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

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

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

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

(Stock Code: 02722)

- (1) PROPOSED GRANTING OF A GENERAL MANDATE TO ISSUE NEW SHARES OF THE COMPANY;**
- (2) RENEWAL OF 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) ISSUE OF CORPORATE BONDS IN THE PRC;**
- (5) REVISION OF THE EXISTING ANNUAL CAPS UNDER THE MASTER SUPPLIES AGREEMENT AND THE MASTER SALES AGREEMENT;**
- AND**
- (6) 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 15 of this circular and a letter from the Independent Board Committee is set out on page 16 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 17 to 31 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 Monday, 6 June 2011 at 10:00 a.m. is set out on pages 39 to 44 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 Tuesday, 17 May 2011 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.

18 April 2011

* For identification purposes only

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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 Monday, 6 June 2011 at 10 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 39 to 44 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

“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
“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 advise on the Supplemental Agreements and the Revised Annual Caps
“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 Supplemental Agreements and the Revised Annual Caps
“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 15 April 2011, 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

DEFINITIONS

“Master Sales Agreement”	means the agreement entered into 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 entered into between the Company and the Parent Company on 16 June 2010, 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
“PRC”	means the People’s Republic of China, which for the purpose of this circular, excludes Hong Kong Special Administrative Region, the Macau Special Administrative Region and the Taiwan region
“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

DEFINITIONS

“Revised Annual Caps”	means the revised annual caps pursuant to the Supplemental Master Supplies Agreement and the Supplemental Master Sales Agreement and subject to the approval of the Independent Shareholders at the AGM as more particularly set out in this circular
“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 of 13 April 2011 entered into between the Company and the Parent Company in relation to the Master Supplies Agreement
“Supplemental Master Sales Agreement”	means a supplemental agreement of 13 April 2011 entered into between the Company and the Parent Company in relation to the Master Sales Agreement
“Supplemental Agreements”	means the Supplemental Master Supplies Agreement and the Supplemental Master Sales Agreement

LETTER FROM THE BOARD



Chongqing Machinery & Electric Co., Ltd.*

重慶機電股份有限公司

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

(Stock Code: 02722)

Executive Directors:

Mr. Xie Huajun
Mr. Yu Gang
Mr. Liao Shaohua
Mr. Chen Xianzheng

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

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

Non-executive Directors:

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

Principal place of business in Hong Kong:

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

Independent non-executive Directors:

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

18 April 2011

To the Shareholders

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) ISSUE OF CORPORATE BONDS IN THE PRC;
**(5) REVISION OF THE EXISTING ANNUAL CAPS UNDER THE EXISTING
MASTER SUPPLIES AGREEMENT AND THE MASTER SALES AGREEMENT;
AND**
(6) 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 2010, 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 shareholders of Chongqing Pigeon are requested to provide a guarantee to the Company in consideration of the Company agreeing to provide guarantee to the Pigeon Loans. 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.

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

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 RMB50.44 million for a term of one year for loans of CAFF, 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.

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

5. ISSUE OF CORPORATE BONDS IN THE PRC

In order to satisfy the Company's capital needs for principal operations, the Company proposes to seek to issue corporate bonds with an aggregate nominal value of up to RMB1 billion in the PRC, the particulars of which are set out as follows:

1. Size of issue: an aggregate nominal value of up to RMB1 billion (inclusive), in one or multiple tranches.
2. Target subscribers and placement arrangement to the existing Shareholders: the bonds will be offered to the public in the PRC without any preferential placement to any existing Shareholders.
3. Maturity of bonds: the bonds will have a maturity of not exceeding 5 years (inclusive) and may have single or multiple maturities, which will be determined in accordance with the Company's needs and market conditions.

LETTER FROM THE BOARD

4. Par value and issue price: the bonds will be issued at par with a nominal value of RMB100 each.
5. Determination of annual coupon rate: the annual interest rate of the bonds will be determined with reference to the market conditions and the capital needs of the Company prior to the issue.
6. Use of proceeds: include but not limited to replenishing the working capital of the Company, repayment of debts and adjusting debt structure.
7. Validity period of the resolution: from the date of approval of this resolution at the 2010 AGM to the conclusion of the 2012 annual general meeting of the Company.

To ensure successful completion of the issue and listing of the corporate bonds, it will be proposed at the AGM to authorize the Board to delegate two directors namely Mr. Yu Gang and Mr. Chen Xianzheng to jointly deal with, at their full discretion, all matters relating to the issue of corporate bonds within the framework and principle as approved by the shareholders' general meeting, including but not limited to:

1. So far as permitted by laws and regulations and taking into account the specific needs of the Company and the market conditions, to determine and confirm all matters relating to the issue of corporate bonds, including but not limited to, the specific plan of the issue and the revision or adjustments to the terms and conditions of the issue, including but not limited to arrangements including the size of issue, the actual aggregate amount, the issue price, the interest rate of bonds or its basis of determination, the timing of issuance, whether to be issued in tranches and the number of tranches, any repurchase or redemption provisions, the arrangement of rating, warranty, the repayment of principal and interest, guarantee measures for debt repayment and listing arrangements, as well as specific arrangements relating to the use of proceeds within the scope approved at the AGM;
2. To take all such steps as necessary for the issue and the application for listing of corporate bonds (including but not limited to: the signing of all requisite legal documentation; selecting and appointing intermediary institutions to be involved; confirming underwriting arrangements, preparing and submitting any relevant application documents to the regulatory authorities; obtaining any approvals from the regulatory authorities; selecting the trustee for the bonds to be issued; signing any entrusting agreements and formulating the rules of procedure for bondholders' meeting; handling other matters relating to the issue of corporate bonds; determining and dealing with any issues relating to the listing and trading of the corporate bonds to be issued after completion of the issue pursuant to the related rules of the stock exchange; and making any necessary information disclosure in accordance with applicable regulatory rules), and to approve, confirm and ratify the aforementioned steps taken for the issue and listing of corporate bonds to the extent that any of them have already been approved or taken by the Board;

LETTER FROM THE BOARD

3. To adjust the specific plan and other related matters relating to the issue of corporate bonds as appropriate in accordance with the opinion of the regulatory authorities (if any), or to consider whether to continue the issue of corporate bonds based on the actual circumstances in the event of any changes in policies of regulatory authorities or market conditions, save and except any matters which are required to be re-approved at the general meetings in accordance with relevant laws, regulations and the Articles;
4. In the event that the Company expects that it is unable or fails to repay the principal and interest relating to the corporate bonds, to decide to carry out the guarantee measures for debt repayment according to the PRC laws and regulations as well as requirements of relevant regulatory authorities, including but not limited to: (1) cancellation of dividend distribution to Shareholders; (2) suspension of projects that incur capital expenses such as substantial external investments, acquisitions and mergers; (3) adjustment, reduction or cessation of payment of salary and bonus to Directors and senior management; and (4) prohibition of job reallocation of persons who are principally responsible, etc;
5. Validity period of the resolution: from the date of approval of this resolution at the 2010 AGM to the conclusion of the 2012 annual general meeting of the Company;
6. To make applications to the relevant PRC regulatory authorities for the issue of corporate bonds and make appropriate adjustments to the specific plan of the issue in accordance with the feedback (if any) from the relevant PRC regulatory authorities;
7. To take all necessary actions to determine and deal with all other matters relating to the issue and listing of domestic corporate bonds, including exercising discretion to delay or temporarily suspend the implementation of the issue of domestic corporate bonds in case of force majeure or other circumstances that could make the implementation of the issue of domestic corporate bonds difficult or unavailing to the Company even if it could be implemented, and authorize the Board to make corresponding adjustments to the specific plan of the issue and other relevant matters in accordance with the opinion of the regulatory authorities;
8. Subject to the approval and authorization of above items 1 to 7 at the 2010 AGM, to approve the Board to deal with all such matters relating to the issue and listing of corporate bonds within the scope of the aforementioned authorization and with immediate effect.

Pursuant to the Articles, the issuance of the corporate bonds by the Company requires the approval from the Shareholders at the general meeting.

LETTER FROM THE BOARD

6. REVISION OF THE ANNUAL CAPS UNDER THE MASTER SUPPLIES AGREEMENT AND THE MASTER SALES AGREEMENT

Reference is made to the circular of the Company dated 28 April 2010 in relation to the Master Agreements which constitute continuing connected transactions of the Company under Chapter 14A of the Listing Rules.

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 and, 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 Master Supplies Agreement and Master Sales Agreement initially.

Pursuant to the Master Sales Agreement, 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 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 Master Sales Agreement may be terminated by either party giving at least three months’ written notice.

Pursuant to the Master Supplies Agreement, 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 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 Master Supplies Agreement may be terminated as a whole, or the supply of one or more of the Supplies contemplated under the Master Supplies Agreement may be terminated individually, by either party giving at least three months’ written notice.

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 Supplemental Master Supplies Agreements and the revised annual cap for the Master Supplies Agreement are 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 since the applicable percentage ratios (as defined in the Listing Rules) are more than 5%.

LETTER FROM THE BOARD

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 Master Supplies Agreement and Master Sales Agreement initially.

DETAILS OF THE SUPPLEMENTAL MASTER SUPPLIES AGREEMENT

The Company and Parent Company entered into the Supplemental Master Supplies Agreement on 13 April 2011 to revise upwards the annual caps stated in the Master Supplies Agreement initially. All existing terms and conditions of the Master Supplies Agreement will remain unchanged with revision made only to annual caps of the Master Supplies Agreement as listed below:

	Annual caps for the financial year ending 31 December 2011		Annual caps for the financial year ending 31 December 2012		Annual caps for the financial year ending 31 December 2013	
	<i>(RMB millions)</i>	<i>(RMB millions)</i>	<i>(RMB millions)</i>	<i>(RMB millions)</i>	<i>(RMB millions)</i>	<i>(RMB millions)</i>
	Existing	Revised	Existing	Revised	Existing	Revised
Master Supplies Agreement	300	410	360	480	450	550

The basis for the revision to the annual caps of the Master Supplies Agreement is as follows:

- (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 2010.

LETTER FROM THE BOARD

PRICING BASIS FOR THE SUPPLEMENTAL MASTER SUPPLIES AGREEMENT

The Supplemental Master Supplies Agreement will be 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
- (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.

LETTER FROM THE BOARD

DETAILS OF THE SUPPLEMENTAL MASTER SALES AGREEMENT

The Company and Parent Company entered into the Supplemental Master Sales Agreement on 13 April 2011 to revise upwards the annual caps stated in the Master Sales Agreement initially. All existing terms and conditions of the Master Sales Agreement will remain unchanged with revision made only to the annual caps of the Master Sales Agreement as listed below:

	Annual caps for the financial year ending 31 December 2011		Annual caps for the financial year ending 31 December 2012		Annual caps for the financial year ending 31 December 2013	
	<i>(RMB millions)</i>	<i>(RMB millions)</i>	<i>(RMB millions)</i>	<i>(RMB millions)</i>	<i>(RMB millions)</i>	<i>(RMB millions)</i>
	Existing	Revised	Existing	Revised	Existing	Revised
Master Sales Agreement	140	155	160	185	190	210

The revision to the annual caps of the Master Sales Agreement is determined based on the following factors:

- (i) the expected production and sales demand for commercial vehicle parts and components, general machinery, CNC machine tools and power equipment;
- (ii) the forecasted 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 relating to the Group, especially the PRC automobile and the power equipment segment; and
- (iv) the historical transaction amount of the sales transactions for the financial year ended 31 December 2010.

PRICING BASIS FOR THE SUPPLEMENTAL MASTER SALES AGREEMENT

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

- (i) according to the price prescribed by the PRC Government (including the municipal government and other regulatory bodies which govern such transactions); or

LETTER FROM THE BOARD

- (ii) if no such price is prescribed by the PRC Government, not lower than the guide prices set by the PRC Government for such transactions; or
- (iii) if there is no prescribed 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 prescribed 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 Sales Agreement are on normal commercial terms, and are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

REASONS FOR AND BENEFITS OF THE SUPPLEMENTAL 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 associates would provide a reliable and steady customer base, a stable income and timely payment for the Products sold.

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 in the Master Supplies Agreement and Master Sales Agreement. If the proposed Revised Annual Caps are 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 amounts under the Master Supplies Agreement and the Master Sales Agreement for the period from 1 January 2011 to 31 March 2011 are approximately RMB95 million and RMB35 million respectively.

LETTER FROM THE BOARD

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

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

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 is one of the Promoters of the Company. The Parent Company along with its associates holds 52.22% interest in the Company, and is therefore a connected person of the Company. As the applicable percentage ratios (as defined in the Listing Rules) are more than 5% accordingly the Supplemental Master Supplies Agreement and the revised annual caps for the Master Supplies Agreement are subject to reporting and announcement requirements in accordance to Rule 14A.35(3) of the Listing Rules, and Independent Shareholders' approval requirement under Rule 14A.35(4) of the Listing Rules.

LETTER FROM THE BOARD

Although the applicable ratios (as defined in the Listing rules) for the revision to the annual caps for the Master Sales Agreement are more than 1% but less than 5%, the revision is subject to the reporting and announcement requirement but exempt from the Independent Shareholders' approval under Chapter 14A of the Listing Rules. The Company considers that it is prudent to seek the Independent Shareholders' approval for the entering of the Supplemental Master Sales Agreement for the adjustment to the annual caps under the Master Sales Agreement, because the revision involves amendment to the existing terms of the Master Sales Agreement.

7. ANNUAL GENERAL MEETING AND PROXY ARRANGEMENT

The notice of the Annual General Meeting is set out on pages 39 to 44 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 2010; (ii) approve the report of Supervisory Committee for the year ended 31 December 2010; (iii) approve the audited financial statements of the Company and its subsidiaries and the Audits Report for the year ended 31 December 2010; (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) issue of corporate bonds in the PRC; and (x) the revision of the annual caps under the Master Supplies Agreement and Master Sales 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 Tuesday, 17 May 2011 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. 8 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

8. 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.

9. 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)

18 April 2011

To the Independent Shareholders

Dear Sir or Madam,

**REVISION OF THE ANNUAL CAPS UNDER THE
MASTER SUPPLIES AGREEMENT AND MASTER SALES AGREEMENT**

We refer to the circular issued by the Company to the Shareholders dated 18 April 2011 (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 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 17 to 31 of the Circular and the additional information set out in the appendix thereto.

Having considered the Supplemental Agreements and Revised Annual Caps, 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 17 to 31 of the Circular, we consider that the Supplemental Agreements and the Revised Annual Caps are on normal commercial terms and fair and reasonable as far as the Independent Shareholders are concerned and that the Supplemental Agreements and the Revised Annual Caps 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 Supplemental Agreements and the Revised Annual Caps.

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

18 April 2011

To the Independent Board Committee and the Independent Shareholders

Chongqing Machinery & Electric Co., Ltd.*

No. 155 Zhongshan Third Road

Yuzhong District,

Chongqing City, The PRC

Dear Sir or Madam,

**REVISION OF THE ANNUAL CAPS UNDER
THE MASTER SUPPLIES AGREEMENT AND
MASTER SALES 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 Supplemental Agreements and the Revised Annual Caps. Details of the Supplemental Agreements and the Revised Annual Caps are set out in the circular of the Company dated 18 April 2011 (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.

The Independent Board Committee comprising Mr. Lo Wah Wai, Mr. Ren Xiaochang and Mr. Kong Weiliang, being the independent non-executive Directors, has been formed to advise the Independent Shareholders on whether the terms of the Supplemental Agreements and the Revised Annual 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 Supplemental Agreements are entered into by the Company in the ordinary and usual course of business based on normal commercial terms, and their terms and conditions together with the Revised Annual Caps are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

* For identification purposes only

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 Supplemental Agreements and the Revised Annual Caps, we have taken into consideration the following principal factors and reasons:

1. Background of and reasons for entering into of the Supplemental Agreements

- (a) *The principal business of the Group and the continuing connected transactions contemplated under the Master Sales Agreement as supplemented by the Supplemental Master Sales Agreement (the “Sales Transactions”) and the Master Supplies Agreement as supplemented by the Supplemental 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 sale 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 Master Sales Agreement on 16 June 2010 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. We were advised that the sales of the Products to the Parent Group amounted to approximately RMB92.4 million, representing about 1.0% of the Group’s revenue for the year ended 31 December 2010. As advised by the Group, 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 provides 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.

The Company entered into the Master Supplies Agreement on 16 June 2010, pursuant to which the Parent Group agreed to supply to the Group with parts and raw materials such as gears, component parts, YB2 series engines, electricity, water, gas and electrolytic copper (the “Supplies”) 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 sourced from the Parent Group; (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 source of the Supplies from the Parent Group secure a reliable source of supply. The monetary value of the Supplies Transactions was approximately RMB216.6 million for the year ended 31 December 2010, representing about 3.0% 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 of (i) that the Parent Group represents a stable source of supply or a reliable customer base (as the case may be) of the Group; (ii) the efficiency and cost effectiveness given that the Parent Group is familiar with the Group's product specifications and requirements; (iii) the timely delivery of products and relatively low transportation costs; and (iv) that the terms are determined based on market references and no less favourable than independent third parties as discussed in section (2) below, it is reasonable to expect that each of the Sales Transactions and the Supplies Transactions will continue to take place on a regular and frequent basis in the Group's ordinary and usual course of business in the foreseeable future.

(b) *The Revised Annual Caps*

As disclosed in the Letter from the Board, the estimated maximum transaction value of the Sales Transactions for the three years ending 31 December 2011, 2012 and 2013 is RMB155 million, RMB185 million and RMB210 million respectively (the "Revised Sales Caps") which exceeds the existing annual caps of RMB140 million, RMB160 million and RMB190 million respectively as approved by the then Independent Shareholders at the annual general meeting of the Company held on 15 June 2010. As a result, the Company entered into the Supplemental Master Sales Agreement to raise the relevant annual caps.

As disclosed in the Letter from the Board, the estimated maximum transaction value of the Supplies Transactions for the three years ending 31 December 2011, 2012 and 2013 is RMB410 million, RMB480 million and RMB550 million respectively (the "Revised Supplies Caps") which exceeds the existing annual caps of RMB300 million, RMB360 million and RMB450 million respectively as approved by the then Independent Shareholders at the annual general meeting of the Company held on 15 June 2010. As a result, the Company entered into the Supplemental Master Supplies Agreement to raise the relevant annual caps.

We were advised that, taking into account the Group's recent forecast of the Sales Transactions and the Supplies Transactions with reference to, among others, the actual transacted amounts for the year ended 31 December 2010, the Group anticipates that there would be deviations in the expected transaction amounts for the three years ending 31 December 2013, from what they originally envisaged. Given the aforesaid and for reasons discussed in sub-section (a) above, we believe the adoption of the Revised Annual Caps, which reflects the changes in the cost of materials 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 of the Supplemental Agreements together with the adoption of the Revised Annual 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 Supplemental Agreements

(a) *Nature of the transactions*

Pursuant to the Master Sales Agreement as supplemented by the Supplemental 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 under the Revised Sales Caps.

Pursuant to the Master Supplies Agreement as supplemented by the Supplemental 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 under the Revised Supplies Caps.

(b) *Pricing bases*

As disclosed in the Letter from the Board in relation to the terms of the Supplemental Master Agreements, the amendments to be made to the Master Agreements are relevant to the annual caps of the Sales Transactions and the Supplies Transactions for the three years ending 31 December 2013 only while the other terms and conditions remain unchanged.

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 the supply of such transactions based on the actual or reasonable costs of such transactions (whichever is lower) together with a reasonable profit. A “reasonable profit” is a profit that is agreed between the parties as being no more than 10% of the actual costs or reasonable cost incurred.

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 the supply of such transactions based on the actual or reasonable costs of such transactions (whichever is lower) together with a reasonable profit. A “reasonable profit” is a profit that is agreed between the parties as being no more than 10% of the actual costs or reasonable cost incurred.

It is noted that the pricing of the Products and the Supplies (as the case may be) should be determined based on certain market references and no less favourable than those offered by the independent third parties. In this regard, we have reviewed certain recent invoices of the Products and Supplies sold to or purchased from the Parent Group and independent third parties (as the case may be) and noted that the relevant pricings with the Parent Group are no less favourable than the pricings with 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 or purchase any Supplies from the Parent Group or 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 as supplemented by the Supplemental 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 cap disclosed in the previous announcement.

It was stated in the annual report of the Company for the year ended 31 December 2010 that, pursuant to Rule 14A.37 of the Listing Rules, the independent non-executive Directors have confirmed that for the year ended 31 December 2010, 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 agreement governing them; and (iv) on terms that are fair and reasonable and in the interests of the Shareholders as a whole; whereas pursuant to Rule 14A.38 of the Listing Rules, the auditors of the Company has provided a letter confirming that (i) the CCTs have been approved by the Board; (ii) the CCTs were, in all material respects, in accordance with the pricing policies of the Company; (iii) the CCTs were entered into, in all material respects, in accordance with the relevant agreements governing them; and (iv) with respect to the aggregate amount of each of the CCTs, the CCTs have not exceeded the maximum aggregate annual value disclosed.

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 Revised Annual Caps

(a) *The historical record of the Sales Transactions and the Supplies Transactions*

Set out below are details of the actual transacted amount of each of the Sales Transactions and the Supplies Transactions for each of the three years ended 31 December 2010 respectively; and the comparison of the transacted amount with the relevant annual caps for the three years ended 31 December 2010 set out in previous announcements and circulars of the Company (the “Utilisation Rate(s)”):

		For the year ended 31 December		
		2008	2009	2010
		<i>RMB million</i>	<i>RMB million</i>	<i>RMB million</i>
(1)	Sales Transactions	60.9	83.7	92.4
	<i>Utilisation Rate:</i>	98.2%	64.4%	57.8%
(2)	Supplies Transactions	56.9	112.3	216.6
	<i>Utilisation Rate:</i>	177.8%	93.6%	98.5%
<i>(Note)</i>				

Note: The annual cap in respect of the Supplies Transactions for the year ended 31 December 2008 was exceeded, details of which are set out in the announcement of the Company dated 22 April 2009.

As illustrated above in the table above, there has been an upward trend for the transacted amounts of both the Sales Transactions and the Supplies Transactions, and this was generally in line with the respective growing trend of revenue of the Group for the recent financial years. It is also noted that the Utilisation Rates for the Sales Transactions and the Supplies Transactions were at least 57%. Given the above, we are of the view that the generally high Utilisation Rate for each of the Sales Transactions and the Supplies Transactions, to a very large extent, is reflective of the market expertise of the Group and their perceptive operation planning and sales projections related thereto.

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

The Revised Sales Caps is proposed to be RMB155 million, RMB185 million and RMB210 million for the three years ending 31 December 2011, 2012 and 2013 respectively.

In our assessment of the respective reasonableness and fairness of the Revised Sales Caps, we have reviewed the sales projections of the Group and the estimated sales of the Products to the Parent Group for the three 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 Products to the Parent Group for each of the three 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; (iv) the historical transacted amounts of the Sales Transactions for the year ended 31 December 2010; and (v) the adoption of general buffer of 10% to accommodate unanticipated future variations in sales volume and price adjustments. We concur with the Company's view that it will be fair and reasonable and in the interests of both the Company and the Shareholders to set the relevant Revised Sales Caps at the proposed levels, after taking into consideration the following:

- that over 95% of the Sales Transactions are expected to be relevant to the commercial vehicle parts and components segment and power equipment segments of the Group for the three years ending 31 December 2013;

- the estimated growth rate of the revenue of the Products in respect of the commercial vehicle parts and components segment of the Group for each of the three years ending 31 December 2013 of at most about 15% is not excessive considering (i) the growing sales target of the Group's major customers in the same segment; (ii) the annualised compounded growth rate of revenue of the Group was approximately 20.0% for the five years ended 31 December 2010; (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 2010 was approximately 18 million, representing growth rate of about 32% as compared with that of the previous year; and (iv) that, save for the Auto Industry Planning announced in March 2009 which reinforces that the automobile industry is the key composition in the PRC economy, the PRC government continued to implement relevant policies that were favourable to the sales of automobiles such as promotion of energy-saving automobile products, automobile subsidies in rural areas, subsidised trade-in of vehicles and preferential purchase tax incentive for low displacement vehicles to ensure the sustainable, healthy, stable and comprehensive development of the PRC automobile industry;
- the demand of the Products in respect of the power equipment segment is expected to increase significantly considering, as advised by the Company, (i) the growing demand of products of the Group given the development of hydroelectric power and electric equipments in the rural area of the PRC; (ii) that one of the major subsidiaries of the Parent Group has commenced mass production of power equipment products relating to railway transportation system in Chongqing in 2011; (iii) the expected increase in selling price of copper products given the surge of copper price by approximately 28.6% from about US\$7,000 in May 2010 to over US\$9,000 in December 2010 as quoted in the London Metal Exchange; (iv) that the PRC government announced in 29 November 2010 the investment plan during 2011 to 2015 in various energy-saving related technology in relation to, among others, energy-saving and environmental friendly power equipment segment which signifies the intention of the PRC government to promote, among others, energy-saving power equipments; and (v) the Group's expansion strategy to collaborate with the plan of the PRC government to expand power grid, environmental friendly power equipments and refurbishment of existing construction facilities;
- the transacted amount of the Sales Transactions for the year ended 31 December 2010 of approximately RMB92.4 million;

- the transacted amount of the Sales Transactions for the three months ended 31 March 2011 of approximately RMB35 million, representing approximately 22.6% of the relevant annual cap for the year ending 31 December 2011; and
- that a general buffer of 10% is adopted after taking into account (i) the uncertainty in the growth rate of the transaction volume of the Products in view of the volatility of copper price; (ii) the uncertainty in the growth rate of demand for the Products in the PRC; and (iii) the growth rate per year of revenue of the Group in the past five years ranging from approximately 8.5% to 28.9%.

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

The Revised Supplies Caps are proposed to be RMB410 million, RMB480 million and RMB550 million for the three years ending 31 December 2013 respectively.

In our assessment of the respective reasonableness and fairness of the Revised Supplies Caps, we have reviewed the sales projections of the Group and the estimated procurement from the Parent Group for the three 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 three 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; (iv) the historical transacted amount of the Supplies Transactions for the year ended 31 December 2010; and (v) the adoption of general buffer of 10% to accommodate unanticipated future variations in purchases volume and price adjustments. We concur with the Company's view that it will be fair and reasonable and in the interests of both the Company and the Shareholders to set the relevant Revised Supplies Caps at the proposed levels, after taking into consideration the following:

- that over 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 three years ending 31 December 2013;
- that the Group maintained a relatively stable gross margin ranging between 18.1% and 19.8% in the recent three financial years;

- the expected increase in revenue of commercial vehicle parts and components and the power equipment segments of the Group for each of the three years ending 31 December 2013 after taking into account the factors as discussed in subsection (a) above;
- the purchases of Supplies in respect of the commercial vehicle parts and components segment are expected to increase after taking into account (i) the prospect of the automobile industry in the PRC as discussed in subsection (a) above; and (ii) the annualised compounded growth rate of cost of sales of the Group was approximately 20.4% for the five years ended 31 December 2010;
- the purchases of Supplies in respect of the power equipment segment are expected to increase significantly after taking into account (i) the prospect of the power supply industry in the PRC as discussed in subsection (a) above; (ii) the expected increase in cost of copper given the surge of copper price as discussed in subsection (a) above; and (iii) the continuing effort in expanding the production capability of the Group, in particular that a major subsidiary of the Company involved in the Supplies Transactions schedules to expand its production capacity of copper powder by 8,000 tonnes per annum in 2012;
- the transacted amount of the Supplies Transactions for the year ended 31 December 2010 of approximately RMB216.6 million;
- the transacted amount of the Supplies Transactions for the three months ended 31 March 2011 of approximately RMB95 million, representing approximately 23.2% of the relevant annual cap for the year ending 31 December 2011; and
- that a general buffer of 10% is adopted after taking into account (i) the uncertainty in the growth rate of the transaction volume of the Supplies in view of the volatility of copper price; (ii) the uncertainty in the growth rate of the products of the Group in the PRC which in turn will affect the demand for the Supplies; and (iii) the growth rate per year of cost of sales of the Group experienced in the past five years ranging from approximately 5.7% to 32.2%.

(d) *Conclusion*

As the aforesaid sales and purchases 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 and purchases achieved may not necessarily correspond to the projections and, accordingly, we express no opinion on how closely the sales and purchases eventually achieved will correspond with the projections.

Based on the factors and reasons discussed above, we are of the view that the Revised Annual 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 the Supplemental Agreements;
- that entering into of the Supplemental Agreements is conducted in the ordinary and usual course of the Group's business;
- that the pricing bases of the Master Agreements as supplemented by the Supplemental Agreements 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 Annual Caps have been set by the Company, after careful and due considerations, at a level which will be in the interests of both the Company and the Shareholders,

we consider that the Supplemental Agreements have been entered into within 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 Annual Caps are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

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

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

1. RESPONSIBILITY STATEMENT

This circular, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief the information contained in this circular is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this circular misleading.

2. DISCLOSURE OF INTERESTS

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

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

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

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

Name of Shareholders	Number of shares	Capacity	Note	Percentage of total issued domestic shares (%)	Percentage of total issued shares (%)
Chongqing Machinery and Electronic Holding (Group) Co., Ltd.	1,924,225,189	Beneficial owner	(1)	74.46 (L)	52.22
Chongqing Yufu Assets Management Co., Ltd.	232,132,514	Beneficial owner	(1)	8.98 (L)	6.30
Chongqing Construction Engineering Group Co., Ltd. (formerly known as Chongqing Jiangong Group Co., Ltd.)	232,132,514	Beneficial owner	(2)	8.98 (L)	6.30
China Huarong Asset Management Co., Ltd.	195,962,467	Beneficial owner	(3)	7.58 (L)	5.32
State-Owned Assets Supervision and Administration Commission of Chongqing Municipal Government	2,388,490,217	Interest in controlled corporation	(1)	92.42 (L)	64.82
Ministry of Finance of the People's Republic of China	195,962,467	Interest in controlled corporation	(3)	7.58 (L)	5.32

(L): Long Position

H shares of RMB\$1.00 each of the Company

Name of Shareholders	Number of shares	Capacity	Note	Percentage of total issued H shares (%)	Percentage of total issued shares (%)
GE Asset Management Incorporated	98,488,000	Beneficial owner		8.95 (L)	2.67 (L)
National Council for Social Security Fund	95,287,470	Beneficial owner		8.66 (L)	2.59 (L)
The Bank of New York Mellon (formerly known as "The Bank of New York")	87,276,000	Interest in custodian's company	(4)	7.93 (L)	2.37 (L)
The Bank of New York Mellon Corporation	87,276,000	Interest in controlled corporations	(4)	7.93 (L) 7.93 (P)	2.37 (L) 2.37 (P)
The Hamon Investment Group Pte Limited	82,110,000	Investment manager	(5)	7.46 (L)	2.23 (L)
UBS AG	66,122,365	Beneficial owner,	(6)	6.01 (L)	1.79 (L)
	1,520,000	interest in controlled corporations, person having a security interest in shares		0.14 (S)	0.04 (S)
The Dreyfus Corporation	67,180,000	Investment manager		6.11 (L)	1.82 (L)
Templeton Asset Management Limited	66,986,600	Investment manager		6.09(L)	1.82(L)
FIL Limited	66,914,000	Investment manager		6.08 (L)	1.82 (L)
Hang Seng Bank Trustee International Limited	64,394,000	Trustee (Other than a bare trustee)	(7)	5.85 (L)	1.75 (L)
To Hau Yin	64,394,000	Interest of child under 18 and/or spouse	(7)	5.85 (L)	1.75 (L)
Cheah Cheng Hye	64,394,000	Founder of discretionary trust	(7)	5.85 (L)	1.75 (L)
Value Partners Group Limited	64,394,000	Interest in controlled corporations	(7)	5.85 (L)	1.75 (L)
Value Partners Limited	64,394,000	Investment manager	(7)	5.85 (L)	1.75 (L)
Cheah Company Limited	64,394,000	Interest in controlled corporations	(7)	5.85 (L)	1.75 (L)
Cheah Capital Management Limited	64,394,000	Interest in controlled corporations	(7)	5.85 (L)	1.75 (L)

(L): Long Position

(P): Lending Pool

(S): Short Position

Notes:

1. As Chongqing Machinery and Electronic Holding (Group) Co., Ltd. and Chongqing Yufu Asset Management Co., Ltd. were wholly owned by State-Owned Assets Supervision and Administration Commission of Chongqing Municipal Government, State-Owned Assets Supervision and Administration Commission of Chongqing Municipal Government is deemed to be interested in 1,924,225,189 domestic shares and 232,132,514 domestic shares of the Company held by the two companies.
2. Chongqing Construction Engineering Group Co., Ltd. is held as to 96.18% by State-Owned Assets Supervision and Administration Commission of Chongqing Municipal Government through its three wholly-owned subsidiaries and as to 3.82% by the Ministry of Finance of the People's Republic of China through China Huarong Asset Management Company, a wholly-owned subsidiary of the Ministry. Therefore, State-Owned Assets Supervision and Administration Commission of Chongqing Municipal Government and the Ministry of Finance of the People's Republic of China are deemed to be interested in 232,132,514 domestic shares of the Company held by Chongqing Construction Engineering Group Co., Ltd..
3. China Huarong Asset Management Co., Ltd. is wholly owned by the Ministry of Finance of the People's Republic of China and its interest in 195,962,467 domestic shares of the Company was deemed to be the interests of the Ministry of Finance of the People's Republic of China.
4. The Bank of New York Mellon Corporation holds 100% interest in The Bank of New York Mellon (formerly known as "The Bank of New York"), which holds 87,276,000 of H shares of the Company. The interest in 87,276,000 H shares relates to the same block of shares in the Company and includes a lending pool of 87,276,000 of H shares of the Company.
5. The Hamon Investment Group Pte Limited was interested in 82,110,000 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	4,476,000 (L)
Hamon U.S. Investment Advisors Limited	100	60,998,000 (L)
Hamon Investment Management Limited	100	16,636,000 (L)

6. UBS AG was interested in 67,642,365 H shares of the Company, among which 56,730,365 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 Fund Services (Luxembourg) SA	100	348,000(L)
UBS Global Asset Management (Americas) Inc	100	44,896,409(L)
UBS Global Asset Management (Australia) Ltd	100	751,956(L)
UBS Global Asset Management (Japan) Ltd	100	7,240,000(L)
UBS Global Asset Management Trust Company	100	964,000(L)
UBS Global Asset Management (UK) Ltd	100	538,000(L)
UBS Securities LLC	100	996,000(L)
UBS Securities LLC	100	996,000(S)

7. 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.

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

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

As at the Latest Practicable Date, none of the Directors and the supervisors of the Company had any direct or indirect interest in any assets which have been acquired or disposed of by or leased to the Company or are proposed to be acquired or disposed of by or leased to the Company since 31 December 2010, 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 2010, 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 2010, 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 2008, 20/F, Jardine House, 1 Connaught Place, Central, Hong Kong.
- (iii) The Company's H Share Registrars and transfer office in Hong Kong is Computershare Hong Kong Investor Services Limited, Shops 1712-1716, 17/F, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong.
- (iv) The company secretary of the Company is Mr. Wang Xiao Jun, who is a practicing solicitor of the High Court of Hong Kong.
- (v) Unless stated otherwise, in the event of inconsistency, the English 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 2008, 20/F, Jardine House, 1 Connaught Place, Central, Hong Kong from 18 April 2011 up to and including the date of AGM:

- (i) the letter from the Independent Board Committee dated 18 April 2011 as set out in this circular;
- (ii) the letter of advice from Quam Capital dated 18 April 2011 as set out in this circular;
- (iii) the written consent of Quam Capital referred to in the section headed "Expert's qualification and consent";
- (iv) the Master Agreements; and
- (v) the Supplemental Agreements.

**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 Monday, 6 June 2011 at 10 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 2010;
2. To consider and approve the report of the Supervisory Committee of the Company for the year ended 31 December 2010;
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 2010;
4. To consider and approve the profit appropriation proposal of the Company for the year ended 31 December 2010;
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 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 approve the transactions contemplated under the Master Agreements and the Revised Annual Caps as set out in the abovementioned circular;
- (b) To consider, confirm and ratify the Supplemental Agreements, (a copy of each Supplemental Agreement has been produced at the Meeting marked “A” and initiated by the chairman of the Meeting for identification purpose), as more particularly described in the circular to the shareholder of the Company dated 18 April 2011 of which this notice forms part and all the transactions contemplated thereunder; and
- (c) To authorize the directors of the Company 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 8(a) to 8(b) of this resolution.

SPECIAL RESOLUTIONS

9. To issue corporate bonds with an aggregate nominal value of up to RMB1 billion in the PRC and to authorize the Board to delegate two directors namely Mr. Yu Gang and Mr. Chen Xianzheng to jointly deal with, at their full discretion, all matters relating to the issue of corporate bonds within the framework and principle as approved by the shareholders’ general meeting.
10. 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
18 April 2011

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 5 May 2011 to 6 June 2011, 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 2010 (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 4 May 2011.

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 Tuesday, 17 May 2011.
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 Tuesday, 17 May 2010.

As at the date of this notice, the executive Directors are Mr. Xie Hua Jun, Mr. Yu Gang, Mr. Liao Shaohua and Mr. Chen Xianzheng; the non-executive Directors are Mr. Huang Yong, Mr. Wang Jiyu, Mr. Yang Jingpu and Mr. Liu Liangcai; and the independent non-executive Directors are Mr. Lo Wah Wai, Mr. Ren Xiaochang and Mr. Kong Weiliang.

* *For identification purposes only*