, (ix) re-election of directors, (x) re-election of supervisor, (xi) the remuneration standards for the second session of the Directors and the Supervisors, (xii) renewal of non-exempt continuing connected transactions and (xiii) the revision of the annual caps under the Existing Master Supplies Agreement.

A form of proxy for use at the Annual General Meeting is enclosed with this circular and such form of proxy is also published on the websites of the Stock Exchange (www.hkexnews.com.hk) and the Company (www.chinacqme.com). Whether or not you intend to attend the Annual General Meeting, you are requested to complete and return (i) the enclosed reply slip in accordance with the instructions printed thereon not later than Wednesday, 26 May 2010 and (ii) the enclosed form of proxy in accordance with the instructions printed thereon not less than 24 hours before the time fixed for holding the Annual General Meeting or any adjournment thereof (as the case may be). Completion and return of the form of proxy will not preclude you from attending the Annual General Meeting and voting in person if you so wish.

To the best of the Director's knowledge, information and belief and having made all reasonable enquires, save and except the Parent Company and its associates are required to abstain from voting for resolution no. 11 and no. 12 as shown in the notice of the AGM, no Director or shareholder has a material interest on the resolutions proposed at the AGM, and no shareholder is required the abstain from voting on any of the resolution at the AGM.

LETTER FROM THE BOARD

11. PROCEDURES FOR VOTING IN THE ANNUAL GENERAL MEETING

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

12. RECOMMENDATION

The Directors consider that all resolutions proposed for consideration and approval by the Shareholders at the Annual General Meeting are in the best interests of the Company and the Shareholders as a whole.

Accordingly, the Directors recommend that all the Shareholders should vote in favour of all the resolutions to be proposed at the Annual General Meeting as set out in the notice of the Annual General Meeting.

Yours faithfully,

By Order of the Board

Chongqing Machinery & Electric Co., Ltd.*

Xie Hua Jun

Executive Director, Chairman

* *For identification purposes only*



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

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

(Stock Code: 02722)

28 April 2010

To the Independent Shareholders

Dear Sir or Madam,

(1) RENEWAL OF NON-EXEMPT CONTINUING CONNECTED TRANSACTIONS
AND
(2) REVISION OF THE EXISTING ANNUAL CAP UNDER THE EXISTING
MASTER SUPPLIES AGREEMENT

We refer to the circular issued by the Company to the Shareholders dated 28 April 2010 (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 Annual Caps, the terms of the Supplemental Master Supplies Agreement, the Master Agreements and the Revised Annual Cap. Quam Capital has been appointed as the Independent Financial Adviser to advise you and us in this regard. Details of its advice, together with the principal factors and reasons it has taken into consideration in giving such advice, are set out from pages 18 to 30 of the Circular and the additional information set out in the appendix thereto.

Having considered the Annual Caps, the terms of the Supplemental Master Supplies Agreement, the Master Agreements and the Revised Annual Cap, 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 18 to 30 of the Circular, we consider that the Annual Caps, the Supplemental Master Supplies Agreement, the Master Agreements and the Revised Annual Cap are on normal commercial terms and fair and reasonable as far as the Independent Shareholders are concerned the Annual Caps, the Supplemental Master Supplies Agreement, the Master Agreements and the Revised Annual Cap are in the interests of the Company and the Shareholders as a whole. Accordingly, we recommend you to vote in favour of the ordinary resolutions to be proposed at the AGM to approve the Annual Caps, the Supplemental Master Supplies Agreement, the Master Agreements and the Revised Annual Cap.

Yours faithfully,
For and on behalf of
the Independent Board Committee
Lo Wah Wai, Ren Xiaochang and Kong Weiliang

* *For identification purposes only*

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



Quam Capital Limited

A Member of The Quam Group

28 April 2010

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

Dear Sir or Madam,

**RENEWAL OF NON-EXEMPT CONTINUING CONNECTED TRANSACTIONS
AND
REVISION OF THE EXISTING ANNUAL CAP UNDER THE
EXISTING MASTER SUPPLIES AGREEMENT**

INTRODUCTION

We refer to our appointment as the independent financial adviser to the Independent Board Committee and the Independent Shareholders in relation to the Master Agreements, the Supplemental Master Supplies Agreement, the revision of the existing annual cap for the year ending 31 December 2010 under the Existing Master Supplies Agreement (the “Revised Supplies Cap”) and the new annual caps for each of the three financial years ending 31 December 2013 under the Master Agreements (the “New Caps”). Details of the Master Agreements, the Supplemental Master Supplies Agreement, the Revised Supplies Cap and the New Caps are set out in the circular of the Company dated 28 April 2010 (the “Circular”) of which this letter forms part. Terms used in this letter shall have the same meanings as defined in the Circular unless the context otherwise defined.

* For identification purposes only

The Independent Board Committee comprising Mr. Lo Wah Wai, Mr. Ren Xiaochang and Mr. Kong Weiliang, being the independent non-executive Directors, has been formed to advise the Independent Shareholders on whether the terms of the Master Agreements, the Supplemental Master Supplies Agreement, the Revised Supplies Cap and the New Caps are fair and reasonable and in the interests of the Company and the Independent Shareholders as a whole. We, Quam Capital, have been appointed as the independent financial adviser to give an independent opinion to the Independent Board Committee and the Independent Shareholders on whether the transactions contemplated under the Master Agreements and the Supplemental Master Supplies Agreement are entered into by the Company in its ordinary and usual course of business based on normal commercial terms, and their terms and conditions together with the Revised Supplies Cap and the New Caps are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

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 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 AGM.

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 Master Agreements, the Supplemental Master Supplies Agreement, the Revised Supplies Cap and the New Caps, we have taken into consideration the following principal factors and reasons:

1. Background of and reasons for entering into of the Master Agreements and the Supplemental Master Supplies Agreement**(a) The principal business of the Group and the continuing connected transactions contemplated under the Master Sales Agreement (the “Sales Transactions”) and the Master Supplies Agreement (the “Supplies Transactions”)**

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

The Company entered into the Existing Master Sales Agreement on 16 May 2008 (as amended by a supplemental agreement dated 22 April 2009) 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 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 from the Letter from the Board that the sales of the Products to the Parent Group amounted to approximately RMB83.7 million, representing about 1.2% of the Group’s revenue for the year ended 31 December 2009. As advised by the Directors, notwithstanding that the Parent Group is able to source the same products from independent third parties, the Parent Group intends to continue sourcing the Products from the Group having considered that currently there is 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 is expected by the management of the Company that in the future the Parent Group may procure through a competitive tendering process and the Group is intended to participate in the selection process.

On 16 May 2008, the Company entered into the Existing Master Supplies Agreement (as amended by a supplemental agreement dated 22 April 2009) 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 advised by the Group, the Supplies are not specialised and the Group is able to source the Supplies 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 properties leased from the Parent Group, which are currently used as production facilities, offices and staff quarters of the Group; and (iv) that the prices of the Supplies are determined based on market references at terms no less favourable than independent third parties, the Group intends to secure the source of supply by entering into the Master Supplies Agreement. The monetary value of the Supplies Transactions was approximately RMB112.3 million for the year ended 31 December 2009, representing about 2.0% of the Group's total cost of sales for the same year.

Pursuant to the Master Supplies Agreement, the Parent Group are obligated to supply the Supplies contracted at a level and standard that is not lower than the levels and standards supplied to other parties by the Parent Group. The Group has the right to source the Supplies from independent third parties at any time. As confirmed by the Group, the Group will continue to explore alternative suppliers to procure the Supplies which meet the requirement of the Group without increasing the transportation costs.

Notwithstanding that the Sales Transactions and the Supplies Transactions are not significant to the revenue and cost of sales of the Group, in view that (i) 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 in the ordinary and usual course of business of the Group and the adoption of the New Caps for the continuation of the Sales Transactions and Supplies Transactions are beneficial to the Group.

(b) **The Revised Supplies Cap**

As disclosed in the Letter from the Board, the estimated maximum transaction value of the Supplies Transactions for the year ending 31 December 2010 is RMB220 million, which exceeds the existing annual caps of RMB140 million as approved by the then Independent Shareholders at the extraordinary general meeting of the Company held on 25 June 2009. As a result, the Company entered into the Supplemental Master Supplies Agreement to raise the relevant annual cap.

We were advised that, taking into account the Group's recent forecast of the Supplies Transactions, the Group anticipates that there would be deviations in the expected transaction amounts for the financial year ending 31 December 2010, from what they originally envisaged. Given the aforesaid and for reasons discussed in sub-section (a) above, we believe the adoption of the Revised Supplies Cap, which reflects the changes in the corporate structure and the transaction volumes of the Group based on the projection by the Group, are essential for the Group's continued business development.

(c) **Conclusion**

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

2. **Principal terms of the Master Agreements and the Supplemental Master Supplies Agreement**

(a) **Nature of the transactions**

Pursuant to the Master Sales Agreement, the Group agreed to sell the Products to the Parent Group commencing from 1 January 2011 and expiring on 31 December 2013.

Pursuant to the Master Supplies Agreement, the Parent Group agreed to sell the Supplies to the Group commencing from 1 January 2011 and expiring on 31 December 2013.

Pursuant to the Existing Master Supplies Agreement as supplemented by the Supplemental Master Supplies Agreement, the Parent Group agreed to continue selling the Supplies to the Group for the period ending 31 December 2010 under the Revised Supplies Cap.

(b) Pricing basis

As disclosed in the Letter from the Board in relation to the terms of the Supplemental Master Supplies Agreement, the amendments to be made to the Existing Master Supplies Agreement are relevant to the annual cap of the Supplies Transactions for the year ending 31 December 2010 only while the other terms remain unchanged. The pricing basis as set out in the Existing Master Supplies Agreement is the same as those set out in the Master Supplies Agreement disclosed below.

Pursuant to the terms of the Master Sales Agreement the pricing or consideration of the Sales Transactions have been, and will continue to 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 lower than 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 lower than such open market price between independent parties on normal commercial terms in comparable locality, or if there are no comparable localities, not lower than such open market price between independent parties on normal commercial terms in the PRC generally; or
- (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 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.

Pursuant to the terms of the Master Supplies Agreement, the pricing or consideration of the Supplies Transactions have been, and will continue to 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 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
- (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 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;
- have been entered into in accordance with the relevant agreement governing the transactions; and
- have not exceeded the caps disclosed in its previous announcement.

It was stated in the annual report of the Company for the year ended 31 December [2009] that, pursuant to Rule 14A.37 of the Listing Rules, the independent non-executive Directors have confirmed that for the year ended 31 December 2009, each of the continuing connected transactions of the Group (including the Sales Transactions and the Supplies 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 agreements 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 agreements governing them; and (iv) the amounts of the CCTs have not exceeded the 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 New Caps in respect of the Sales Transactions (the “New Sales Caps”)**

The New Sales Caps is proposed to be RMB140 million, RMB160 million and RMB190 million for the three financial years ending 31 December 2011, 2012 and 2013 respectively.

In our assessment of the respective reasonableness and fairness of the New Sales Caps, we have reviewed the sales projections of the Group and the estimated sales to the Parent Group for the three financial years ending 31 December 2013 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 estimated demand for commercial vehicle parts and components, general machinery, CNC machine tools and power equipment; (ii) the estimated sales volume of the Group for each of the three financial years ending 31 December 2013; (iii) the prospect of the PRC economy and the markets relevant to the Group, in particular, the PRC automobile and power equipment segments; and (iv) the historical transacted amount of the Sales Transactions for the financial year ended 31 December 2009. 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 New Sales Caps at the proposed levels, after taking into consideration the following:

- that over 95% of the Sales Transactions are expected to be relevant to the commercial vehicle parts and components and power equipment segments of the Group for the three financial years ending 31 December 2013;
- that the estimated growth rate of the revenue of commercial vehicle parts and components segment of the Group for each of the three financial years ending 31 December 2013 of about 10% to 20% is not excessive considering (i) the growing sales target of the Group’s major customers in the same segment; (ii) that the annualised compounded growth rate of revenue of the Group was approximately 22.2% for the five years ended 31 December 2009; (iii) that according to the China Association of Automobile Manufacturers, the total sales volume of automobile in the PRC for the year ended 31 December 2009 was approximately 13.6 million, representing a growth rate of about 46% as compared with that of the previous year and became the largest automobile producer and consumer in the world; (iv) that the total sales volume of automobile in the PRC in February 2010 was approximately 1.2 million, representing a year-on-year growth rate of about 46%; and (v) that the PRC government announced 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;

- that the demand in the power equipment segment is expected to increase significantly considering, as advised by the Company, (i) that the Group and the Parent Group have implemented expansion plan to enhance production capacity and technology advancement; (ii) the growing demand of copper products given the recovery of the overall economy from the global financial crisis in 2008; (iii) the expected increase in selling price of copper products given the increasing demand in metallic products in the PRC; (iv) that the Group has expanded its sales channels to provinces surrounding Chongqing such as Sichuan and Guizhou; (v) that the PRC government announced the set up of State Energy Commission directly under State Council in December 2009 headed by Premier Wen Jiabao, signifies the new coordination among the PRC government offices which is perceived by the Group to be provided with an improved operating environment for the power equipment segment; and (vi) the Group's expansion strategy to collaborate with the plan of the PRC government to expand power grid and refurbishment of existing construction facilities; and
- the transacted amount of the Sales Transactions for the year ended 31 December 2009 of approximately RMB83.7 million.

(b) The bases of determination of the Revised Supplies Cap and the New Caps in respect of the Supplies Transactions (the “New Supplies Caps”)

The Revised Supplies Cap is proposed to be RMB220 million revised from the existing cap of RMB140 million for the year ending 31 December 2010, and the New Supplies Caps are proposed to be RMB300 million, RMB360 million and RMB450 million for the three financial years ending 31 December 2013 respectively.

In our assessment of the respective reasonableness and fairness of the Revised Supplies Cap and New Supplies Caps, we have reviewed the sales projections of the Group and the estimated procurement from the Parent Group for the four financial years ending 31 December 2013 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 estimated demand for the Supplies in relation to commercial vehicle parts and components, general machinery, CNC machine tools and power equipment; (ii) the estimated sales and procurement volume of the Group for each of the four financial years ending 31 December 2013; (iii) the prospect of the PRC economy and the markets relevant to the Group, in particular, the PRC automobile and power equipment segments; and (iv) the historical transacted amount of the Supplies Transactions for the year ended 31 December 2009. 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 Cap and New Supplies Caps at the proposed levels, after taking into consideration the following:

- that over 90% of the Supplies Transactions are expected to be relevant to the commercial vehicle parts and components and power equipment segments of the Group for the four financial years ending 31 December 2013;
- that the Group maintained a relatively stable gross margin ranging between 17.6% and 19.8% in the recent three financial years;
- that, as advised by the Group, the actual transacted amount of a major subsidiary of the Company involved in the Supplies Transactions for the two months ended 28 February 2010 accounting for only approximately 2% of its estimated total transaction amount for the year ending 31 December 2010 was mainly affected by the power rationing measures adopted during the period and the lunar new year holiday in which business operation are substantially suspended during the period, which was consistent with that of approximately 2% in the corresponding period in 2009;
- the expected increase in revenue of commercial vehicle parts and components and the power equipment segments of the Group for each of the three financial years ending 31 December 2013 after taking into account the factors as discussed in subsection (a) above;
- the estimated increase in production capability and cost of production of the Group, in particular, for the year ending 31 December 2010, considering that, as advised by the Group, (i) the Group has implemented expansion plans to raise production capacity in the financial year ending 31 December 2010 and enhance technology advancement in particular, that a major subsidiary of the Company involved in the Supplies Transactions schedules to double its production capacity gradually from 2010 to 2012; (ii) the increase in sales target of the Group given the factors as discussed in subsection (a) above; (iii) the expected increase in demand of copper products given the recovery of the overall economy from the global financial crisis in 2008; and (iv) the expected increase in purchase cost of copper given the surge of copper price from about US\$4,000 in April 2009 to about US\$7,000 at the end of year 2009 and further to about US\$7,900 as at the Latest Practicable Date as quoted in the London Metal Exchange; and
- the transacted amount of the Supplies Transactions for the year ended 31 December 2009 of approximately RMB112.3 million.

(c) **Conclusion**

As the aforesaid sales projections of the Group and the PRC automobile and power segments 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 Supplies Cap and the New 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.

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 entering into of the Master Agreements and the Supplemental Master Supplies Agreement;
- that the entering into of the Master Agreements and the Supplemental Master Supplies Agreement are conducted in the ordinary and usual course of the Group's business;
- that the terms of the Master Agreements and the Supplemental Master Supplies Agreement are fair and reasonable;
- the control and review procedures and arrangements 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 Supplies Cap and the New 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 Master Agreements and the Supplemental Master Supplies Agreement 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 Supplies Cap and the New 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 relevant ordinary resolutions to be proposed at the AGM to approve the Master Agreements, the Supplemental Master Supplies Agreement, the Revised Supplies Cap and the New Caps.

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

CANDIDATES FOR DIRECTORS OF THE SECOND SESSION OF THE BOARD

The following table sets out information regarding candidates for Directors of the second session of the Board of the Company:

Name	Age	Proposed Position
Xie Hua Jun	56	Executive Director
He Yong	46	Executive Director
Liao Shaohua	46	Executive Director
Chen Xianzheng	55	Executive Director
Huang Yong	47	Non-executive Director
Yu Gang	45	Non-executive Director
Liu Liangcai	57	Non-executive Director
Yang Jingpu	54	Non-executive Director
Lo Wah Wai	46	Independent Non-executive Director
Ren Xiaochang	53	Independent Non-executive Director
Kong Weiliang	63	Independent Non-executive Director

Mr. Xie Hua Jun, aged 56, joined the Parent Company in 2009. He has been an Executive Director and the Chairman of the Company since 31 August 2009. Mr. Xie has accumulated over 30 years of experience in corporate management in the production industry. Mr. Xie is a senior economist. From 2000 to 2002, he graduated from the postgraduate program of Public Administration of the Institute of Administration Management (行政管理學院) at Peking University and was awarded a master degree from the School of Public Administration in Chongqing in 2006. Mr. Xie served as the deputy general manager of Chongqing No. 2 Light Industry Supply & Sale Co. (重慶二輕工業供銷總公司) from February 1988 to February 1990, the manager of Chongqing Craft and Art Industry Company (重慶市工藝美術工業公司) from February 1990 to June 1992, the deputy director of Chongqing Light Industry Bureau from June 1992 to June 1998, the secretary-general of Re-employment Office (再就業辦公室) of Chongqing from June 1998 to July 2000, the vice president of Chongqing Chemical And Pharmaceutical Holding (Group) Company from July 2000 to November 2003, the director of Chongqing Sanxia Paints Co., Ltd (a company listed on the Shenzhen Stock Exchange of the PRC, stock code: 000565) from June 2001 to March 2007, the president and director of Chongqing Chemical And Pharmaceutical Holding (Group) Company from November 2003 to June 2006, the deputy director of Chongqing State-owned Assets Supervision and Administration Commission from July 2006 to December 2008 as well as the deputy secretary-general of Chongqing Municipal People's Government from December 2008 to June 2009.

Mr. He Yong, aged 46, joined the Parent Group in 1984 and the Group in December 2002. Since July 2007, he has been an executive Director and the president of our Company. He is responsible for the overall management of our Company. Mr. He has over 20 years of experience in the automobile industry. He has been the general manager of Chongqing Heavy Vehicle Group and the chairman and general manager of Chongqing Hongyan Motor Co. Ltd. since 2005 in charge of the companies' operations, planning, human resources, heavy vehicles manufacturing and sales. Mr. He had been involved in the management of Chongqing Heavy Vehicle Group and Chongqing Hongyan Motor Co. Ltd. as a deputy manager since 2000 and 2003, respectively, in charge of infrastructure, technological improvements, logistics and management of retired staff. Between 1998 and 2000, he was the deputy manager of Sichuan Truck Plant, the predecessor of Chongqing Heavy Vehicle Group. He is a senior engineer who graduated from Hunan University with a bachelor's degree in civil engineering in 1984 and received a master's degree in business administration from Chongqing University in 2006.

Mr. Liao Shaohua, aged 46, joined the Parent Group and the Group in May 1988. Since July 2007, he has been an executive Director and a vice president of our Company. Mr. Liao is responsible for supervising the production and logistics operations of our Company. Mr. Liao has over 20 years of experience in the machine tools industry. Mr. Liao has been the chairman and general manager of Chongqing Machine Tools since December 2005 in charge of board matters, production of machine tools, general management, legal and audit matters. He was also a director of the Parent Group from 2002 to 2007, taking part in major decisions of the board, and was the plant manager of Chongqing Machine Tools Plant Co., Ltd. (the predecessor of Chongqing Machine Tools) from 1998 to 2005 in charge of production of machine tools, general management, legal and audit matters. Mr. Liao is a professor-level senior engineer. He graduated from Chongqing University with a bachelor's degree in automobile manufacture in 1985 and a master's degree in mechanics in 1988. He also obtained his PRC machinery industry senior professional manager qualification in 2005. He has been a deputy director of China Machine Tool Industry Association since 1999 and an expert judge for National Science and Technology Awards since 2008.

Mr. Chen Xianzheng, aged 55, joined the Parent Group in August 1976 and joined the Group in December 2001. Since July 2007, he has been an executive Director of our Company and the secretary to the Board responsible for handling all matters of the Board. Mr. Chen has over 20 years of experience in business management. From July 2006 to July 2007, he was the head of the securities department of the Parent Group, in charge of the Listing. Mr. Chen was the department chief of the asset management department and the enterprise reform department of the Parent Company from 2000 to July 2006 in charge of asset management, reorganization and merger, and general management matters. He worked for the state-managed Jianan Machinery Factory from 1976 to 2000 and was the deputy plant manager from 1995 to 2000 in charge of operations, research and development, restructuring, management and legal matters. Mr. Chen is a senior economist who graduated from the Party School of Chengdu Municipal Commission with a college degree in 1986.

Save as disclosed above, Mr. Xie Hua Jun, Mr. He Yong, Mr. Liao Shaohua and Mr. Chen Xianzheng have not held any directorships in any other listed public companies and other major appointments and qualifications during the last three years. Other than the directorship in the Company and various subsidiaries of the Company, Mr. Xie Hua Jun, Mr. He Yong, Mr. Liao Shaohua and Mr. Chen Xianzheng do not hold other positions with the Company or other members of the Group.

Save as disclosed above, Mr. Xie Hua Jun, Mr. He Yong, Mr. Liao Shaohua and Mr. Chen Xianzheng do not have any relationship with any director, senior management or substantial or controlling shareholder of the Company nor had any of them any interests in the shares of the Company within the meaning of Part XV of the SFO as at the Latest Practicable Date. As at the Latest Practicable Date, Mr. Xie Hua Jun, Mr. He Yong, Mr. Liao Shaohua and Mr. Chen Xianzheng do not hold Shares in the Company.

Pursuant to the service agreement of the Group and each of Mr. Xie Hua Jun, Mr. He Yong, Mr. Liao Shaohua and Mr. Chen Xianzheng,

- (a) the appointment of Mr. Xie Hua Jun, Mr. He Yong, Mr. Liao Shaohua and Mr. Chen Xianzheng as an executive Director is for a fixed term of three years commencing from date of the AGM, subject to retirement by rotation and re-election at annual general meeting of the Company in accordance with the Articles; and
- (b) the remuneration of Mr. Xie Hua Jun, Mr. He Yong, Mr. Liao Shaohua and Mr. Chen Xianzheng would be fixed with reference to his duties and responsibilities with the Company as well as by reference to the remuneration standards for Directors (董事薪酬標準) passed at the AGM.

The Board is not aware of any other matters in relation to the appointment of Mr. Xie Hua Jun, Mr. He Yong, Mr. Liao Shaohua and Mr. Chen Xianzheng as an executive Director that needs to be brought to the attention of the Shareholders, nor is there any information that need to be disclosed by the Company pursuant to Rules 13.51(2)(h) to 13.51(2)(v) of the Listing Rules.

Mr. Huang Yong, aged 47, joined the Parent Group in July 1984 and the Group in 2004. Since July 2007, he has been a non-executive Director of our Company. Mr. Huang has over 20 years of experience in the automobile industry. Mr. Huang has been a director and the president of the Parent Group since 2004 in charge of operations, automobile financing business and investments. Mr. Huang was the vice chairman and general manager of Chongqing Hongyan Motor Co. Ltd. from 2003 to 2004 in charge of marketing, technology development and management. Since 2000, Mr. Huang has been involved in the management of Chongqing Heavy Vehicle Group and was the general manager and thereafter the chairman of Chongqing Heavy Vehicle Group in charge of technology development, qualitative management and planning. From 1996 to 2000, Mr. Huang was the deputy plant manager of Sichuan Automobile Manufacturing Plant, and from 1984 to 1996, he worked in Sichuan Automobile Manufacturing Plant. Mr. Huang is a senior engineer who graduated from Hunan University with a bachelor's degree in automobile manufacturing in 1984. He obtained his master's degree in engineering from Chongqing University in 2000.

Mr. Yu Gang, aged 45, joined the Parent Group in October 2003 and the Group in July 2007. Since July 2007, he has been a non-executive Director of our Company. Mr. Yu has been a director and the managing vice president of the Parent Group since 2003. Mr. Yu has over 20 years of experience in the government service and the management of large enterprises. Prior to joining the Company, Mr. Yu was the deputy mayor of Jiangjin Municipal Government from 2001 to 2003 in charge of industrial development of the municipality, the assistant to the mayor of Jiangjin Municipal Government and the section chief of Economic Committee and the minister of the Industry and Transportation Department from 1997 to 2001 in charge of the industrial and economic development of the municipality. Between 1989 and 1997, he was an officer in the Chongqing Municipality Industrial Transportation Department in charge of human resources management, and an officer in the Chongqing Machinery School from 1984 to 1989. Mr. Yu is a senior engineer who graduated from Chongqing Machinery Manufacturing School with a professional degree in machinery engineering in 1984 and from Chongqing Party School in 1997. He also graduated from Southwest Normal School with a master's degree in business management in 2002. He is currently attending an EMBA course in Xiamen University.

Mr. Liu Liangcai, aged 57, is currently the party committee secretary and chairman of the Supervisory Committee of Chongqing Yufu Assets Management Co., Ltd in charge of corporate internal risk control and performance assessment for Directors and senior management of the Company. Mr. Liu worked in large state-owned enterprises in Chongqing City for 15 years and served as party and government cadet, scientific technology cadet and performed corporate leadership management of the Chongqing municipal government organization department for 15 years. He was the vice secretary of the Enterprises Union Department of the Committee of Chongqing City since May 2005 and the vice secretary of the Communist Party Committee of SASAC of Chongqing City since September 2003 in charge of the establishment of management for state-owned enterprises, establishment of governance structure for corporate legal persons, management of supervisory committees of state-owned enterprises and human resources management of municipal branches of SASAC etc. Mr. Liu is a senior political scientist who graduated from Sichuan Broadcasting and Television University with a bachelor's degree in Language in 1985 and the Party College of Sichuan Province Committee with a bachelor's degree in economic management in June 1992. He had completed the post-graduation study in "Regional economic development and technology innovation" from the Southwest Teacher's School in June 2000.

Mr. Yang Jingpu, aged 54, joined the Company in August 2007 and has been a nonexecutive Director of our Company since then. Mr. Yang is currently the chairman and general manager of Jiangong Group in charge of board matters, strategic planning and investment. Mr. Yang has over 15 years of experience in managing large enterprises. Mr. Yang was the general manager of Chongqing Coal Group from 2004 to 2007 responsible for general management and was the deputy director of Chongqing City Coal Industrial Bureau from 2001 to 2004 in charge of restructuring and reformation, operational and administrative management. From 1992 to 2001, Mr. Yang was the deputy director and thereafter, director of Chongqing City Songzao Mining Bureau in charge of coal production, safety, sales and finance. Mr. Yang is a senior economist and a senior engineer. He graduated from Jiaozuo Coal Academy with a bachelor's degree in industrial management engineering in 1988 and a master's degree in mining engineering from Chinese University of Mining and Technology in 2001.

Save as disclosed above, Mr. Huang Yong, Mr. Yu Gang, Mr. Yang Jingpu, Mr. Liu Liangcai have not held any directorships in any other listed public companies and other major appointments and qualifications during the last three years. Other than the directorship in the Company and various subsidiaries of the Company, Mr. Huang Yong, Mr. Yu Gang, Mr. Yang Jingpu, Mr. Liu Liangcai do not hold other positions with the Company or other members of the Group.

Save as disclosed above, Mr. Huang Yong, Mr. Yu Gang, Mr. Yang Jingpu, Mr. Liu Liangcai do not have any relationship with any director, senior management or substantial or controlling shareholder of the Company nor had any of them any interests in the Shares of the Company within the meaning of Part XV of the SFO as at the Latest Practicable Date. As at the Latest Practicable Date, Mr. Huang Yong, Mr. Yu Gang, Mr. Yang Jingpu, Mr. Liu Liangcai do not hold Shares in the Company.

Pursuant to the service agreement between the Group and each of Mr. Huang Yong, Mr. Yu Gang, Mr. Yang Jingpu, Mr. Liu Liangcai,

- (a) the appointment of Mr. Huang Yong, Mr. Yu Gang, Mr. Yang Jingpu, Mr. Liu Liangcai as a non-executive Director is for a fixed term of three years commencing from date of the AGM, subject to retirement by rotation and re-election at annual general meeting of the Company in accordance with the Articles; and
- (b) the remuneration of Mr. Huang Yong, Mr. Yu Gang, Mr. Yang Jingpu, Mr. Liu Liangcai would be fixed with reference to his duties and responsibilities with the Company as well as by reference to the remuneration standards for Director (董事薪酬標準) passed at the AGM.

The Board is not aware of any other matters in relation to the appointment of Mr. Huang Yong, Mr. Yu Gang, Mr. Yang Jingpu, Mr. Liu Liangcai as a non-executive Director that needs to be brought to the attention of the Shareholders, nor is there any information that need to be disclosed by the Company pursuant to Rules 13.51(2)(h) to 13.51(2)(v) of the Listing Rules.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Lo Wah Wai, aged 46, joined our Company in January 2008 and has been an independent non-executive Director of our Company and the chairman of our Company's audit committee since January 2008. He had more than eight years of experience in auditing and business consulting services in an international accounting firm, two years of which were spent in the U.S. Mr. Lo was an independent non-executive director of Far East Pharmaceutical Technology Limited (Stock Code: 399) in September 2004, a company listed on the Main Board of the Stock Exchange whose subsidiaries are principally engaged in the manufacturing and distribution of pharmaceutical products. A petition was filed on September 15, 2004 to wind up Far East Pharmaceutical Technology Limited in respect of the default of a syndicated bank loan and since then, liquidators have been appointed. Mr. Lo was not involved in the arrangement of the syndicated bank loan and his appointment was made after the said default had occurred. Mr. Lo is also an independent non-executive director of Sino-Tech International Holdings Limited (Stock Code: 724) (formerly known as Semtech International Holdings Limited), a company listed on the Main Board of the Stock Exchange since September 2004 and engaged in the manufacture and sale of electronic and electrical parts and components and cigarette lighters. He is a practicing member of the Hong Kong Institute of Certified Public Accountants and a member of the American Institute of Certified Public Accountants. Mr. Lo graduated from The Chinese University of Hong Kong with a bachelor's degree in business administration in 1986 and New Jersey Institute of Technology, the U.S. with a master's degree in science in 1992.

Mr. Ren Xiaochang, aged 53, joined our Company in July 2007 and has been an independent non-executive Director of the Company since then. Mr. Ren has over 30 years of experience in the automobile industry. Mr. Ren has been with Chongqing Research Institute of Automobile (renamed as China Automotive Engineering Research Institute) since 1982 and is currently the superintendent and a researcher of it in charge of operational management, strategic planning, human resources and asset management. Mr. Ren is also currently an independent director of China Chang'an Automobile Group Co., Ltd. in charge of matters relating to the board. Mr. Ren graduated from Hunan University with a bachelor's degree in engineering studies in 1982 and the Management School of Wuhan University of Technology with a master's degree in business administration in 2004.

Mr. Kong Weiliang, aged 63, joined the Company in July 2007 and has been an independent non-executive Director of our Company since then. Mr. Kong has nearly 40 years of experience in the sensors industry. Mr. Kong was the chairman of China Silian Sensors Group Corporation Limited from 2001 to March 2007 in charge of matters relating to the board. From 1997 to 2000, Mr. Kong was the vice chairman and the general manager of China Silian Sensors Group Corporation Limited in charge of operations. Prior to that, Mr. Kong was the Deputy Secretary of the Party Committee and Secretary of the Communist Party's Disciplinary Committee of China Silian Sensors Group Corporation Limited from 1993 to 1996 in charge of party matters, human resources and labor relations. Before joining China Silian Sensors Group Corporation Limited, Mr. Kong worked in the Sichuan Sensors Head Factory which is subordinated to China Silian Sensors Group Corporation Limited from 1990 to 1993 as assistant to the factory manager and assistant to factory manager in charge of human resources and in the Sichuan Sensors Fourteenth Factory from 1967 to 1990. Mr. Kong is a senior economist with a college degree in business management from Hefei University of Technology in 1985.

Save as disclosed above, Mr. Lo Wah Wai, Mr. Ren Xiaochang and Mr. Kong Weiliang have not held any directorships in any other listed public companies and other major appointments and qualifications during the last three years. Other than the directorship in the Company and various subsidiaries of the Company, Mr. Lo Wah Wai, Mr. Ren Xiaochang and Mr. Kong Weiliang do not hold other positions with the Company or other members of the Group.

Save as disclosed above, Mr. Lo Wah Wai, Mr. Ren Xiaochang and Mr. Kong Weiliang do not have any relationship with any director, senior management or substantial or controlling shareholder of the Company, nor had any of them any interests in the share of the Company within the meaning of Part XV of the SFO as at the Latest Practicable Date. As at the Latest Practicable Date, Mr. Lo Wah Wai, Mr. Ren Xiaochang and Mr. Kong Weiliang do not hold Shares in the Company.

Pursuant to the service agreement between the Group and each of Mr. Lo Wah Wai, Mr. Ren Xiaochang and Mr. Kong Weiliang,

- (a) the appointment of Mr. Lo Wah Wai, Mr. Ren Xiaochang and Mr. Kong Weiliang as an independent non-executive Director is for a fixed term of three years commencing from date of the AGM, subject to retirement by rotation and re-election at annual general meeting of the Company in accordance with the Articles; and
- (b) the remuneration of Mr. Lo Wah Wai, Mr. Ren Xiaochang and Mr. Kong Weiliang would be fixed with reference to his duties and responsibilities with the Company as well as by reference to the remuneration standards for Director (董事薪酬標準) passed at the AGM.

The Board is not aware of any other matters in relation to the appointment of Mr. Lo Wah Wai, Mr. Ren Xiaochang and Mr. Kong Weiliang as an independent non-executive Director that needs to be brought to the attention of the Shareholders, nor is there any information that need to be disclosed by the Company pursuant to Rules 13.51(2)(h) to 13.51(2)(v) of the Listing Rules.

CANDIDATES FOR SUPERVISORS OF THE SECOND SESSION OF THE SUPERVISORY
COMMITTEE

The following table sets out information regarding the candidates for Supervisors of the second session of Supervisory Committee of the Company:

Name	Age	Proposed Position
Duan Rongsheng	58	Supervisor
Liao Rong	52	Supervisor
Wang Rongxue	64	Independent Supervisor
Liu Xing	53	Independent Supervisor
Wang Xuqi	57	Employee Supervisor
Chen Qing	54	Employee Supervisor

Mr. Duan Rongsheng, aged 58, joined the Parent Group in June 1984 and the Company in July 2007. Since then, he has been a Supervisor of our Company and the chairman of our Supervisory Committee. Mr. Duan is currently a director and deputy party committee secretary of the Parent Group in charge of the Parent Group's party matters, disciplinary supervision and enterprise culture. From September 2000 to March 2009, he served as a deputy chairman in Chongqing Wanli Storage Batteries Co., Ltd.. From 1988 to 2000, Mr. Duan was the deputy department chief and thereafter the department chief of the human resources department of Chongqing Machinery and Industrial Management Bureau. Mr. Duan is a senior economist who graduated from the Central Party School with a bachelor's degree in business management in 1988 and from Southwest Normal School with a master's degree in business management in 2000.

Ms. Liao Rong, aged 52, has been a supervisor of the Company since 31 August 2009. She was awarded a bachelor degree in Economic Management by the Party College of Sichuan Province Committee of CCP (中共四川省委黨校) in July 1996. Ms. Liao is a senior economist and has over 20 years of experience in corporate management. Ms. Liao severed as the deputy general manager of Chongqing office of China Huarong Asset Management Co., Ltd. in May 2008. Ms. Liao graduated from the School of Finance and Trading in Chongqing (重慶財貿學校) with a degree in Banking in August 1980 and graduated from the department of Finance and Business of Sichuan Broadcasting and Television University in July 1986. From September 1983 to February 2000, she worked at the Wan Sheng sub branch of Chongqing branch (重慶市分行萬盛區支行) of the Industrial and Commercial Bank of China, during which she served as the department head of the credit department (信貸科科長), assistant to the governor (行長助理), vice governor (副行長) and secretary of commission for discipline inspection. From March 2000 to May 2008, she worked at the Chongqing office of China Huarong Asset Management Co., Ltd. (中國華融資產管理公司重慶辦事處), during which she served as the senior deputy manager, the senior manager of the general department (綜合部高級經理), senior manager of operation department, senior manager of claim department as well as the senior manager of business department.

Ms. Wang Rongxue, aged 64, joined the Company in July 2007 and has been an independent Supervisor of our Company since then. Prior to her retirement, Ms. Wang was the chairman to the state-owned enterprise supervisory board of the Chongqing Municipal People's Government and the assistant inspector of the Chongqing City Economic Committee of the Chongqing Bureau of Metallurgical Industry. From 2000 to 2007, she was responsible for supervising Chongqing Jiangong Group, Chongqing Gongcheng Jianshe Co., Ltd, Chongqing Chengshi Jianshe Investment Co., Ltd., Chongqing Ranqi Group, Chongqing Zhaobiao Group, Chongqing Huayi Group and Chongqing Liangyou Group. Ms. Wang joined the Chongqing Bureau of Metallurgical Industry in 1978 and was responsible for the education of industry participants and was the section chief of the cadre administration department from 1990 to 2000 in charge of human resources. Ms. Wang graduated from Chongqing University with a college degree in metallurgy in 1970.

Mr. Liu Xing, aged 53, is the head, accounting professor and tutor of doctoral graduates of the Economy, Industry and Business Management Institute of Chongqing University. He obtained a bachelor's degree in engineering studies from Chongqing University in 1983, joined the China - Canada Joint Postgraduate Training Project (中國 — 加拿大聯合培養研究生項目) and obtained a master's degree in management from Xi'an Jiaotong University in 1987 and obtained a doctor's degree in management from Chongqing University in 1997. In 1991-1992, 1996 and 2000, he engaged in international cooperation and research projects of City University of Hong Kong and The Chinese University of Hong Kong or served as visiting scholar and professor, and participated in academic interviews or academic exchanges in countries such as the U.S. and Canada respectively.

Mr. Liu Xing is currently a council member of Accounting Society of China (中國會計學會), the standing council member of the education division of Accounting Society of China, the vice president of the Accounting Society of Chongqing (重慶市會計學副會長), the president of College Accounting Society of Chongqing (重慶市高校會計學會), a non-practiced certified public accountant in the PRC, the deputy secretary-general of Chongqing Association Of Chief Financial Officer (重慶市總會計師協會) and the standing council member of Chongqing Institute of Certified Public Accountants (重慶市註冊會計師協會). He is also currently an independent director of Chongqing Iron & Steel Company Limited (stock code: 1053), Chongqing Three Gorges Water Conservancy and Electric Power Co. Ltd. (stock code: 600116), Chongqing Gangjiu Co., Ltd. (stock code: 600729) and Chongqing Huapont Pharm Co., Ltd. (stock code: 002004), all of which are listed companies.

Mr. Wang Xuqi, aged 57, joined the Parent Group and the Group in December 1976. Since July 2007, he has been a Supervisor of the Company. Mr. Wang has 30 years of experience in nonferrous metal refining. Since 2002, Mr. Wang has also been the chairman and general manager of Huahao Smelting in charge of matters relating to the board, operational management, administrative matters, finance and marketing. Mr. Wang is a director of the Parent Group and has been the chairman and general manager of Chongqing Smelter (Group) Corporation Limited since 1998 in charge of matters relating to the board, operational management, administrative matters, finance and marketing. He has been the deputy general manager of Chongqing Smelter Factory since 1993 in charge of human resources and enterprise management. Mr. Wang has been involved in the management of Chongqing Smelter Factory since 1987. Mr. Wang graduated from Chongqing Normal School with a bachelor's degree in Chinese language in 1987 and from Asia International Open University in Macau with a master's degree in business management in 2004.

Mr. Chen Qing, aged 54, joined the Parent Group and the Group in June 1985 and is currently the chairman of Chongqing General Industry (Group) Co., Ltd. in charge of relevant Board matters, and the general manager of Pump Company in charge of operational management, administrative matters, finance and marketing. Mr. Chen has over 20 years of experience in the pump research and development and manufacturing industry. From September 2002 to September 2007, Mr. Chen was the general manager of Chongqing Pump Industry Co., Ltd.. From June 1985 to September 2002, he was the deputy department chief, deputy plant manager and plant manager of Chongqing Pump Plant. From August 1982 to June 1985, he worked in the Guizhou Mountain Land Agricultural Machinery Research Institute (貴州山地農機研究所). From June 1978 to September 1978, he worked in the Chongqing Architectural Design Institute. From January 1976 to May 1978, he served in the Chinese People's Liberation Army. Mr. Chen has been a senior engineer since August 1995 who graduated from Huazhong Gong Xue Yuan with a bachelor's degree in engineering, majoring in hydro power in August 1982. He completed the Senior Management Programme of the School of Economics and Management of Tsinghua University from February 1995 to July 1995.

Save as disclosed above, as at the Latest Practicable Date, each of Mr. Duan Rongsheng, Ms. Liao Rong, Ms. Wang Rongxue, Mr. Liu Xing, Mr. Wang Xuqi and Mr. Chen Qing does not hold any directorship or Supervisorship in any listed in the past three years, nor do any of them hold any other position in the Group. In addition, none of them have any relationship with any directors, senior management, management shareholders, substantial shareholders or controlling shareholders of the Company. As at the date hereof, none of them has any investor in the shares of the Company with the meaning of Part XV of SFO. The Board is not aware of any matters that need to be brought to the attention of the Shareholders, nor is there any information required to be disclosed under Rule 13.51(2)(h) to (v) of the Listing Rules.

Upon the appointment as a supervisor of the Company, each of Mr. Duan Rongsheng, Ms. Liao Rong, Ms. Wang Rongxue, Mr. Liu Xing, Mr. Wang Xuqi and Mr. Chen Qing will enter into a service contract with the Company for a fixed term of three years commencing from the date of AGM, and the remuneration of the supervisor would be fixed with reference to his/her duties and responsibilities as well as by reference to the remuneration standards for Supervisor (監事薪酬標準) passed at the AGM.

1. RESPONSIBILITY STATEMENT

This circular includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Company. 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 SFO which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they are taken or deemed to have under such provisions of the SFO), or which were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein, or which were required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers set out in Appendix 10 of the Listing Rules.

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

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

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

Name of Shareholders	Number of shares	Capacity	Note	Percentage of Total issued domestic shares (%)	Percentage of total issued shares (%)
Chongqing Machinery and Electronic Holding (Group) Co., Ltd.	1,924,225,189	Beneficial owner	(1)	74.46 (L)	52.22
Chongqing Yufu Assets Management 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
Ministry of Finance of the People's Republic of China	195,962,467	Interest in controlled corporations	(2)	7.58 (L)	5.32

(L): Long Position

H shares of RMB\$1.00 each of the Company

Name of Shareholders	Number of shares	Capacity	Note	Percentage of	Percentage of
				total issued H shares (%)	total issued shares (%)
GE Asset Management Incorporated	111,132,000	Beneficial owner		10.10(L)	3.02
National Council for Social Security Fund	95,287,470	Beneficial owner		8.66(L)	2.59
Hang Seng Bank Trustee International Limited	64,394,000	Trustee	(3)	5.85(L)	1.35
		(Other than a bare trustee)			
To Hau Yin	64,394,000	Interest of child under 18 and or spouse	(3)	5.85(L)	1.35
Cheah Cheng Hye	64,394,000	founder of discretionary trust	(3)	5.85(L)	1.35
Value Partners Group Limited	64,394,000	Interest in controlled corporations	(3)	5.85(L)	1.35
Value Partners Limited	64,394,000	Investment manager	(3)	5.85(L)	1.35
Cheah Company Limited	64,394,000	Interest in controlled corporations	(3)	5.85(L)	1.35
Cheah Capital Management Limited	64,394,000	Interest in controlled corporations	(3)	5.85(L)	1.35
The Bank of New York Mellon (formerly known as 「The Bank of New York」)	87,276,000	Custodian	(4)	7.93(L)	2.37
The Bank of New York Mellon Corporation	87,276,000	Interest in controlled corporations	(4)	7.93(L) 7.93(P)	2.37 2.37
The Hamon Investment Group Pte Limited	78,394,000	Investment manager	(5)	7.13 (L)	2.13
The Dreyfus Corporation	67,180,000	Investment manager		6.11(L)	1.82
UBS AG	87,691,265	Beneficial owner	(6)	7.97(L)	2.59
Templeton Asset Management Ltd	55,140,600	Beneficial owner		5.01(L)	1.50

(L): Long Position

(P): Lending Pool

Notes:

1. Chongqing Machinery and Electronic Holding (Group) Co., Ltd., Chongqing Yufu Asset Management Co., Ltd. and Chongqing Jiangong Group Co.,Ltd. were wholly owned by State-Owned Assets Supervision and Administration Commission of Chongqing Municipal Government which was deemed to be interested in 1,924,225,189 domestic shares, 232,132,514 domestic shares and 232,132,514 domestic shares of the Company respectively.

2. China Huarong Asset Management Co., Ltd. is wholly owned by the Ministry of Finance of the People's Republic of China and its interest in 195,962,467 domestic shares of the Company was deemed to be the interests of the Ministry of Finance of the People's Republic of China.
3. Value Partners Limited holds 64,394,000 H shares of the Company directly as investment manager. Value Partners Limited is wholly controlled by Value Partners Group Limited, which in turn is controlled as to 31.23% by Cheah Capital Management Limited. Cheah Capital Management Limited is wholly controlled by Cheah Company Limited, which in turn is wholly controlled by Hang Seng Bank Trustee International Limited (as trustee of The C H Cheah Family Trust). Cheah Cheng Hye is the founder of the said trust while To Hau Yin is the spouse of Cheah Cheng Hye. The interested in 64,394,000 H shares mentioned above relates to the same block of shares in the Company.
4. The Bank of New York Mellon Corporation holds 100% interest in The Bank of New York Mellon (formerly known as "The Bank of New York"), which holds 87,276,000 of H shares of the Company. The interest in 87,276,000 H shares relates to the same block of shares in the Company and includes a lending pool of 87,276,000 of H shares of the Company.
5. The Hamon Investment Group Pte Limited was interested in 78,394,000 H shares of the Company by virtue of its control over the following corporations which held direct interests in the Company:

Name of controlled corporation	Percentage of ownership in controlled corporation (%)	Number of shares
Hamon Asset Management Limited	100	6,514,000
Hamon U.S. Investment Advisors Limited	100	67,180,000
Hamon Investment Management Limited	100	4,700,000

6. UBS AG was interested in H shares of the Company, among which 68,690,365 shares by virtue of its control over the following corporations which held direct interests in the Company:

Name of controlled corporation	Percentage of ownership in controlled corporation (%)	Number of shares
UBS Global Asset Management (Americas) Inc.	100	64,958,409
UBS Global Asset Management (Australia) Ltd.	100	1,883,956
UBS Global Asset Management Trust Company	100	1,848,000

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

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

As at the Latest Practicable Date, none of the Directors and the supervisors of the Company had any direct or indirect interest in any assets which have been acquired or disposed of by or leased to the Company or are proposed to be acquired or disposed of by or leased to the Company since 31 December 2009, 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 2009, the date to which the latest published audited consolidated accounts of the Group were made up.

9. EXPERT'S QUALIFICATION AND CONSENT

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

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

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

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

As at the Latest Practicable Date, Quam Capital did not have any direct or indirect interests in any assets which had been, acquired or disposed of by, or leased to any member of the Group or were proposed to be acquired or disposed of by, or leased to any member of the Group since 31 December 2009, 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 28 April 2010 up to and including the date of AGM:

- (i) the letter from the Independent Board Committee dated 28 April 2010 as set out in this circular;
- (ii) the letter of advice from Quam Capital dated 28 April 2010 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 Master Supplies Agreement.

**Chongqing Machinery & Electric Co., Ltd.*****重慶機電股份有限公司***(a joint stock limited company incorporated in the People's Republic of China with limited liability)*

(Stock Code: 02722)

NOTICE OF THE ANNUAL GENERAL MEETING

NOTICE IS HEREBY GIVEN that an Annual General Meeting (the “Meeting”) of Chongqing Machinery & Electric Co., Ltd.* (the “Company”) will be held at Grand Metropark Hotel Chongqing, No. 1598 Jinkai Road, North New Zone, Yubei District, Chongqing, the PRC on Tuesday, 15 June 2010 at 9:30 a.m. (or at any adjournment thereof) for the following purposes:

ORDINARY RESOLUTIONS

1. To consider and approve the report of the board of directors of the Company (the “Board of Directors”) for the year ended 31 December 2009;
2. To consider and approve the report of the Supervisory Committee of the Company for the year ended 31 December 2009;
3. To consider and approve the audited consolidated financial statements of the Company and its subsidiaries and the Auditors Report for the year ended 31 December 2009;
4. To consider and approve the profit appropriation proposal of the Company for the year ended 31 December 2009;
5. To consider and approve the re-appointment of PricewaterhouseCoopers Zhong Tian CPAs Limited Company as the PRC auditors and PricewaterhouseCoopers as the international auditors of the Company to hold office until the conclusion of the next annual general meeting and to authorize the audit committee of the Board of Directors to fix their remuneration;
6. To consider and approve the renewal of a guarantee by the Company for a loan of RMB37 million of Chongqing Pigeon Electric Wires & Cables Co., Ltd. (重慶鴿牌電線電纜有限公司) ;

7. To consider and approve the renewal of a guarantee by the Company for a loan of RMB50.44 million of Chongqing CAFF Automotive Braking & Steering System Co., Ltd. (重慶卡福汽車制動轉向系統有限公司) ;
8.
 - (a) To consider and approve the appointment of Mr. Xie Hua Jun as an executive director of the Company to hold office from the date of the AGM until expiry of the term of the session of the Board and to authorize the Board to fix the remuneration of Mr. Xie Hua Jun pursuant to the remuneration standard for Directors passed at the 2010 annual general meeting and to enter into a service agreement with him on and subject to such terms and conditions as the Board shall think fit and to do all such acts and things to give effect to such matters;
 - (b) To consider and approve the appointment of Mr. He Yong as an executive director of the Company to hold office from the date of the AGM until expiry of the term of the session of the Board and to authorize the Board to fix the remuneration of Mr. He Yong pursuant to the remuneration standard for Directors passed at the 2010 annual general meeting and to enter into a service agreement with him on and subject to such terms and conditions as the Board shall think fit and to do all such acts and things to give effect to such matters;
 - (c) To consider and approve the appointment of Mr. Liao Shaohua as an executive director of the Company to hold office from the date of the AGM until expiry of the term of the session of the Board and to authorize the Board to fix the remuneration of Mr. Liao Shaohua pursuant to the remuneration standard for Directors passed at the 2010 annual general meeting and to enter into a service agreement with him on and subject to such terms and conditions as the Board shall think fit and to do all such acts and things to give effect to such matters;
 - (d) To consider and approve the appointment of Mr. Chen Xianzheng as an executive director of the Company to hold office from the date of the AGM until expiry of the term of the session of the Board and to authorize the Board to fix the remuneration of Mr. Chen Xianzheng pursuant to the remuneration standard for Directors passed at the 2010 annual general meeting and to enter into a service agreement with him on and subject to such terms and conditions as the Board shall think fit and to do all such acts and things to give effect to such matters;
 - (e) To consider and approve the appointment of Mr. Huang Yong as a non-executive director of the Company to hold office from the date of the AGM until expiry of the term of the session of the Board and to authorize the Board to fix the remuneration of Mr. Huang Yong pursuant to the remuneration standard for Directors passed at the 2010 annual general meeting and to enter into a service agreement with him on and subject to such terms and conditions as the Board shall think fit and to do all such acts and things to give effect to such matters;

- (f) To consider and approve the appointment of Mr. Yu Gang as a non-executive director of the Company to hold office from the date of the AGM until expiry of the term of the session of the Board and to authorize the Board to fix the remuneration of Mr. Yu Gang pursuant to the remuneration standard for Directors passed at the 2010 annual general meeting and to enter into a service agreement with him on and subject to such terms and conditions as the Board shall think fit and to do all such acts and things to give effect to such matters;
- (g) To consider and approve the appointment of Mr. Yang Jingpu as a non-executive director of the Company to hold office from the date of the AGM until expiry of the term of the session of the Board and to authorize the Board to fix the remuneration of Mr. Yang Jingpu pursuant to the remuneration standard for Directors passed at the 2010 annual general meeting and to enter into a service agreement with him on and subject to such terms and conditions as the Board shall think fit and to do all such acts and things to give effect to such matters;
- (h) To consider and approve the appointment of Mr. Liu Liangcai as a non-executive director of the Company to hold office from the date of the AGM until expiry of the term of the session of the Board and to authorize the Board to fix the remuneration of Mr. Liu Liangcai pursuant to the remuneration standard for Directors passed at the 2010 annual general meeting and to enter into a service agreement with him on and subject to such terms and conditions as the Board shall think fit and to do all such acts and things to give effect to such matters;
- (i) To consider and approve the appointment of Mr. Lo Wah Wai as an independent non-executive director of the Company to hold office from the date of the AGM until expiry of the term of the session of the Board and to authorize the Board to fix the remuneration of Mr. Lo Wah Wai pursuant to the remuneration standard for Directors passed at the 2010 annual general meeting and to enter into a service agreement with him on and subject to such terms and conditions as the Board shall think fit and to do all such acts and things to give effect to such matters;
- (j) To consider and approve the appointment of Mr. Ren Xiaochang as an independent non-executive director of the Company to hold office from the AGM until expiry of the term of the session of the Board and to authorize the Board to fix the remuneration of Mr. Ren Xiaochang pursuant to the remuneration standard for Directors passed at the 2010 annual general meeting and to enter into a service agreement with him on and subject to such terms and conditions as the Board shall think fit and to do all such acts and things to give effect to such matters;

- (k) To consider and approve the appointment of Mr. Kong Weiliang as an independent non-executive director of the Company to hold office from the date of the AGM until expiry of the term of the session of the Board and to authorize the Board to fix the remuneration of Mr. Kong Weiliang pursuant to the remuneration standard for Directors passed at the 2010 annual general meeting and to enter into a service agreement with him on and subject to such terms and conditions as the Board shall think fit and to do all such acts and things to give effect to such matters;
9. (a) To consider and approve the appointment of Mr. Duan Rongsheng as a supervisor of the Company to hold office from the date of the AGM until expiry of the term of the session of the Supervisory Committee of the Company and to authorize the Board to fix the remuneration of Mr. Duan Rongsheng pursuant to the remuneration standard for Supervisors passed at the 2010 annual general meeting and to enter into a service agreement with him on and subject to such terms and conditions as the Board shall think fit and to do all such acts and things to give effect to such matters;
- (b) To consider and approve the appointment of Ms. Liao Rong as a supervisor of the Company to hold office from the date of the AGM until expiry of the term of the session of the Supervisory Committee of the Company and to authorize the Board to fix the remuneration of Ms. Liao Rong pursuant to the remuneration standard for Supervisors passed at the 2010 annual general meeting and to enter into a service agreement with her on and subject to such terms and conditions as the Board shall think fit and to do all such acts and things to give effect to such matters;
- (c) To consider and approve the appointment of Ms. Wang Rongxue as a supervisor of the Company to hold office from the date of the AGM until expiry of the term of the session of the Supervisory Committee of the Company and to authorize the Board to fix the remuneration of Ms. Wang Rongxue pursuant to the remuneration standard for Supervisors passed at the 2010 annual general meeting and to enter into a service agreement with her on and subject to such terms and conditions as the Board shall think fit and to do all such acts and things to give effect to such matters;
- (d) To consider and approve the appointment of Mr. Liu Xing as a supervisor of the Company to hold office from the date of the AGM until expiry of the term of the session of the Supervisory Committee of the Company and to authorize the Board to fix the remuneration of Mr. Liu Xing pursuant to the remuneration standard for Supervisors passed at the 2010 annual general meeting and to enter into a service agreement with him on and subject to such terms and conditions as the Board shall think fit and to do all such acts and things to give effect to such matters;

- (e) To consider and approve the appointment of Mr. Wang Xuqi as the Supervisor of the Company to hold office from the date of the AGM until expiry of the term of the session of the Board and to authorize the Board to fix the remuneration of Mr. Wang Xuqi pursuant to the remuneration standard for Supervisors passed at the 2010 annual general meeting and to enter into a service agreement with her on and subject to such terms and conditions as the Board shall think fit and to do all such acts and things to give effect to such matters;
 - (f) To consider and approve the appointment of Mr. Chen Qing as the Supervisor of the Company to hold office from the date of the AGM until expiry of the term of the session of the Board and to authorize the Board to fix the remuneration of Mr. Chen Qing pursuant to the remuneration standard for Supervisors passed at the 2010 annual general meeting and to enter into a service agreement with him on and subject to such terms and conditions as the Board shall think fit and to do all such acts and things to give effect to such matters.
10. The remuneration standards for the second session of the Board and the supervisory committee.
11. (a) the entering into the Master Agreements (as defined in the circular to the shareholders of the Company dated 28 April 2010) for a period of three years commencing from 1 January 2011 in accordance with the terms thereon be and is hereby approved, confirmed and ratified;
- (b) the transactions contemplated under the Master Agreements and the Annual Caps as set out in the abovementioned circular be and are hereby approved;
- (c) the Master Agreements, (a copy of each Master 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 28 April 2010 of which this notice forms part and all the transactions contemplated thereunder, be and are hereby approved, confirmed and ratified; and
- (d) 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 11(a) to 11(c) of this resolution.

12. (a) the annual proposed cap of being the aggregate purchase price payable by the Group to the Parent Company and its associates under the Existing Master Supplies Agreement for the financial year ended 31 December 2010 be revised from RMB140,000,000 to RMB220,000,000;
- (b) the Supplemental Master Supplies Agreement, a copy of the Supplemental Master Supplies Agreement has been produced at the meeting marked “B” 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 28 April 2010 of which this notice forms part and all the transactions contemplated thereunder, be and are hereby approved, confirmed and ratified; and
- (c) 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 12(a) to 12(b) of this resolution.

SPECIAL RESOLUTIONS

13. To give a general mandate to the Board of Directors to allot, issue and deal with additional Domestic Shares and/or the H Shares and to make or grant offers, agreements and/or options in respect thereof, subject to the following conditions (the “General Mandate”):

“THAT

- (A) (a) the General Mandate shall not extend beyond the Relevant Period save that the Board of Directors may during the Relevant Period make or grant offers, agreements and/or options which may require the exercise of such power after the end of the Relevant Period;
- (b) the aggregate nominal amount of the Domestic Shares and the H Shares allotted and issued or agreed conditionally or unconditionally to be allotted and issued (whether pursuant to an option or otherwise) by the Board of Directors (otherwise than pursuant to any scrip dividend scheme (or similar arrangement providing for the allotment and issue of shares in lieu of the whole or part of a dividend), any share option scheme, a Rights Issue or any separate approval of the shareholders of the Company) shall not exceed:
- (i) 20 per cent. of the aggregate nominal amount of the Domestic Shares in issue; and
- (ii) 20 per cent. of the aggregate nominal amount of the H Shares in issue, respectively, in each case as at the date of passing of this resolution; and

- (c) the Board of Directors will only exercise its power under the General Mandate in accordance with the Company Law of the PRC and the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (as each of them may be amended from time to time) and only if all necessary approvals from the China Securities Regulatory Commission and/or other relevant government authorities in the PRC are obtained;

and, for the purposes of this resolution:

- “Domestic Share(s)”** mean ordinary domestic share(s) in the share capital of the Company which are subscribed and/or paid for in Renminbi;
- “H Share(s)”** mean overseas listed foreign invested shares (being ordinary shares) in the share capital of the Company which are subscribed and/or paid for in Hong Kong dollars or foreign currency other than Renminbi;
- “Relevant Period”** means the period from the date of passing this resolution until the earlier of: (a) the conclusion of the next annual general meeting of the Company following the passing of this resolution, unless, by special resolution passed at that meeting, the mandate is renewed, either unconditionally or subject to conditions; or (b) the expiry of the period within which the next annual general meeting is required by the articles of association of the Company or any applicable law to be held; or (c) the passing of a special resolution of the Company in a general meeting revoking or varying the authority set out in this resolution;
- “Rights Issue”** means the allotment or issue of shares in the Company or other securities which would or might require shares to be allotted and issued pursuant to an offer made to all the shareholders of the Company (excluding, as the Board of Directors may decide, for such purpose any shareholder who is resident in a place where such offer is not permitted under the law or regulation of that place) entitled to such offer, pro rata (apart from fractional entitlements) to their then existing holdings of shares; and

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

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

Chongqing, the PRC
28 April 2010

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 Zhong Shan 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 17 May 2010 to 15 June 2010, 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 and to be entitled to the proposed final dividend for the year ended 31 December 2009 (if any), 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 14 May 2010.
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 Wednesday, 26 May 2010.
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 Wednesday, 26 May 2010.

As at the date of this notice, the executive Directors are Mr. Xie Hua Jun, 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.

* *For identification purposes only*