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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 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
AND
(2) THE RULES OF PROCEDURES OF GENERAL MEETING
AND
(3) RENEWAL OF A GUARANTEE BY THE COMPANY FOR A LOAN OF RMB37 MILLION
OF CHONGQING PIGEON
AND
(4) RENEWAL OF A GUARANTEE BY THE COMPANY FOR A LOAN OF
RMB30 MILLION OF CAFF
AND
(5) ADJUSTMENT TO PROJECTS AND INVESTMENT AMOUNT OF IPO PROCEEDS
AND
(6) PROPOSED AMENDMENTS TO THE ARTICLES OF THE COMPANY
AND
(7) NOTICE OF THE ANNUAL GENERAL MEETING OF THE COMPANY**

The letter from the Board of the Company is set out on pages 1 to 17 of this circular.

A notice convening an Annual General Meeting of Chongqing Machinery & Electric Co., Ltd.* to be held at Empark Grand Hotel Chongqing at No. 1, 2nd Branch Jianxin North Road, Jiangbei District, Chongqing, the PRC on Thursday, 25 June 2009 at 9:30 a.m. is set out on pages 45 to 54 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.hkex.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 Friday, 5 June 2009 and (ii) the enclosed form of proxy in accordance with the instructions printed thereon not less than 24 hours before the time fixed for holding the Annual General Meeting or any adjournment thereof (as the case may be). Completion and return of the form of proxy will not preclude you from attending the Annual General Meeting and voting in person if you so wish.

28 April 2009

* 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 General Meeting” or “AGM”	means an annual general meeting of the Company to be held at Empark Grand Hotel Chongqing at No. 1, 2nd Branch Jianxin North Road, Jiangbei District, Chongqing, the PRC on Thursday, 25 June 2009 at 9:30 a.m., to consider and, if appropriate, to approve the resolutions contained in the notice of the annual general meeting which is set out on pages 45 to 54 of this circular, or any adjournment thereof
“Articles”	means the articles of association of the Company currently in force
“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”	means 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
“IPO Proceeds”	means the proceeds risen by the Company on initial listing on the Stock Exchange on 13 June 2008
“General Mandate”	means 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
“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

DEFINITIONS

“Hong Kong”	means the Hong Kong Special Administrative Region of the PRC
“Latest Practicable Date”	means 24 April 2009, 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
“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
“Parent Group”	means Parent Company and its associates
“PRC”	means the People’s Republic of China, which for the purpose of this circular, excludes Hong Kong, the Macau Special Administrative Region of the PRC and Taiwan
“Prospectus”	means the prospectus of the Company dated 30 May 2008
“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
“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

DEFINITIONS

“RMB”	means Renminbi, the lawful currency of the PRC
“Shares”	means the Domestic Shares and the H Shares
“Shareholders”	means holder(s) of the Shares
“Stock Exchange”	means The Stock Exchange of Hong Kong Limited
“Subsidiary(ies)”	has the meaning ascribed to it under the Listing Rules

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LETTER FROM THE BOARD



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

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

(Stock Code: 02722)

Executive Directors:

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

Non-executive Directors:

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

Independent Non-executive Directors:

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

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

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

*Principal place of business
in Hong Kong:*

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

28 April 2009

To the Shareholders

Dear Sir or Madam,

- (1) PROPOSED GRANTING OF A GENERAL MANDATE
TO ISSUE NEW SHARES OF THE COMPANY
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AND
(7) 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. THE RULES OF PROCEDURES OF GENERAL MEETING

In order to formalize the procedures of general meeting, the Board proposed the rules of procedures of general meeting as shown in Appendix I.

4. RENEWAL OF A GUARANTEE BY THE COMPANY FOR A LOAN OF RMB37 MILLION FOR CHONGQING PIGEON

Background of Chongqing Pigeon Loans

Chongqing Pigeon requested the Company to continue to provide a guarantee for its loans totalling 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.

LETTER FROM THE BOARD

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

Since 2008, the Company provided a guarantee of RMB37 million for a term of one year for Pigeon Loans which will fall due in a row. As of 31 December 2008, Chongqing Pigeon had a high gearing ratio (85.18%), as Chongqing Pigeon paid land transfer fees of RMB9.8 million to the Parent Group in December 2008, resulting in a decrease in cash inflow, amidst adverse factors such as financial crisis, decreased raw material price, reduced product price, resource shortage and weakening consumer market. Therefore, the renewal of the guarantee by the Company for its subsidiary Chongqing Pigeon can ease bank's concerns on risk of Pigeon Loans, so as to ensure the normal turnover of its working capital. To help Chongqing Pigeon to overcome difficulties, the Board recommended the Company to renew the guarantee by the Company for a loan of RMB37 million for Pigeon Loans.

Since the gearing ratio of Chongqing Pigeon is 85.18%, the renewal of the guarantee for Pigeon Loans is subject to approval at the general meeting under the Articles.

Terms of the guarantee

The guarantee is for a term of one year commencing from the date of approval by shareholders and completion of relevant procedures by Chongqing Pigeon. The Company requested shareholders of Chongqing Pigeon, namely Duan Caijun (holding 14.0625% interests), Wang Shineng (holding 7.8125% interests), Li Bokui (holding 7.8125% interests), Zhang Baoqian (holding 7.8125% interests) and Zhang Bangshou (holding 7.8125% interests), to provide guarantee to the Company by their shareholding in Chongqing Pigeon. 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.

5. RENEWAL OF A GUARANTEE BY THE COMPANY FOR A LOAN OF RMB30 MILLION FOR CAFF

Background of CAFF Loans

CAFF requested the Company to continue to provide a guarantee for its loans totalling RMB30 million including a loan of RMB10 million from China Merchants Bank Daping Sub-Branch and a loan of RMB20 million from Hua Xia Bank (“CAFF Loans”). CAFF is a wholly-owned subsidiary of the Company.

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

Since 2008, the Company provided a guarantee of RMB30 million for a term of one year for CAFF Loans. The loan of RMB10 million from China Merchants Bank Daping Sub-Branch will fall due soon and the loan of RMB20 million from Hua Xia bank will fall due in December 2009. As of 31 December 2008, CAFF had a high gearing ratio (92%), with weak solvency positions in a long run. The profitability of its product is declining (its gross profit margin for the three years ended 31 December 2008 was 15.8%, 15.3% and 13.2% respectively). As afflicted by macro-economic changes, since the second half of 2008, revenue growth trend set back and inventory significantly increased. Business operation from January to February 2009 sees a further decline. However, considering that CAFF is in a critical period to tide over crisis amid current market conditions and CAFF Loans are of renewed loan, the renewal of the guarantee by the Company can help to ease bank’s concerns on risk of CAFF Loans. The Board recommended the Company to continue to provide the guarantee totalling RMB30 million for CAFF Loans, including a loan of RMB10 million from China Merchants Bank Daping Sub-Branch and a loan of RMB20 million from Hua Xia Bank.

Since the gearing ratio of CAFF is 92%, the renewal of the guarantee for CAFF Loans is subject to approval at the general meeting under the Articles.

Terms of the guarantee

The guarantee is for a term of one year commencing from the date of approval by shareholders and completion of relevant procedures by CAFF. The Board is of the opinion that the terms of provision of guarantee for 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.

LETTER FROM THE BOARD

6. ADJUSTMENT TO THE PROJECTS AND INVESTMENT AMOUNT OF IPO PROCEEDS

The Company formulated 24 investment projects which were set out in the section headed “Future Plans and Use of Proceeds” (“Future Plans”) in the Prospectus. According to the Future Plans, among the HK\$2.4 billion of total proceeds from the IPO, 66.9% or approximately HK\$1.6 billion would be used to “upgrade our technology, develop new products and expand production scale”. As macro market condition changes, there was a dramatic discrepancy between actual proceeds and expected amount. As for investment in “upgrade our technology, develop new products and expand production scale”, the Board proposed to adjust under the following principals:

- (1) To invest in projects focusing on product mix adjustment, products upgrade and technology improvement as industry development trend calls.
- (2) To invest in projects with higher investment returns.
- (3) To invest in key sectors and lean projects, with investment in batches according to progress and overall planning.
- (4) To readjust projects to increase returns.
- (5) If market changes leads to uncertainty in trend or strategic partner does not approve, or there are no mature implementation conditions, the proceeds will not be invested presently.

After detailed discussion, the Board proposed to adjust the use of proceeds as follows:

- (1) According to the Prospectus, 21.5% or approximately HK\$281 million would originally be invested in commercial vehicle parts and components segment.
 - (i) Approximately 10.7%, or approximately HK\$140 million, would originally be used for technological improvements and capacity expansion for the braking and steering systems business. The Company did not actually invest. Main reasons being that the project involves relocation and technological improvement. As IPO was later then originally planned, the project was basically completed during the IPO and fund was gradually financed. Meanwhile, as the second half of 2008 had seen market changes and actual proceeds fell short of expectation, investment in the project will not be considered.

LETTER FROM THE BOARD

- (ii) approximately 8.0%, or approximately HK\$105 million, would originally be used for technological improvements and capacity expansion (including approximately 0.6%, or approximately HK\$8 million, for upgrading an existing research and development center which was expected to be completed by December 2008) for the gear transmission systems business, with emphasis on automobile transmissions, cylinder gears and steel castings, subject to approval from our strategic partner. The Company did not actually invest, mainly attributable to no approval being obtained from former strategic partner.
- (iii) Approximately 2.8%, or approximately HK\$37 million, would originally be used for technological improvements and capacity expansion for the vehicle suspension systems business, with emphasis on air suspensions, subject to approval from our strategic partner.

Total investment for the project was planned to be approximately RMB150 million. In order to control investment risks, the Board proposed to implement the project under the principal of “overall planning, investment in batches” and decided to implement the project in phases. After the completion of phase I, implementation plan for phase II will be decided upon result of phase I. Investment for phase I was approximately RMB38 million, of which approximately RMB16.72 million was financed by the proceeds of the Company. The project is being implemented as planned.

- (2) According to the Prospectus, approximately 17.0%, or approximately HK\$222 million, would originally be used for our power equipment segment
 - (i) Approximately 8.6%, or approximately HK\$112 million, would originally be used for technological improvements and capacity expansion for the hydroelectric generation equipment business, with emphasis on complete line of equipment base construction.

Total investment for the project was planned to be approximately RMB500 million. In order to control investment risks, the Board proposed to implement the project under the principal of “overall planning, investment in batches” and decided to implement the project in phases. Investment for phase I was approximately RMB55 million, of which RMB50 million was invested by the Company using the proceeds through capital increase. The project is being implemented as planned.

LETTER FROM THE BOARD

- (ii) Approximately 5.0%, or approximately HK\$65 million, would originally be used for technological improvements and capacity expansion for the electrical wires, cables and materials business, with emphasis on specialized cables with environmentally-friendly features and high-voltage ceramics.

Total investment for the project was planned to be approximately RMB152.95 million. After researches and adjustments, total investment of the project was set to be RMB121.20 million, of which the Company invested RMB18 million initially. The project is being implemented as planned.

- (iii) Approximately 3.4%, or approximately HK\$44 million, would originally be used for technological improvements and capacity expansion for the non-ferrous metal materials business, with emphasis on copper and copper-based powers and copper material extension products.

Total investment for the project was planned to be RMB100 million. In order to control investment risks, the Board proposed to implement the project under the principal of “overall planning, investment in batches”, and decided to implement the project in phases. Total investment for phase I of the project is approximately RMB42 million, of which approximately RMB22 million was invested by the Company using the proceeds through unilateral capital increase. The project is being implemented as planned.

- (3) According to the Prospectus, approximately 15.2%, or approximately HK\$199 million, would originally be used for our general machinery segment

- (i) Approximately 6.6%, or approximately HK\$86 million, would originally be used for product expansion and construction of a production base for specialized refrigeration machines, industrial pumps and industrial fans used by nuclear power stations.

Total investment for the project was planned to be approximately RMB299.80 million. In order to control investment risks, the Board proposed to implement the project under the principal of “overall planning, investment in batches”, and decided to implement the project in phases. Investment for phase I of the project was approximately RMB107.55 million, of which approximately RMB80 million was invested by the Company using the proceeds through unilateral capital. Approximately RMB65.49 million was invested initially. The project is being implemented as planned. Backed by energy and environment protection policy of the State, general industry is developing at remarkable speed which outpaced enterprise production capacity and called for tech upgrade and reprocessing to build wind power production base in line with state industry trend. Considering the shortage of construction fund, it is proposed to make the second batch of investment of approximately RMB14.51 million as soon as possible.

LETTER FROM THE BOARD

- (ii) Approximately 3.9%, or approximately HK\$51 million, would originally be used for technological improvements and capacity expansion for the industrial pumps business.

Total investment for the project was planned to be approximately RMB225 million, of which approximately RMB90 million was invested by the Company using the proceeds through unilateral capital increase. Approximately RMB38.84 million was invested initially. The project is being implemented as planned. As the product is performing favourably with high gross margin in the market, but the production capacity was inadequate. The renovation is for capacity expansion, production tech upgrade, solutions for supply of pump product to machinery, electrical and instrument system, the project construction contract expansion capacity and actual condition of enterprise construction fund shortage. It is proposed to make the second batch of investment of approximately RMB51.16 million as soon as possible.

- (iii) Approximately 2.1%, or approximately HK\$27 million, would originally be used for technological improvements and capacity expansion for the gas compressors business, with emphasis on complete-line equipment for high volume primary and secondary stations and high pressure compressors.

Total investment for the project was planned to be approximately RMB100 million, of which approximately RMB70 million was financed by the proceeds of the Company. approximately RMB20.56 million was initially invested. The project is being implemented as planned. As the product is of high gross margin and inadequate capacity, the investment is to step up tech renovation and equipment investment, expand product capacity, supplement and optimize processing and equipment deployment. Together with the shortage of construction fund, it is proposed to make the second batch of investment of approximately RMB49.44 million as soon as possible.

- (iv) Approximately 2.6%, or approximately HK\$34 million, would originally be used for technological improvements and capacity expansion for the separation machines business, with emphasis on specialized chemical, environmental, agricultural and bio-engineering products

The Company did not actually invest. Main reasons being that as the lands for entire relocation in line with the Company's development strategy have not been finalized.

LETTER FROM THE BOARD

(4) According to the Prospectus, approximately 12.8%, or approximately HK\$167 million, will be originally used for our CNC machine tools segment

- (i) approximately 8.6%, or approximately HK\$112 million, would be originally used for technological improvements and capacity expansion (including funds for construction of a national-level, or top tier, technology center which is expected to be completed by December 2010) for the gear producing machines business, with emphasis on high speed, precision CNC machines.

Total investment for the project was planned to be approximately RMB260 million, of which approximately RMB150 million was financed by proceeds of the Company. Approximately RMB85.30 million was initially invested. The project is being implemented as planned. With favourable industry development trend, especially strong demand in large high accuracy gear-producing machines with high gross margin, competitors are increasing investment in this sector. Given the inadequate capacity, especially, the inadequate existing location and equipments as compared with production demand of large high accuracy gear-producing machines, together with the tight capital for construction, it is proposed to make the second batch of investment of approximately RMB64.70 million as soon as possible.

- (ii) Approximately 0.8%, or approximately HK\$10 million, would originally be used for technological improvements and capacity expansion for the complex precision metal-cutting tools business, with emphasis on specialized tools.

Total investment for the project was planned to be approximately RMB226.60 million. In order to control investment risks, the Board proposed to implement the project under the principal of “overall planning, investment in batches”, and decided to implement the project in phases. Total investment for phase I was approximately RMB35 million, of which approximately RMB30 million was financed by proceeds of the Company. Approximately RMB7.62 million was initially invested. The project is being implemented as planned. The industry is in relatively stable development trend with minor investment risk. Market demand is extremely strong for high accuracy and high efficiency cutting tools. Competitors are increasing investment in the sector to expand production scale and overtake market share. Given the inadequate capacity and shortage of necessary equipments, more investment is needed to expand production scale and improve high-end product competitiveness to ensure leading position in the industry. It is proposed to make the second batch of investment of approximately RMB22.38 million as soon as possible.

LETTER FROM THE BOARD

- (iii) Approximately 3.4%, or approximately HK\$44 million, would originally be used for technological improvements and capacity expansion for the CNC lathes and machine centers business, with emphasis on a production base for lathe reproduction technology and large-scale CNC lathes.

Total investment for the project was planned to be approximately RMB300 million. In order to control investment risks, the Board proposed to implement the project under the principal of “overall planning, investment in batches”, and decided to implement the project in phases. Total investment for phase I was approximately RMB40 million, of which approximately RMB30 million was financed by proceeds of the Company. The project is being implemented as planned.

- (5) According to the Prospectus, approximately 25.0%, or approximately HK\$327 million, will be originally used for the acquisition of companies or products relevant to our businesses

Total fund for the plan was approximately RMB257 million, of which RMB256.96 million was used for acquisition of shares of Qijiang Gear and Qijiang Qi-Chi at Chongqing United Assets and Equity Exchange. The acquisition was completed on 31 March 2009.

- (6) According to the Prospectus, the remaining portion of the net proceeds would originally be used for working capital and general corporate purposes.

The Company will continue to explore business opportunities and to develop our business under the above principles.

7. PROPOSED AMENDMENTS TO THE ARTICLES

In light of the amendments to the Listing Rules which were effective from 1 January 2009, whereby the Company may, subject to the Listing Rules and the Articles, send or otherwise make available the corporate communication to the relevant holder of the Shares using electronic means, special resolutions will be proposed at the AGM to approve the necessary amendments to the relevant provisions of the Articles, to allow the Company to send or otherwise make available the corporate communication to the relevant holders of the Shares using electronic means.

LETTER FROM THE BOARD

The Company proposes to make amendment to the following articles:

(a) Article 48

Any person who is a registered shareholder or who requests his name be entered in the register of shareholders in respect of shares in the Company may, if his share certificate (the “original certificate”) relating to the shares is lost, apply to the Company for a replacement share certificate in respect of such shares (the “Relevant Shares”).

Application by a holder of Domestic Shares, who has lost his share certificate, for a replacement share certificate shall be dealt with in accordance with Article 144 of the Company Law.

Application by a holder of Overseas-Listed Foreign Shares, who has lost his share certificate, for a replacement share certificate may be dealt with in accordance with the law of the place where the original register of holders of Overseas-Listed Foreign Shares is maintained, the rules of the stock exchange or other relevant regulations.

Applications for re-issue of share certificates of H shareholders shall satisfy the following requirements:

- (1) The applicant shall submit an application to the Company in a prescribed form accompanied by a notarial certificate or a statutory declaration stating the grounds upon which the application is made and the circumstances and evidence of the loss; and declaring that no other person is entitled to have his name entered in the register of shareholders in respect of the Relevant Shares.
- (2) The Company confirms that it has not received any declaration made by any person other than the applicant declaring that his name shall be entered into the register of shareholders in respect of such shares before it decides to issue a replacement share certificate to the applicant.
- (3) The Company shall, if it intends to issue a replacement share certificate, publish a notice of its intention to do so at least once every thirty days within a period of ninety days in such newspapers as may be prescribed by the board of directors.

LETTER FROM THE BOARD

- (4) The Company shall, prior to publication of its intention to issue a replacement share certificate, deliver to the stock exchange on which its shares are listed, a copy of the notice to be published and may publish the notice upon receipt of confirmation from such stock exchange that the notice has been exhibited in the premises of the stock exchange. Such notice shall be displayed in the premises of the stock exchange for a period of ninety days.

In the case of an application which is made without the consent of the registered holder of the Relevant Shares, the Company shall deliver by mail to such registered shareholder a copy of the notice to be published.

- (5) If, by the expiration of the 90-day period referred to in paragraphs (3) and (4) of this Article, the Company has not received any objections from any person in respect of the issuance of the replacement share certificate, it may issue a replacement share certificate to the applicant pursuant to his application.
- (6) Where the Company issues a replacement share certificate pursuant to this Article, it shall forthwith cancel the original share certificate and document the cancellation of the original share certificate and issuance of a replacement share certificate in the register of shareholders accordingly.
- (7) All expenses relating to the cancellation of an original share certificate and the issuance of a replacement share certificate shall be borne by the applicant and the Company is entitled to refuse to take any action until reasonable security is provided by the applicant for such expenses.

(b) Article 66

Notice of shareholders' general meetings shall be served on each shareholder (whether or not such shareholder is entitled to vote at the meetings) by personal delivery or postage paid mail to the address as shown in the register of shareholders. For the holders of Domestic Shares, notice of the meetings may also be issued by way of public announcement.

The public announcement referred to in the preceding paragraph shall be published in one or more newspaper(s) designated by the securities authority of the State Council within the interval of forty-five days to fifty days before the date of the meeting; after the publication of such announcement, the holders of Domestic Shares shall be deemed to have received the notice of the relevant shareholders' general meeting. The public announcement shall be published in one Chinese newspaper and one English newspaper circulated in Hong Kong on the same day.

LETTER FROM THE BOARD

(c) Article 156

The Company's financial reports shall be made available for shareholders' inspection at the Company twenty days before the date of every shareholders' annual general meeting. Each shareholder shall be entitled to obtain a copy of the financial reports referred to in this Chapter.

The Company shall deliver or send to each H shareholder copy of the report of the board of directors together with the balance sheet (including such documents as shall be attached thereto according to laws and regulations of the People's Republic of China) and profit and loss or income statement (including the financial report) not later than twenty-one days before the date of every annual general meeting by postage paid mail to the address as shown in the register of shareholders.

(d) Article 178

The Company should give thirty days prior notice to the accountant firm if the Company decides to remove such accountant firm or not to renew the appointment thereof. Such accountant firm shall be entitled to make representations at the shareholders' general meeting. Where the accountant firm resigns from its position as the Company's auditor, it shall make clear to the shareholders in a general meeting whether there has been any impropriety on the part of the Company.

An accountant firm may resign its office by depositing at the Company's legal address a resignation notice which shall become effective on the date of such deposit or on such later date as may be stipulated in such notice. Such notice shall contain the following statements:

- (1) a statement to the effect that there are no circumstances connected with its resignation which it considers should be brought to the notice of the shareholders or creditors of the Company; or
- (2) a statement of any such circumstances.

Where a notice is deposited under the preceding sub-paragraph, the Company shall within fourteen days send a copy of the notice to the relevant governing authority. If the notice contains a statement under the preceding sub-paragraph (2), a copy of such statement shall be placed at the Company for shareholders' inspection. The Company should also send a copy of such statement by postage paid mail to every shareholder of Overseas-Listed Foreign Shares at the address registered in the register of shareholders.

LETTER FROM THE BOARD

Where the notice of resignation of the accountant firm contains a statement in respect of the above, the accountant firm may require the board of directors to convene a shareholders' extraordinary general meeting for the purpose of receiving an explanation of the circumstances connected with its resignation.

(e) Article 179

In the event of the merger or division of the Company, a plan shall be presented by the Company's board of directors and shall be approved in accordance with the procedures stipulated in the Company's Articles of Association. The Company shall then go through the relevant approval process. A shareholder who objects to the plan of merger or division shall have the right to demand the Company or the shareholders who consent to the plan of merger or division to acquire his shareholding at a fair price. The contents of the resolution of merger or division of the Company shall constitute a specific documents which shall be available for inspection by the shareholders of the Company.

Such specific documents shall be sent by postage paid mail to holders of the H shares. The recipient's address should be based on the information contained in the register of shareholders.

(f) Article 195

Unless otherwise required by these Articles, notices, information or written statements issued by the Company to the holders of Overseas-Listed Foreign Shares can be issued by way of announcement published on newspaper. In addition, the Company shall deliver the notices, information or written statements to the registered address of each holder of Overseas-Listed Foreign Shares by personal delivery, or postage paid mail, so that the shareholders would have enough time to exercise his right or act in accordance with the notice.

As to the notices to be issued by the Company to the holder of Domestic Shares, the Company may publish an announcement on any newspaper in the PRC as stipulated under the laws and administrative regulations or designated by the securities authority of the State Council; once the announcement is published, the holder of Domestic Shares shall be deemed to receive the relevant notice.

LETTER FROM THE BOARD

(g) Article 196

Notices, documents, information or written statements served by way of post, shareholders or directors shall demonstrate the relevant notices, documents, information or written statements have been sent. Shareholders shall be deemed to have received the notice, documents, information or written statements 5 days after the despatch of the same.

Full text of the proposed amendments to the Articles is set out in the resolutions number 10 in the notice convening the AGM set out in pages 46 to 50 of this circular.

The proposed amendments to the Articles as set out in the resolutions number 10 in the notice of the AGM are formulated in Chinese, and translated into English for incorporation in this circular for information purposes only. The Chinese language version shall generally prevail over the English language version for the purpose of interpretation.

8. ANNUAL GENERAL MEETING AND PROXY ARRANGEMENT

The notice of the Annual General Meeting is set out on pages 45 to 54 of this circular. At the Annual General Meeting, resolutions will be proposed to approve, inter alia, granting of a general mandate; renewal of a guarantee by the Company for a loan of RMB37 million of Chongqing Pigeon; renewal of a guarantee by the Company for a loan of RMB30 million CAFF; adjustment to projects and investment amount of IPO Proceeds; and amendments to the Articles of the Company.

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.hkex.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 Friday, 5 June 2009 and (ii) the enclosed form of proxy in accordance with the instructions printed thereon not less than 24 hours before the time fixed for holding the 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.

LETTER FROM THE BOARD

9. 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.

10. 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.*
Sun Nengyi
Executive Director, Chairman

**Chongqing Machinery & Electric Co., Ltd.
Rules of Procedures for General Meeting**

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Chongqing Machinery & Electric Co., Ltd. Rules of Procedures for General Meeting

CHAPTER 1 GENERAL PROVISIONS

- Article 1** These rules are formulated in accordance with laws, regulations and rules including Company Law of the People's Republic of China (hereinafter referred to as the "Company Law"), the Mandatory Provisions in the Articles of Association of Companies Listed Overseas, Standards on Corporate Governance for Listed Companies, Standard Opinion for General Meetings of Listed Companies and the Articles of Association of Chongqing Machinery & Electric Co., Ltd. (hereinafter referred to as the "Articles"), in order to protect the lawful interests of Chongqing Machinery & Electric Co., Ltd. (hereinafter referred to as the "Company") and its shareholders thereof, to clearly define the responsibilities and authorities of the general meeting, to ensure the functions and powers of the general meeting to be performed according to the laws.
- Article 2** These rules are applicable to general meetings of the Company, including annual general meeting, extraordinary general meeting and class meeting, and shall be binding on the Company, all shareholders, proxies to attend the general meeting, directors, supervisors and non-voting participants at the general meeting of the Company.
- Article 3** The board of directors of the Company (the "Board") shall organise the general meeting in a careful and timely manner in strict accordance with the Company Laws, the Articles and other regulations. All the directors of the Company bear the fiduciary obligations for the normal convening of the general meeting, and shall not counteract the lawful function and power performed by the general meeting.

CHAPTER 2 NATURE AND FUNCTIONS AND POWERS OF THE GENERAL MEETING

- Article 4** General meeting is the highest authority of the Company.
- Article 5** The general meeting exercised its power in conformity with the requirements of laws, rules and regulations and the Articles.

CHAPTER 3 CONVOCAION OF THE GENERAL MEETING

- Article 6** General meetings comprise annual general meeting and extraordinary general meeting.
- Article 7** The annual general meeting shall be convened once every year and within six months after the end of the preceding accounting year.

Article 8 The Board shall convene an extraordinary general meeting, in any of the following circumstances as mentioned in item (i), (ii), (iv) and (vi), within 2 months following the date of such circumstance: The Board shall convene or decide whether to convene an extraordinary general meeting in accordance with the Articles, in any of the following circumstances as mentioned in item (iii) and (v), following such circumstance:

- (i) the number of directors is below the de minimus quorum as required by the Company Law, or is less than two-third of the number provided in the Articles;
- (ii) where the accrued losses of the Company amount to one-third of its total share capital;
- (iii) where any shareholder(s) holding severally or jointly 10% or more of the Company's issued and outstanding shares carrying voting rights request in writing for the convening of an extraordinary general meeting;
- (iv) deemed as necessary by the Board;
- (v) the Supervisory Committee so requests;
- (vi) whenever two or more independent non-executive directors ("independent directors") propose to the Board for convening an extraordinary general meeting.

The shareholdings referred to in sub-paragraph (iii) above shall be calculated as at the date of written request of the shareholder.

Article 9 In case that the number of directors falls short of the quorum stipulated in the Company Law, or less than two thirds of the quorum stipulated in these Articles or the amount of outstanding deficits of the Company is up to one third of the total share capital, when the board of directors fails to convene an extraordinary general meeting in due course, the supervisory committee or the shareholders are entitled to convene on their own the said extraordinary general meeting.

Article 10 When the shareholder(s) individually or jointly holding 10% or more of the total shares carrying voting rights of the Company ("Proposing Shareholder") or the supervisory committee or independent directors request to the Board for the convening of an extraordinary general meeting, they shall submit to the Board in written the topics and complete proposal for the meeting. The proposal in written shall be filed with the stock exchange or the local office of China Securities Regulatory Commission ("CSRC"). The proposing shareholder(s), independent directors or the supervisory committee shall confirm that the proposal is in compliance with the laws and regulations and Articles.

CHAPTER 4 NOTICE OF THE GENERAL MEETING

Article 11 Notice of the general meeting shall be delivered by the Board in the form of announcements to all shareholders 45 days prior to the date of the meeting, excluding the day on which such meeting is held but including the date of the announcement.

Article 12 Notice of the general meeting shall include the following content as required by Articles:

- (1) the date, venue, and duration of the meeting;
- (2) matters proposed to be considered at the meeting;
- (3) attendees for the meeting: All shareholders or proxies are entitled to attend and vote at the meeting, and proxies may not be the shareholder of the Company. The directors, supervisors, Board secretary and other senior management members of the Company shall attend the meeting. Attendees for the meeting include the lawyer providing legal opinions for the meeting and other persons invited by the Board.
- (4) the record date for shareholders who are entitled to attend the general meeting;
- (5) the time and place for lodging proxy forms for the relevant meeting;
- (6) the name and telephone number of the contact person;
- (7) disclose the nature and degree of the material interest of any director, supervisor, general manager and other senior management member in the matters to be considered; in case that the impact of the matters to be considered on such director, supervisor, general manager and other senior management member as a shareholder is different from that on other holders of a class of shares, the difference shall be clarified;
- (8) set out the full text of any special resolution proposed to be moved at the meeting.

Article 13 The Board shall set out the matters to be discussed and considered at the general meeting in the notice to such general meeting, and shall make full disclosure of the contents of each proposal put forward by the Board. If it is required to alter matters involved in the resolutions of the previous general meeting, the contents of the proposal shall be complete and not only include the contents of the changes.

Items included in “Other Matters” without specific contents shall not be deemed as a proposal, and shall not be voted at the general meeting.

Article 14 After the issue of the notice to a meeting, the Board shall not put forward any new proposal which is not set out in the notice. In case of any amendments to the original proposals, an announcement shall be made 15 days prior to the convening of the general meeting. Otherwise, the general meeting shall be postponed so as to ensure that there is a 15-day interval.

Article 15 The shareholders' general meeting shall not be postponed without justifiable causes once the notice to convene the shareholders' general meeting is served by the board of directors. In the event that a general meeting must be postponed for special reasons, the said notice shall be issued at least five (5) business days before the date on which the meeting is scheduled to be held. The Board shall justify the postponement in the notice of the postponed meeting, and make public the postponed date of meeting.

No postponement of the general meeting shall alter the date of record of the shareholders who are entitled to the general meeting as mentioned in the original notice.

Article 16 The Board shall despatch a notice to general meeting within 15 days upon receipt of such proposal in written from the supervisory committee. The convening procedures shall be in accordance with Articles.

Article 17 The Board shall review those proposals in written from the proposing shareholder(s) for the convening of a general meeting, and resolve as to whether to convene the same under the laws and regulations and Articles. The Board's resolution on the said proposal in written shall be sent back to the proposing shareholder(s) within 15 days upon receipt of that proposal, and shall be filed at the same time to the stock exchange (when necessary) or the local residence office of CSRC.

Article 18 In the case that the Board resolves to convene the general meeting as proposed by shareholders, a notice to general meeting shall be despatched, provided that any amendment to the previous proposal shall be subject to prior consent of the proposing shareholder(s). The Board shall not, after the notice of the meeting is served, raise any new proposal. Unless agreed by the Proposing Shareholders, the date of the general meeting shall not be changed or postponed.

Article 19 In the case that the Board is of opinion that the proposal of the Proposing Shareholder(s) is in violation of the laws and regulations or the regulations of the Articles, the Board shall resolve not to convene that extraordinary general meeting, and send the feedback to the Proposing Shareholder(s), and report to the stock exchange (when necessary) or the local office of CSRC.

The Proposing Shareholder(s) may decide, within 15 days upon receipt of such notice, to cease to convene an extraordinary general meeting, or despatch personally a notice to the extraordinary general meeting.

In the case that the Proposing Shareholder(s) decide to cease to convene the extraordinary general meeting, the decision shall be filed to the stock exchange (when necessary) or the local office of CSRC.

Article 20 In the case that the Proposing Shareholder(s) decide to convene personally an extraordinary general meeting, the decision shall be noticed to the Board in writing and filed to the stock exchange and the local resident office of CSRC for record. Then the notice of the extraordinary general meeting may be despatched whose contents shall in accordance with the following regulations besides relevant requirements of Articles:

- (1) No additional information may be included in the proposal, otherwise the proposing shareholder(s) shall re-propose the request for convening general meeting under the aforesaid procedures;
- (2) The city where the venue of the meeting is located shall be the Company's location.

CHAPTER 5 AGENDA AND PROPOSALS OF THE GENERAL MEETING

Article 21 The agenda (topics for discussion) of the general meeting shall be determined by the Board at the Board meeting (or the extraordinary Board meeting) convened before the general meeting, and shareholders shall be notified in writing. The basis of determination of the topics for discussion by the Board is Articles, and the Rules and Procedures, under which the resolutions shall be submitted to the general meeting for consideration and the proposals proposed by shareholders.

Article 22 At the annual general meetings, the supervisory committee or shareholders individually or jointly holding over 3% (including 3%) of the rights to vote of the Company are entitled to raise interim proposals.

Should the said interim proposals be matters not mentioned in the notice to the Board meeting, and such matters fall into those stipulated in the discussion scope of the general meeting, the proposal shall be submitted to the Board 10 days prior to the general meeting, and shall be reviewed by the Board before publishing an announcement.

Any new distribution proposal put forward by the substantial shareholder under the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (“the Listing Rules of Hong Kong Stock Exchange”) shall be submitted to the Board at least 10 days prior to the annual general meeting for publishing an announcement by the Board; should the notice period be less than 10 days, the shareholder holding the largest number of shares shall not put forward the distribution proposal at the forthcoming annual general meeting.

In respect of proposals regarding matters other than distribution, the proposal can be submitted in advance to the Board for publishing an announcement, or proposed directly at the annual general meeting.

Article 23 The Board Secretary is responsible for collecting proposals from supervisors and independent directors and proposing to the general meeting for consideration after submitting to the Board for consideration.

The proposals shall meet the following conditions:

- (1) subject of the proposals shall comply with the provisions of laws, regulations and the Articles, and fall into the functions and powers of the general meeting;
- (2) with definite topics to discuss and specific matters to resolve;
- (3) Submitted in writing to the Board

Article 24 In respect of the provisional resolutions in the meeting(s) as stated in the preceding Rule, the Board shall review them according to the following principles:

- (1) Relevancy. Proposed resolutions by shareholders shall be reviewed by the Board. Proposed resolutions by shareholders which concern matters directly relevant to the Company and which are within the terms of reference of the meeting(s) specified by laws, regulations and the Articles shall be submitted to the meeting(s) for discussion. Resolutions not meeting the above requirements shall not be submitted to the meeting(s). If the Board has decided not to submit the proposed resolutions by shareholders to the meeting(s) to resolve, it shall explain and clarify the reasons for not doing so in the meeting(s) concerned.
- (2) Procedures. The Board may decide on the procedure of proposed resolutions by shareholders. If the proposed resolutions are to be split or merged for the purpose of voting, the consent of the original proposer shall be obtained; in case the original proposer objects to the proposed amendment, the Chairman of the meeting(s) may submit the procedural matters to the meeting(s) for decision and discussion made in accordance with the procedures set by the meeting(s).

Article 25 The Board shall act in the best interests of the Company and shareholders in reviewing the proposals to general meeting.

Article 26 Proposing Shareholders who object to the Board's decision to exclude the proposal from the agenda of the meeting, in compliance with relevant requirements of Articles are entitled to request to convene an extraordinary general meeting pursuant to the procedures stipulated in the article herein.

Article 27 Proposed resolutions concerning investment, disposition of properties and mergers and acquisitions (“M&A”), which requires the approval of the meeting(s), details of the issue concerned shall be provided, such as the amount, price (or pricing method), value of the assets, impact on the Company, approval status, etc. If asset assessment or audit or a report prepared by an independent financial advisor is necessary in accordance with the relevant requirements, the Board shall publish the result of the asset assessment or audit or the report of the independent financial advisor.

Article 28 In respect of proposals raised by the Board for changing the usage of raised proceeds, the notice to general meeting shall set out the causes for such changes, profile of the proposed projects, and possible impacts on the Company.

Article 29 Matters to be approved by CSRC, such as offering of new shares and share placement, shall be raised in case-specific proposals item by item.

Article 30 Following review and approval of the annual report, the Board shall make a resolution on profit distribution plan as the proposal to the annual general meeting. In raising the proposal for capital reserves transferring into share capital, the Board shall make detailed statement to justify the said transfer and disclosure in the public announcement. The Board shall, in the announcement of bonus issue or the proposal for transferring capital reserves into share capital, disclose the earnings per share and net assets per share immediately before and after the said bonus or transfer, and their possible impacts on future development of the Company.

Article 31 Proposals for the appointment of the accounting firm shall be raised by the Board. Prior notice shall be given to the accounting firm should the Board propose a proposal to remove such accounting firm or not to renew the appointment thereof. In such a case, the Board shall justify its decision at a general meeting. The accounting firm has the right to make representations at the general meeting.

Should the accounting firm be removed by the Board justifiably in the interval of two meetings, other accounting firm can be appointed on temporary basis, provided that such appointment shall be ratified at the next general meeting.

Where the accounting firm resigns from its position, the Board shall provide the reason thereof at the next general meeting. The leaving accounting firm is responsible, either in writing or in person, to attend the said general meeting, and shall make clear to the shareholders at the general meeting whether there has been any impropriety on the part of the Company.

Article 32 List of candidates for directors and supervisors is submitted to the general meeting in the form of a proposal for voting.

The Directors individually or jointly holding 5% or more of the Company's outstanding shares carrying voting rights are entitled to propose a candidate for directors (excluding independent director, the same below). The number of candidates shall not exceed that of the directors as provided in Articles. The Supervisory Committee and the shareholders individually or jointly holding 5% or more of the Company's outstanding shares carrying voting rights are entitled to propose a candidate for supervisors. The number of candidates shall not exceed that of the supervisors from shareholder representatives as provided in Articles.

The proposing party shall provide candidates' biographies and basic information and relevant evidence materials, and the proposal shall be reviewed by the Board. Proposals which comply with the laws and regulations and the Company's Articles shall be submitted to general meeting for consideration. Proposals which are not in compliance with the aforesaid requirement and which are not submitted to the general meeting for consideration shall be explained and accounted for at the general meeting.

The Board is obliged to keep the shareholders informed of the biographies and other personal particulars of these candidates.

Article 33 Nomination procedures of candidates for independent directors are as follows: The board of directors, supervisory committee, or shareholders individually or jointly holding more than 1% of shares of the Company are entitled to nominate candidates for independent directors, and the nominator shall seek the consent from nominees prior to the nomination. The nominator shall acquire all the personal particulars of his/her nominee as to their profession, education, academic title, specifics of work experiences, and all part time jobs, and comment on their qualifications and independence for the post of independent directors. The nominee shall make announcement that they have no relationship with the Company as to hinder its independent and objective judgement.

Prior to the general meeting for independent directors' election, the Board of the Company shall make announcement regarding the above matters pursuant to the regulations.

Prior to the general meeting for election of independent directors, the Company shall submit the relevant information on all nominees to the stock exchange (when necessary) or the local office of CSRC. In the case that the Board have objection to the relevant information on the nominees, a written opinion of the Board of Directors shall be submitted. CSRC may review the qualification and independence of the independent directors within 15 working days. The nominee who was objected by CSRC can serve as the candidate for directors of the Company, but can not serve as the candidate for independent director of the Company in case of electing directors at the general meeting. At the general meeting for the purpose of election of independent directors, the Board shall make an explanation as to whether the stock exchange or CSRC objects to the candidate for independent directors.

Article 34

The Board shall provide to each shareholder (or proxy), director, supervisor and other senior management member attending the general meeting with documents on the agenda, proposals and relevant background information and voting in respect of the topics to be considered at such meeting, to ensure the attendees' knowledge of the content of the consideration, and making exact judgements. Where the Proposing Shareholders decide to convene such a meeting by themselves, they shall present documents as required in the above article.

**CHAPTER 6 ELIGIBILITY AND REGISTER OF SHAREHOLDERS
ATTENDING THE GENERAL MEETING**

Article 35 The Board shall determine the specific date as the record date and shareholders whose names appear on the Register of Members at the close of the record date are entitled to attend the general meeting.

Article 36 A shareholder may participate in a general meeting in person, or appoint a proxy to attend the meeting and vote on his behalf. The instrument appointing a proxy must be in writing under the hand of the shareholder or his / her attorney duly authorized in writing; For a corporate shareholder, the proxy must be affixed with the common seal or signed by its attorney duly authorized in writing.

Article 37 Any shareholder intending to attend the general meeting shall register the date and venue as required by the notice,

- (1) A legal representative shall produce his identity card, and the identity document as a legal representative and share certificates when attending the general meeting on behalf of a corporate shareholder;
- (2) A proxy of a legal representative shall produce his identity card, and the written power of attorney (original) signed by the legal representative together with an official seal and the share certificate when attending a meeting on behalf of a corporate shareholder;
- (3) Individual shareholders who attend the meeting in person shall produce his identity card together with the share certificate;
- (4) A proxy of an individual shareholder shall produce a photocopy of his identity card, and the share certificate, the power of attorney (original) signed by the principal and his own identity card when attending a meeting on behalf of a corporate shareholder;
- (5) The third party appointed by the proxy on behalf of a shareholder (including corporate shareholder, individual shareholder, i.e. principal) who attends the meeting shall produce a photocopy of the principal's identity card, a photocopy of the business license, share certificate, the written power of attorney signed or sealed by the principal for appointment by a notarised proxy to the third party and the third party's identity card;

- (6) Any attendees for the meeting shall show the power of attorney (original) thereof to the registry office of the meeting, their own identity card (original), and submit the warrants thereof to the registry office of the meeting;

Overseas shareholders may get through the registration by mail or facsimile which shall contain documents of the content thereof.

Article 38

The letter of attorney issued by a shareholder appointing a proxy to attend general meeting on his behalf shall state the following:

- (1) Name of the proxy;
- (2) Empowered with right to vote or not;
- (3) Instructions to vote in favour of, against or abstain from, as the case may be, each matter in the agenda of the general meeting;
- (4) Empowered or not with the right to vote for interim proposals which may be raised and put on the agenda of the general meeting; and if so empowered, specific instructions as to the nature of voting right;
- (5) The date of issuance of the power of attorney appoint the proxy and the expiration date;
- (6) Signature (seal) of the principal. In the case that the principal is a corporate shareholder, the power of attorney shall bear the official seal of that legal person.

Such proxy form shall contain a statement that, in the absence of specific instructions from the shareholder, the proxy may vote as his discretion.

Article 39 The eligibility of an attendee of the meeting shall be deemed invalid if the evidence produced involves one of the following:

- (1) identity card of principal or attendee of the meeting is found to be forged or expired or has been altered with incorrect identity card or does not comply with the Provisions for Residents' Identity Cards, and detailed rules of its implementation;
- (2) information on the identity card produced by the agent or attendee of the meeting is illegible;
- (3) where multiple proxies have been appointed by the shareholder, and the signature of the principal on the power of attorney are inconsistent;
- (4) the signature on the power of attorney faxed in for registration is not consistent with the original power of attorney produced when attending the general meeting;
- (5) lack of signature or seal of original on the power of attorney;
- (6) the relevant evidence produced by the principal or his proxy attending the meeting contravenes the relevant laws, regulations and Articles.

Article 40 Where the principal or his proxy is ineligible to attend the meeting as a result of irregularities of the principal's authorization or the fact that documents evidencing the legitimate identity of the principal or the authorization do not comply with the laws, regulations or provisions of the Articles, the legal consequences so arising shall be borne by the principal or his proxy.

CHAPTER 7 ATTENDANCE OF MEETING

Article 41 The meeting attendance lists shall be prepared by the Company. where such information is to be set out, including participants' (individuals or entities) names, identification card numbers, addresses, shares held or represented carrying voting rights, the principals' (individuals or entities) names, etc.

Article 42 Shareholders registered shall produce their own identity certificates and sign on the attendance list.

In principle, any shareholder failing to register shall not attend the general meeting; a shareholder who complies with requirements of the meeting notice with the approval of the Chairman may attend such meeting after submitting the document as provided in Chapter 6 herein and signing on the attendance list with the special approval of the Chairman of the meeting.

Article 43 Shareholders shall reach the venue prior to the meeting and latecomers shall be permitted by the Chairman of the meeting.

CHAPTER 8 PROCEDURES FOR THE GENERAL MEETING

Article 44 General meeting shall be convened legally by the Board and presided over by the Chairman of the Board. If the Chairman is unable or fails to convene and preside over the meetings, a Director shall be jointly elected by more than a half of the Directors to convene and preside over the meetings; If none of the Directors can be elected by more than a half of the Directors to convene and preside over the meetings, the shareholders present at the meeting may elect a shareholder to preside over the meeting and act as the Chairman; If for any reason, the shareholders fail to elect a shareholder to preside over the meeting and act as the Chairman, the shareholder (or proxy) present and holding the largest number of shares carrying voting rights shall preside over the meeting and act as the Chairman.

Article 45 The Board and the secretary to the Board shall perform their duties with due diligence for the extraordinary general meeting convened by the Proposing Shareholder(s). The Board shall ensure normal orders for the meeting, and the reasonable expenses of the meeting shall be borne by the Company. Procedures of the meeting shall be in accordance with the following provisions:

- (1) the Board shall be responsible for convening the meeting; the secretary to the Board must attend the meeting and the Directors and Supervisors are also so required;

The meeting is chaired by Chairman. If the Chairman is unable or fails to perform his/her duties, Article 44 shall be followed;

- (2) The Board shall appoint certified practising PRC lawyer or practising Hong Kong lawyer to issue legal opinions;
- (3) procedures of the meeting shall be in accordance with the relevant provisions of the Articles.

If the Board or Supervisory Committee fails to convene an extraordinary general meeting convened by Proposing Shareholders pursuant to the Articles, the Proposing Shareholders shall convene and preside over the general meeting on their own. Any reasonable expenses incurred by the shareholders by reason of the failure of the Board or the Supervisory Committee to duly convene a meeting shall be repaid to the shareholders by the Company and any sum so repaid shall be set off against sums owed by the Company to the Directors in default.

- Article 47** The Chairman of meeting shall announce the beginning of the meeting as scheduled. The meeting may begin later than the scheduled time in connection with the following circumstances: (1) Directors and Supervisors have not arrived; (2) other significant events.
- Article 48** After the announcement of beginning of the meeting, the Chairman shall firstly announce attendance of shareholders (including their proxies) and shares carrying voting right represented by them.
- Article 49** Presided over by the Chairman, issues and proposals included into the agenda shall be resolved item-by-item. For issues included in the agenda of meeting, the Chairman may determine in accordance with the status of the meeting the mode of report and mass-consideration and voting shall be adopted, also for complicated issue, the Chairman may adopt case-by-case mode for report, consideration and voting of complicated issues. Reasonable time shall be given for the discussion of each issue at the general meeting.
- Article 50** At the annual general meeting, the Board shall report to shareholders for the performance of respective matters entrusted to it in the resolutions passed at the preceding annual general meeting, and make an announcement thereof.
- Article 51** At the annual general meeting, the Supervisory Committee shall declare the special supervision report on the Company for the preceding year, including the following:
- (1) inspection on financial performance of the Company;
 - (2) due diligence of the Directors and officers in their performance of duties for the Company and their compliance with the relevant laws and regulations, Articles and resolutions of general meetings;
 - (3) other important matters as deemed by the Supervisory Committee to be reported at the general meeting. The Supervisory Committee may, wherever it holds as necessary, provide comments on the proposals discussed at the general meeting, and produce its independent report thereto.
- Article 52** Shareholders or their proxies shall declare their opinions briefly when considering issues and can make inquires on issues affecting their judgment and vote and ask reporters to give explanation.

Article 53 The shareholder may make inquires or suggestions in connection with content of the proposal, and the Chairman shall make corresponding responses or statements in person or by designating the present Director, Supervisor and other relevant persons. The Chairman may refuse to answer the inquiries in connection with the following circumstances but specify the reason:

- (1) inquires not relating to issues;
- (2) inquiries subject to further investigation;
- (3) information involving commercial secretes of the Company not available for the public;
- (4) response to inquiries which shall damage the overall interests of shareholders; and
- (5) other significant events.

Article 54 For connected transactions to be considered at a general meeting, connected shareholders (including their proxies) may attend the general meeting but shall take the initiative to report such connection to the general meeting. Connected shareholders may clarify their opinions to other shareholders attending the meeting following the meeting procedures, but shall abstain from voting. Shares carrying voting right represented by them shall not be included into the valid voting results. The resolutions passed at the general meeting shall fully disclose the voting of non connected shareholders. In special circumstances impossible for the connected shareholders to abstain from voting, the Company shall, upon approval from other non-connected shareholders, proceed with the normal voting proceeds, and state its detail in the resolutions passed at the general meeting. Connected transactions stated in resolutions on which the connected shareholders abstain from voting shall be considered and resolved by other shareholders attending the meeting and such resolution shall has same legal effect with other resolutions passed at the general meeting.

The abovementioned special circumstances refer to:

- (1) Only the connected shareholders attend the general meeting;
- (2) Connected shareholders' proposal for requesting to vote has been submitted to the general meeting and other non-connected shareholders unanimously agree to allow connected shareholders to participate in voting;
- (3) Other circumstances unavoidable for the connected shareholders.

- Article 55** For connected transactions to be considered at the general meeting, the Chairman shall announce the connected shareholders and give a brief introduction to the connected transactions, and clarify whether the connected shareholders will abstain from voting. If the connected shareholders participate in the voting, connected shareholders shall explain reasons and the approvals from relevant authorities. Should the connected shareholders abstain from voting, the Chairman shall announce the number of shares represented by non-connected shareholders (including their proxies) attending the meeting and its percentage in the Company's total shares before the consideration and voting.
- Article 56** At the annual general meeting, if shareholders attending the meeting give objection to the proposals, separate provisional proposals may be proposed in accordance with the rules herein. Such provisional proposals shall be resolved together with the original one.
- Article 57** Proposals submitted to the general meeting shall be passed by way of voting. Each shareholder (including proxies) exercise his voting rights in proportion to his shareholdings with voting rights, and each share entitles the shareholder one voting right. Voting shall be made by way of registered poll.
- Article 58** All proposals accepted into the agenda shall be voted on an itemisation basis at the general meeting, and shall not be put aside or excluded from voting for any reason. In case of different proposals for the same matter are raised at the annual general meeting, the proposals shall be voted chronologically with resolutions adopted accordingly.
- Article 59** For the proposal in relation to election of Directors and Supervisors to be considered at the general meeting, voting shall be made on each candidate in a voting way required by the Articles. When the resolution to re-elect Directors and/or Supervisor is passed, those newly elected shall assume office immediately after the conclusion of the meeting.
- Article 60** An extraordinary general meeting shall not transact matters not stated in the notice of convene of general meeting. Should notice of convening of an extraordinary general meeting stating proposals to be considered, proposal with any change should be deemed as a new one and can not be resolved at the general meeting.

Article 61 The poll taken on each matter discussed in the meeting shall be counted by at least two shareholders as representatives and one Supervisor, and the result of the counts shall be made public on spot by those who counted the votes.

In the case of considering the relevant connected transactions, connected shareholders shall not participate in the counting of the voting results.

Article 62 Under provisions on meeting discipline of these rules, shares represented by shareholders who are being ordered to leave the meeting by the Chairman prior to voting or fail to complete the voting ballots due to halfway exit shall not be included into shares carrying voting right represented by shareholders attending the meeting.

Article 63 If the fulfilment of voting ballot is not in compliance with its explanation or content or is unable to be identified , the voting ballot shall be invalid and not be included into the shares carrying voting right held by shareholders attending the meeting.

Article 64 Shareholders' right (including but not limited to the votes cast) exercised by or exercised on behalf by attendees with invalid eligibility shall be invalid. Such invalid voting ballot shall not be included into the shares carrying voting right held by shareholders attending the meeting.

CHAPTER 9 RESOLUTION OF THE GENERAL MEETING

Article 65 Resolutions shall be formed for matters passed at the general meeting. Resolutions of general meetings are divided into ordinary resolutions and special resolutions according to the Articles. To adopt an ordinary resolution, not less than one half of the voting rights represented by the shareholders (including proxies) present at the meeting must be exercised in favour of the resolution in order for it to be passed; to adopt a special resolution, not less than two-thirds of the voting rights represented by the shareholders (including proxies) present at the meeting must be exercised in favour of the resolution in order for it to be passed.

Article 66 Each of the resolutions passed at a general meeting shall comply with the laws and the requirements in the Articles. The Directors in attendance shall perform their duties in good faith and ensure that matters in relation to any resolutions are true, accurate and complete, and shall not be vulnerable to misrepresentation.

Article 67 Vote by correspondence shall not be adopted at annual general meetings or extraordinary meetings convened as proposed by shareholders or the Supervisory Committee; vote by correspondence shall not be adopted at extraordinary meetings discussing the following matters:

- (1) increase or reduction of the registered capital of the Company;
- (2) Issuance of corporate bonds;
- (3) Demerger, merger, dissolution and liquidation of the Company;
- (4) amendments to the Articles;
- (5) profits distribution plans and loss recovery plans of the Company;
- (6) appointment and removal of a member of the Board and the Supervisory Committee;
- (7) changing the use of proceeds from a share offer;

- (8) the entering into of a connected transaction which requires the approval of the shareholders at general meetings;
- (9) acquisition or sale of assets which requires the approval of the shareholders at general meetings;
- (10) changing the appointed accounting firm;
- (11) Other matters stipulated against vote by correspondence in Articles.

Article 68 An ordinary resolution on connected matters shall be passed by votes representing at least one-half of the voting rights held or represented by the non-connected shareholders (including their proxies) present at the general meeting. A special resolution shall be passed by votes representing at least two-thirds of the voting rights held or represented by the non-connected shareholders (including their proxies) present at the meeting.

Article 69 The Chairman of the meeting shall be responsible for determining whether a resolution has been passed based on the voting result, which shall be declared at the meeting. The voting results shall be recorded in the meeting minutes.

Article 70 If the Chairman of the meeting has any doubt as to the result of a resolution put to the vote of the meeting, he may have the votes counted. If the Chairman of the meeting fails to have the votes counted, any shareholder who is present in person or by proxy and who dispute the result announced by the Chairman of the meeting may demand that the votes be counted immediately after the declaration of the result, the Chairman of the meeting shall have the votes counted immediately.

Article 71 The Board may appoint certified practicing PRC lawyer or practicing Hong Kong lawyer to attend a general meeting in accordance with the law who will issue opinions on the following matters with announcements made thereon:

- (1) whether the Meeting(s) is convened and held in accordance with the requirements of all applicable laws, regulations and the Articles;
- (2) whether the qualification of the members attending the Meeting(s) are legal and valid;
- (3) verification of the qualification of shareholders proposing new resolutions in the Meeting(s);
- (4) whether the voting procedures in the Meeting(s) are legal and valid; and
- (5) other matters as the Company may request.

The Board may also appoint one or more notary public to attend the general meeting and notarize relevant matters.

Article 72 In the event that the general meeting cannot be held in the normal course of business or resolutions cannot be passed due to force majeure or other unusual reasons, the Board shall explain to the stock exchange and make announcement. It is the responsibility of the Board to take any necessary actions to resume the meeting as soon as practicable.

CHAPTER 10 DISCIPLINES OF THE GENERAL MEETING

Article 73 Registered shareholders or their proxies, Directors, Supervisors, the company secretary, senior management members, the appointed lawyer, notary, visitors and reporters invited by the Board or shareholders can attend the meeting. Any other person shall be required to exit from the meeting as his/her admittance is refused.

Article 74 The Chairman of the general meeting may require the following personnel to exit from the meeting:

- (1) Ineligible attendees;
- (2) personnel who disorder the meeting;
- (3) personnel who dresses in an indecent way;
- (4) personnel who carry weapons or hazardous materials;
- (5) other circumstances.

The Chairman of the general meeting may take necessary action to force personnel who defy the order of exit to exit from the meeting.

Article 75 Upon the consideration of proposals, only shareholder or their proxies has the speaking right and the speaker shall show hands to ask for approval of the Chairman and then speak at their seat or a designated seat.

When more than one shareholder shows hands, the Chairman shall appoint speakers.

The Chairman shall specify speaking time limit and times for each speaker on a practical basis. Speech of shareholders shall not be interrupted within the time limit, to ensure sufficient speaking right of shareholders.

The Chairman may refuse or stop shareholders who breach such speaking provisions.

Directors, Supervisors, general managers and other senior management member of the Company may speak if approved by the Chairman.

Article 76 Speaking shareholders or proxies shall introduce their shareholders' identity, companies they represented and their shareholding before giving opinion.

Article 77 The general meeting shall be convened by adhering to the principles of cost-saving and simplicity. No additional benefits shall be granted to the shareholders (or their authorised proxies) attending such a meeting.

CHAPTER 11 MINUTES OF THE GENERAL MEETING

Article 78 Minutes shall be made for the General Meeting. The minutes of the meeting shall record the following:

- (1) the number of shares carrying voting rights present at the meeting, and the percentage of such shares out of the total shares of the Company;
- (2) the date and place of the meeting;
- (3) the name of the Chairman and the agenda of the meeting;
- (4) the main points regarding the matters made by each spokesman;
- (5) the voting result of each matter considered;
- (6) the inquiries and suggestions of the shareholders and the answers to these inquiries or statement made by the Board and Supervisors;
- (7) other matters which in the opinion of the general meeting shall be recorded in the meeting minutes pursuant to Articles.

Article 79 The minutes of the general meeting shall be signed by the Directors present at the meeting and the recorder and shall be kept as the Company's archive by the company secretary. The period for keeping the minutes of the general meeting shall be 10 years. Should the matters resolved at the general meeting has an impact of more than 10 years, the relevant minutes shall be kept until such impact fade away.

**CHAPTER 12 ADJOURNMENT AND CONCLUSION OF
THE GENERAL MEETING**

Article 80 The Chairman of the meeting has the right to announce the adjournment of meeting in accordance with the procession and the time arrangement of the meeting. The Chairman of the meeting also has the right to announce the adjournment of the meeting as necessary.

Article 81 The Chairman of the meeting can only announce the conclusion of the meeting when the voting results of all proposals at general meeting receive no objection from shareholders.

**CHAPTER 13 IMPLEMENTATION OF RESOLUTIONS OF
THE GENERAL MEETINGS AND INFORMATION DISCLOSURE**

Article 82 Upon conclusion of a general meeting, disclosure shall be made in accordance with the Articles and relevant laws and administrative regulations. The information to be disclosed shall be reviewed by the Chairman of the Board pursuant to relevant regulations and shall be implemented by the secretary of the Board.

Article 83 The announcement of resolutions passed at a general meeting shall state the number of shareholders (including their proxies) present at the meeting, total shares held (represented) and as a percentage in the total shares carrying voting rights of the Company, manner of voting, the voting result for each proposal and the opinion of appointed lawyers (if any). The resolutions for shareholders' proposals shall state the name or title of the requisitioning shareholder, shareholding percentage and content of the proposal.

Article 84 Should any proposed resolution is not passed, or any resolution previously passed is amended in the current general meeting, the Board shall state so in the announcement of resolutions accordingly.

Article 85 The Board is responsible for the implementation of the resolutions passed at the general meeting and asking for the general manager to organize relevant staff to implement the resolutions in detail; For resolution need to be implemented by the Supervisory Committee, it shall be organized and implemented by the Supervisory Committee directly.

Article 86 After the dividends distribution plans and the plan to convert its common reserve fund into its capital are approved at the shareholders' general meeting, the Board shall complete the distribution of dividends or capital increase within 2 months after the date of the shareholders' general meeting.

Article 87 General manager shall report the implementation of the resolutions passed at the general meeting to the Board, and the Board shall report it to the next general meeting. Supervisory Committee shall directly report the resolution implementation assumed by it to the general meeting and may notify the Board in advance when necessary.

Article 88 Chairman of the Board shall supervise the implementation of resolutions passed at the general meeting (exclusive those implemented by the Supervisory Committee), and convene extraordinary Board meeting to hear and consider the report on implementation of such resolutions when necessary.

Article 89 Chairman of the Board shall, or authorize other Director to, take charge of making information disclosure to the shareholders and the public. Secretary to the Board is designated as the Company's spokesman.

CHAPTER 14 SUPPLEMENTARY PROVISIONS

Article 90 These rules shall come into effect upon approval by general meeting of the Company.

Article 91 Should these rules be inconsistent with laws and regulations, including Company Law of the PRC, Securities Law of the PRC, Listing Rules and Articles, such laws and regulations shall prevail.

Article 92 The Company shall amend the Articles under situations as follows:

- (1) there is discrepancy between the provisions of these rules and those of laws, administrative regulations and the Articles after the amendment to the Company Law or relevant laws, administrative regulations and the Articles;
- (2) the general meeting resolve to amend these rules.

Article 93 Any amendment to these rules shall be resolved at the general meeting. Amendment proposal shall be made by the Board within the authority granted by the general meeting and shall come into effect upon approval of the general meeting.

Article 94 These rules shall be interpreted by the Board.

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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)

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 Empark Grand Hotel Chongqing at No. 1, 2nd Branch Jianxin North Road, Jiangbei District, Chongqing, the People’s Republic of China (the “PRC”) on Thursday 25 June 2009 at 9:30 a.m. (or at any adjournment thereof) for the following purposes:

ORDINARY RESOLUTIONS

1. To consider and approve the report of the board of directors of the Company (the “Board of Directors”) for the year ended 31 December 2008;
2. To consider and approve the report of the Supervisory Committee of the Company for the year ended 31 December 2008;
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 2008;
4. To consider and approve the re-appointment of PricewaterhouseCoopers Zhong Tian CPAs Limited Company as the PRC auditors and PricewaterhouseCoopers as the international auditors of the Company to hold office until the conclusion of the next annual general meeting and to authorize the Board of Directors to fix their remuneration;

* For identification purposes only

5. To consider and approve the profit appropriation proposal of the Company for the year ended 31 December 2008;
6. To consider and approve the rules of procedures of general meetings;
7. 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);
8. To consider and approve the renewal of a guarantee by the Company for a loan of RMB30 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);
9. To consider and approve the adjustment to projects and investment amount of IPO Proceeds;

SPECIAL RESOLUTIONS

10. To consider and, if thought fit, pass the following resolutions, as a special resolutions, for the amendments to the articles of association of the Company (the “Articles”):

“THAT

- (a) Existing Article 48 of the Articles be deleted in entirety and replaced by the following:

Any person who is a registered shareholder or who requests his name be entered in the register of shareholders in respect of shares in the Company may, if his share certificate (the “original certificate”) relating to the shares is lost, apply to the Company for a replacement share certificate in respect of such shares (the “Relevant Shares”).

Application by a holder of Domestic Shares, who has lost his share certificate, for a replacement share certificate shall be dealt with in accordance with Article 144 of the Company Law.

Application by a holder of Overseas-Listed Foreign Shares, who has lost his share certificate, for a replacement share certificate may be dealt with in accordance with the law of the place where the original register of holders of Overseas-Listed Foreign Shares is maintained, the rules of the stock exchange or other relevant regulations.

Applications for re-issue of share certificates of H shareholders shall satisfy the following requirements:

- (1) The applicant shall submit an application to the Company in a prescribed form accompanied by a notarial certificate or a statutory declaration stating the grounds upon which the application is made and the circumstances and evidence of the loss; and declaring that no other person is entitled to have his name entered in the register of shareholders in respect of the Relevant Shares.
- (2) The Company confirms that it has not received any declaration made by any person other than the applicant declaring that his name shall be entered into the register of shareholders in respect of such shares before it decides to issue a replacement share certificate to the applicant.
- (3) The Company shall, if it intends to issue a replacement share certificate, publish a notice of its intention to do so at least once every thirty days within a period of ninety days in such newspapers as may be prescribed by the board of directors.
- (4) The Company shall, prior to publication of its intention to issue a replacement share certificate, deliver to the stock exchange on which its shares are listed, a copy of the notice to be published and may publish the notice upon receipt of confirmation from such stock exchange that the notice has been exhibited in the premises of the stock exchange. Such notice shall be displayed in the premises of the stock exchange for a period of ninety days.

In the case of an application which is made without the consent of the registered holder of the Relevant Shares, the Company shall deliver by mail or email to such registered shareholder a copy of the notice to be published.

- (5) If, by the expiration of the 90-day period referred to in paragraphs (3) and (4) of this Article, the Company has not received any objections from any person in respect of the issuance of the replacement share certificate, it may issue a replacement share certificate to the applicant pursuant to his application.
- (6) Where the Company issues a replacement share certificate pursuant to this Article, it shall forthwith cancel the original share certificate and document the cancellation of the original share certificate and issuance of a replacement share certificate in the register of shareholders accordingly.

(7) All expenses relating to the cancellation of an original share certificate and the issuance of a replacement share certificate shall be borne by the applicant and the Company is entitled to refuse to take any action until reasonable security is provided by the applicant for such expenses.

(b) Existing Article 66 of the Articles be deleted in entirety and replaced by the following:

Notice of shareholders' general meetings shall be served on each shareholder (whether or not such shareholder is entitled to vote at the meetings) by personal delivery or email or postage paid mail to the address as shown in the register of shareholders. For the holders of Domestic Shares, notice of the meetings may also be issued by way of public announcement.

The public announcement referred to in the preceding paragraph shall be published in one or more newspaper(s) designated by the securities authority of the State Council within the interval of forty-five days to fifty days before the date of the meeting; after the publication of such announcement, the holders of Domestic Shares shall be deemed to have received the notice of the relevant shareholders' general meeting. The public announcement shall be published in one Chinese newspaper and one English newspaper circulated in Hong Kong on the same day.

(c) Existing Article 156 of the Articles be deleted in entirety and replaced by the following:

The Company's financial reports shall be made available for shareholders' inspection at the Company twenty days before the date of every shareholders' annual general meeting. Each shareholder shall be entitled to obtain a copy of the financial reports referred to in this Chapter.

The Company shall deliver or send to each H shareholder copy of the report of the board of directors together with the balance sheet (including such documents as shall be attached thereto according to laws and regulations of the People's Republic of China) and profit and loss or income statement (including the financial report) not later than twenty-one days before the date of every annual general meeting by email or postage paid mail to the address as shown in the register of shareholders.

- (d) Existing Article 178 of the Articles be deleted in entirety and replaced by the following:

The Company should give thirty days prior notice to the accountant firm if the Company decides to remove such accountant firm or not to renew the appointment thereof. Such accountant firm shall be entitled to make representations at the shareholders' general meeting. Where the accountant firm resigns from its position as the Company's auditor, it shall make clear to the shareholders in a general meeting whether there has been any impropriety on the part of the Company.

An accountant firm may resign its office by depositing at the Company's legal address a resignation notice which shall become effective on the date of such deposit or on such later date as may be stipulated in such notice. Such notice shall contain the following statements:

- (1) a statement to the effect that there are no circumstances connected with its resignation which it considers should be brought to the notice of the shareholders or creditors of the Company; or
- (2) a statement of any such circumstances.

Where a notice is deposited under the preceding sub-paragraph, the Company shall within fourteen days send a copy of the notice to the relevant governing authority. If the notice contains a statement under the preceding sub-paragraph (2), a copy of such statement shall be placed at the Company for shareholders' inspection. The Company should also send a copy of such statement by email or postage paid mail to every shareholder of Overseas-Listed Foreign Shares at the address registered in the register of shareholders.

Where the notice of resignation of the accountant firm contains a statement in respect of the above, the accountant firm may require the board of directors to convene a shareholders' extraordinary general meeting for the purpose of receiving an explanation of the circumstances connected with its resignation.

- (e) Existing Article 179 of the Articles be deleted in entirety and replaced by the following:

In the event of the merger or division of the Company, a plan shall be presented by the Company's board of directors and shall be approved in accordance with the procedures stipulated in the Company's Articles of Association. The Company shall then go through the relevant approval process. A shareholder who objects to the plan of merger or division shall have the right to demand the Company or the shareholders who consent to the plan of merger or division to acquire his shareholding at a fair price. The contents of the resolution of merger or division of the Company shall constitute a specific documents which shall be available for inspection by the shareholders of the Company.

Such specific documents shall be sent by email or postage paid mail to holders of the H shares. The recipient's address should be based on the information contained in the register of shareholders.

- (f) Existing Article 195 of the Articles be deleted in entirety and replaced by the following:

Unless otherwise required by these Articles, notices, information or written statements issued by the Company to the holders of Overseas-Listed Foreign Shares can be issued by way of announcement published on newspaper. In addition, the Company shall deliver the notices, information or written statements to the registered address of each holder of Overseas-Listed Foreign Shares by personal delivery, or postage paid mail or email, so that the shareholders would have enough time to exercise his right or act in accordance with the notice.

As to the notices to be issued by the Company to the holder of Domestic Shares, the Company may publish an announcement on any newspaper in the PRC as stipulated under the laws and administrative regulations or designated by the securities authority of the State Council; once the announcement is published, the holder of Domestic Shares shall be deemed to receive the relevant notice.

- (g) Existing Article 196 of the Articles be deleted in entirety and replaced by the following:

Notices, documents, information or written statements served by way of post, shareholders or directors shall demonstrate the relevant notices, documents, information or written statements have been sent. Shareholders shall be deemed to have received the notice, documents, information or written statements 5 days after the despatch of the same. With respect to the same served by fax or email, or published on websites, written record shall be provided.”

11. 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);
- (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.*
Sun Nengyi
Executive Director, Chairman

Chongqing, the PRC
28 April 2009

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 26 May 2009 to 25 June 2009, both days inclusive, during which period no transfer of H shares of the Company will be effected. For the identification of Members who are qualified to attend and vote at the Meeting and to be entitled to the proposed final dividend for the year ended 31 December 2008 (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 26 May 2009.

4. Whether or not the holders of H shares of the Company who intend to attend the Meeting shall complete the enclosed reply slip for the Meeting and return it, by hand or by post, to the Company's H share registrar Computershare Hong Kong Investor Services Limited, at Rooms 1712-1716, 17/F, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, or by fax on or before 5 June 2009.
5. Whether or not the holders of domestic shares of the Company who intend to attend to the Meeting shall complete the enclosed reply slip for the Meeting and return it, by hand or by post, to the Company's mailing address at No. 155 Zhong Shan Third Road, Yuzhong District, Chongqing City, the PRC, or by fax on or before 5 June 2009.

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