
THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

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

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

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CQME

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)

(Stock Code: 2722)

- (1) **REPORT OF THE BOARD OF DIRECTORS OF THE COMPANY IN 2016;**
 - (2) **REPORT OF THE SUPERVISORY COMMITTEE OF THE COMPANY IN 2016;**
 - (3) **AUDITED FINANCIAL STATEMENTS AND AUDITOR'S REPORT OF THE COMPANY AND ITS SUBSIDIARIES IN 2016;**
 - (4) **PROFIT APPROPRIATION PROPOSAL FOR THE YEAR OF 2016 OF THE COMPANY;**
 - (5) **APPOINTMENT OF THE COMPANY'S AUDITOR IN 2017;**
 - (6) **CONTINUING PROVISION OF GUARANTEE BY THE COMPANY FOR LOANS OF HOLROYD OF GBP17 MILLION;**
 - (7) **CONTINUING PROVISION OF GUARANTEE BY THE COMPANY FOR LOANS OF PTG DEVELOPMENT OF USD70 MILLION;**
 - (8) **PROVISION OF GUARANTEE BY CHONGQING GENERAL FOR LOANS OF CHONGTONG CHENGFEI OF RMB455 MILLION;**
 - (9) **PROVISION OF GUARANTEE BY CHONGQING MACHINE TOOLS FOR LOANS OF CHONGQING TOOL FACTORY OF RMB28 MILLION;**
 - (10) **PROVISION OF GUARANTEE BY CHONGQING MACHINE TOOLS FOR LOANS OF CHONGQING NO.2 MACHINE TOOLS FACTORY OF RMB37 MILLION;**
 - (11) **MERGER BY ABSORPTION OF CHONGQING POWER TRANSFORMER BY THE COMPANY;**
 - (12) **REVISING REMUNERATION POLICY OF THE FOURTH SESSION OF EXTERNAL DIRECTORS AND SUPERVISOR;**
 - (13) **PROPOSED GRANTING OF GENERAL MANDATE TO ISSUE NEW SHARES OF THE COMPANY;**
- AND**
- (14) **NOTICE OF THE ANNUAL GENERAL MEETING OF THE COMPANY.**

The letter from the Board of the Company is set out on pages 4 to 13 of this circular.

Notice convening the 2016 Annual General Meeting of Chongqing Machinery & Electric Co., Ltd.* to be held at the Conference Room, 13/F, Jidian Building, No. 60, Middle Section of Huangshan Avenue, New North Zone, Chongqing City, the PRC on Friday, 16 June 2017 at 9:00 a.m. (Chongqing and Hong Kong time) are set out on pages 19 to 23 of this circular.

Form of proxy for use at the Annual General Meeting is enclosed with this circular and such form of proxy is also published on the websites of the Stock Exchange (www.hkexnews.hk) and the Company (www.chinacqme.com). Whether or not you intend to attend the Annual General Meeting, you are requested to complete and return (i) the reply slip dispatched on 28 April 2017 by the Company in accordance with the instructions printed thereon not later than Friday, 26 May 2017 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 revised form of proxy will not preclude you from attending the Annual General Meeting and voting in person if you so wish.

28 April 2017

* For identification purposes only

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DEFINITIONS

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

“Annual General Meeting” or “AGM”	means the 2016 annual general meeting of the Company to be held at the Conference Room, 13/F, Jidian Building, No. 60, Middle Section of Huangshan Avenue, New North Zone, Chongqing City, the PRC on Friday, 16 June 2017 at 9:00 a.m. (Chongqing and Hong Kong time), to consider and, if appropriate, to approve the resolutions contained in the notice of the annual general meeting which are set out on pages 19 to 23 of this circular, or any adjournment thereof
“Articles of Association” or “Articles”	means the articles of association of the Company currently in force
“associates”	has the meaning ascribed to it under the Listing Rules
“Board”	means the board of Directors of the Company
“Chongqing General”	means Chongqing General Industry (Group) Co., Ltd., a wholly-owned subsidiary of the Company and a limited company incorporated in PRC
“Chongqing Machine Tools”	means Chongqing Machine Tools (Group) Co., Ltd., a wholly-owned subsidiary of the Company and a limited company incorporated in PRC
“Chongqing No. 2 Machine Tools Factory”	means Chongqing No. 2 Machine Tools Factory Co., Ltd., a wholly-owned subsidiary of the Chongqing Machine Tools and a limited company incorporated in PRC
“Chongqing Power Transformer”	means Chongqing Power Transformer Co., Ltd., a wholly-owned subsidiary of the Company and a limited company incorporated in PRC
“Chongqing Tool Factory”	means Chongqing Tool Factory Co., Ltd., a wholly-owned subsidiary of the Chongqing Machine Tools and a limited company incorporated in PRC
“Chongtong Chengfei”	means Jilin Chongtong Chengfei New Material Co., Ltd., a 91.18% interest owned subsidiary of the Chongqing General and a joint-stock limited company incorporated in PRC
“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

DEFINITIONS

“Director(s)”	means the director(s) of the Company
“Domestic Share(s)”	means ordinary share(s) with a nominal value of RMB1.00 each in the share capital of the Company, which are subscribed for or credited as paid up in RMB
“GBP”	means British pound sterling, the lawful currency of the United Kingdom
“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 relevant resolution
“Group”	means the Company and its associates
“HK\$”	means Hong Kong dollars, the lawful currency of Hong Kong
“Holroyd”	means Holroyd Precision Ltd., a wholly-owned subsidiary of PTG and a limited company incorporated in the United Kingdom
“Hong Kong”	means the Hong Kong Special Administrative Region of the PRC
“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
“Latest Practicable Date”	24 April 2017, 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, being one of the Promoters of the Company
“PTG”	means Precision Technologies Group (PTG) Limited, a wholly-owned subsidiary of the Company and a limited company incorporated in the United Kingdom
“PTG Development”	means PTG Advanced Development Ltd., a wholly-owned subsidiary of PTG and a limited company incorporated in Hong Kong

DEFINITIONS

“Rights Issue”	means the allotment or issue of Shares in the Company or other securities to all shareholders of the Company who are entitled to the offer (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, in spite of fractional entitlements)
“RMB”	means Renminbi, the lawful currency of the PRC
“SFO”	means the Securities and Futures Ordinance (Chapter 571 of the laws of Hong Kong)
“Shareholder(s)”	means the holder(s) of the Shares
“Stock Exchange”	means The Stock Exchange of Hong Kong Limited
“Supervisor(s)”	has the meaning ascribed to it under the Company Law of the PRC and the Listing Rules
“USD”	means US dollars, the lawful currency of the United States

LETTER FROM THE BOARD



CQME

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)

(Stock Code: 2722)

Executive Directors:

Mr. Wang Yuxiang
Ms. Chen Ping
Mr. Yang Quan

*Registered office and principal place
of business in the PRC:*

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

Non-executive Directors:

Mr. Huang Yong
Mr. Wei Fusheng
Mr. Deng Yong
Ms. He Xiaoyan

Principal place of business in Hong Kong:

Room 502, 5th Floor, China Building,
29 Queen's Road Central,
Central, Hong Kong

Independent Non-executive Directors:

Mr. Lo Wah Wai
Mr. Ren Xiaochang
Mr. Jin Jingyu
Mr. Liu Wei

28 April 2017

To the Shareholders

Dear Sir or Madam,

- (1) REPORT OF THE BOARD OF DIRECTORS OF THE COMPANY IN 2016;**
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- (8) PROVISION OF GUARANTEE BY CHONGQING GENERAL FOR LOANS OF
CHONGTONG CHENGFEI OF RMB455 MILLION;**
- (9) PROVISION OF GUARANTEE BY CHONGQING MACHINE TOOLS FOR LOANS OF
CHONGQING TOOL FACTORY OF RMB28 MILLION;**
- (10) PROVISION OF GUARANTEE BY CHONGQING MACHINE TOOLS FOR LOANS OF
CHONGQING NO.2 MACHINE TOOLS FACTORY OF RMB37 MILLION;**
- (11) MERGER BY ABSORPTION OF CHONGQING POWER TRANSFORMER
BY THE COMPANY;**
- (12) REVISING REMUNERATION POLICY OF THE FOURTH SESSION OF
EXTERNAL DIRECTORS AND SUPERVISOR;**
- (13) PROPOSED GRANTING OF GENERAL MANDATE TO ISSUE NEW SHARES
OF THE COMPANY;**
- AND**
- (14) NOTICE OF THE ANNUAL GENERAL MEETING OF THE COMPANY**

* For identification purposes only

LETTER FROM THE BOARD

1. INTRODUCTION

The purpose of this circular is to give you the 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.

2. REPORT OF THE BOARD OF DIRECTORS OF THE COMPANY IN 2016

Details are set out in “Report of the Board of Directors” within the Company’s 2016 Annual Report issued by the Company on the website of the Stock Exchange on 12 April 2017.

3. REPORT OF THE SUPERVISORY COMMITTEE OF THE COMPANY IN 2016

Details are set out in “Report of the Supervisory Committee” within the Company’s 2016 Annual Report issued by the Company on the website of the Stock Exchange on 12 April 2017.

4. AUDITED FINANCIAL STATEMENTS AND AUDITOR’S REPORT OF THE COMPANY AND ITS SUBSIDIARIES IN 2016

Details are set out in “Independent Auditor’s Report”, “Consolidated Statement of Comprehensive Income”, “Consolidated Balance Sheet”, “Consolidated Statement of Changes in Equity”, “Consolidated Statement of Cash Flows” and “Notes to the Consolidated Financial Statements” within the Company’s 2016 Annual Report issued by the Company on the website of the Stock Exchange on 12 April 2017.

5. PROFIT APPROPRIATION PROPOSAL FOR THE YEAR OF 2016 OF THE COMPANY

The Board has recommended the payment of a final dividend of RMB0.035 per share (tax inclusive) for the year ended 31 December 2016, which is calculated based on the total share capital of 3,684,640,154 shares for the year ended 31 December 2016, totalling RMB128,962,405.39. Subject to approval by shareholders at the Annual General Meeting to be convened on 16 June 2017, the proposed final dividend will be paid on or about 28 July 2017 to shareholders whose names appear on the Register of Members of the Company on 27 June 2017 (“**Record Date**”).

In order to ascertain the entitlements of the shareholders to receive the proposed final dividend, the register of members of the Company will be closed from Thursday, 22 June 2017 to Tuesday, 27 June 2017 (both days inclusive), during which period no transfer of shares will be registered. All transfer documents accompanied by share certificates of the holders of H Shares of the Company must be lodged at our H Share Registrar at Hong Kong, Computershare Hong Kong Investor Services Limited at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen’s Road East, Wanchai, Hong Kong for registration no later than 4:30 p.m. on Wednesday, 21 June 2017.

LETTER FROM THE BOARD

6. APPOINTMENT OF THE COMPANY'S AUDITOR IN 2017

PricewaterhouseCoopers Zhong Tian CPAs (special general partnership) and PricewaterhouseCoopers are PRC auditor and international auditor of the Company respectively engaged in 2016. During their engagement, they fully performed their duties to present unqualified review reports of 2016 for the Company which are objective and fair in accordance with independent accounting standards.

Therefore, re-appointment of PricewaterhouseCoopers Zhong Tian CPAs (special general partnership) as the PRC auditor and PricewaterhouseCoopers as the international auditor of the Company in 2017 to hold office until the conclusion of the next annual general meeting is recommended. The total review and audit fees are RMB3.5 million for the Company's 2017 interim financial statements and annual financial statements.

7. CONTINUING PROVISION OF GUARANTEE BY THE COMPANY FOR LOANS OF HOLROYD OF GBP17 MILLION

Holroyd requested the Company to continue to provide guarantee for its loans totalling GBP17 million ("**Loans of Holroyd**"). Holroyd is a wholly-owned subsidiary of PTG, which in turn is a wholly-owned subsidiary of the Company.

Reasons for and Benefits of the Provision of Guarantee for the Loans of Holroyd

The Company is optimistic about the business prospect of Holroyd, and Holroyd's continuous and stable development will facilitate the Company's expansion into overseas markets

Terms of the Guarantee

The guarantee for the Loans of Holroyd is for a term of one year commencing from the date of approval by the Shareholders and completion of relevant formalities by Holroyd. The Board is of the opinion that the terms of provision of guarantee for the Loans of Holroyd 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 impact on the financial conditions of the Company.

Holroyd is not a connected person of the Group and the guarantee to be provided for Holroyd does not exceed the applicable percentage ratio specified in the Listing Rules. Therefore, such transaction is not subject to the requirements under Chapters 14 and 14A of the Listing Rules. However, as the gearing ratio of Holroyd reaches 84.84%, the provision of guarantee by the Company for Holroyd is subject to consideration and approval at the general meeting according to requirements of the Articles.

Pursuant to the Articles, the provision of guarantee by the Company for Holroyd is subject to approval by the Shareholders at the general meeting.

LETTER FROM THE BOARD

8. CONTINUING PROVISION OF GUARANTEE BY THE COMPANY FOR LOANS OF PTG DEVELOPMENT OF USD70 MILLION

PTG Development requested the Company to continue to provide guarantee for its loans totalling USD70 million (“Loans of PTG Development”). PTG Development is a wholly-owned subsidiary of PTG, which in turn is a wholly-owned subsidiary of the Company.

Reasons for and Benefits of the Provision of Guarantee for the Loans of PTG Development

Considering that PTG Development represents an important platform of the Company in Hong Kong, its continuous and stable development will facilitate the Company’s expansion into overseas markets

Terms of the Guarantee

The guarantee for the Loans of PTG Development is for a term of one year commencing from the date of approval by the Shareholders and completion of relevant formalities by PTG Development. The Board is of the opinion that the terms of provision of guarantee for the Loans of PTG Development 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 impact on the financial conditions of the Company.

PTG Development is not a connected person of the Group and the guarantee to be provided for the Loans of PTG Development does not exceed the applicable percentage ratio specified in the Listing Rules. Therefore, such transaction is not subject to the requirements under Chapters 14 and 14A of the Listing Rules. However, as the gearing ratio of PTG Development reaches 97.82%, the provision of guarantee for the Loans of PTG Development is subject to consideration and approval at the general meeting according to requirements of the Articles.

Pursuant to the Articles, the provision of guarantee by the Company for the Loans of PTG Development is subject to approval by the Shareholders at the general meeting.

9. PROVISION OF GUARANTEE BY CHONGQING GENERAL FOR LOANS OF CHONGTONG CHENGFEI OF RMB455 MILLION

Chongtong Chengfei requested Chongqing General to provide guarantee for its loans totalling RMB455 million (“Loans of Chongtong Chengfei”). Chongtong Chengfei is a 91.18% interests-owned subsidiary of Chongqing General, and Chongqing General is a wholly-owned subsidiary of the Company.

Reasons for and Benefits of the Provision of Guarantee for the Loans of Chongtong Chengfei

Considering the robust development of wind turbine industry in China as well as the competitive advantages of Chongtong Chengfei, provision of guarantee for Loans of Chongtong Chengfei will be conducive to expanding its market, which in turn will bring higher returns to the Shareholders of the Company.

LETTER FROM THE BOARD

Terms of the Guarantee

The guarantee for the Loans of Chongtong Chengfei is for a term of one year commencing from the date of approval by the Shareholders and completion of relevant formalities by Chongtong Chengfei. The Board is of the opinion that the terms of provision of guarantee for the Loans of Chongtong Chengfei 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 impact on the financial conditions of the Company.

Chongtong Chengfei is not a connected person of the Group and the guarantee to be provided for the Loans of Chongtong Chengfei does not exceed the applicable percentage ratio specified in the Listing Rules. Therefore, such transaction is not subject to the requirements under Chapters 14 and 14A of the Listing Rules. However, as the gearing ratio of Chongtong Chengfei reaches 80.88%, the provision of guarantee for the Loans of Chongtong Chengfei is subject to consideration and approval at the general meeting according to requirements of the Articles.

Pursuant to the Articles, the provision of guarantee by the Company for the Loans of Chongtong Chengfei is subject to approval by the Shareholders at the general meeting.

10. PROVISION OF GUARANTEE BY CHONGQING MACHINE TOOLS FOR LOANS OF CHONGQING TOOL FACTORY OF RMB28 MILLION

Chongqing Tool Factory requested Chongqing Machine Tools to provide guarantee for its loans totalling RMB28 million (“**Loans of Chongqing Tool Factory**”). Chongqing Tool Factory is a wholly-owned subsidiary of Chongqing Machine Tools, and Chongqing Machine Tools is a wholly-owned subsidiary of the Company.

Reasons for and Benefits of the Provision of Guarantee for the Loans of Chongqing Tool Factory

Considering the competitive advantages of Chongqing Tool Factory, provision of guarantee for Loans of Chongqing Tool Factory will be conducive to expanding its market, which in turn will bring higher returns to the Shareholders of the Company.

Terms of the Guarantee

The guarantee for the Loans of Chongqing Tool Factory is for a term of one year commencing from the date of approval by the Shareholders and completion of relevant formalities by Chongqing Tool Factory. The Board is of the opinion that the terms of provision of guarantee for the Loans of Chongqing Tool Factory 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 impact on the financial conditions of the Company.

Chongqing Tool Factory is not a connected person of the Group and the guarantee to be provided for the Loans of Chongqing Tool Factory does not exceed the applicable percentage ratio specified in the Listing Rules. Therefore, such transaction is not subject to the requirements under

LETTER FROM THE BOARD

Chapters 14 and 14A of the Listing Rules. However, as the gearing ratio of Chongqing Tool Factory reaches 74.66%, the provision of guarantee for the Chongqing Tool Factory is subject to consideration and approval at the general meeting according to requirements of the Articles.

Pursuant to the Articles, the provision of guarantee by the Company for the Loans of Chongqing Tool Factory is subject to approval by the Shareholders at the general meeting.

11. PROVISION OF GUARANTEE BY CHONGQING MACHINE TOOLS FOR LOANS OF CHONGQING NO.2 MACHINE TOOLS FACTORY OF RMB37 MILLION

Chongqing No. 2 Machine Tools Factory requested Chongqing Machine Tools to provide guarantee for its loans totalling RMB37 million (“**Loans of Chongqing No. 2 Machine Tools Factory**”). Chongqing No. 2 Machine Tools Factory is a wholly-owned subsidiary of Chongqing Machine Tools, and Chongqing Machine Tools is a wholly-owned subsidiary of the Company.

Reasons for and Benefits of the Provision of Guarantee for the Loans of Chongqing No. 2 Machine Tools Factory

Considering the competitive advantages of Chongqing No. 2 Machine Tools Factory, provision of guarantee for Loans of Chongqing No. 2 Machine Tools Factory will be conducive to expanding its market, which in turn will bring higher returns to the Shareholders of the Company.

Terms of the Guarantee

The guarantee for the Loans of Chongqing No. 2 Machine Tools Factory is for a term of one year commencing from the date of approval by the Shareholders and completion of relevant formalities by Chongqing No. 2 Machine Tools Factory. The Board is of the opinion that the terms of provision of guarantee for the Loans of Chongqing No. 2 Machine Tools Factory 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 impact on the financial conditions of the Company.

Chongqing No. 2 Machine Tools Factory is not a connected person of the Group and the guarantee to be provided for the Loans of Chongqing No. 2 Machine Tools Factory does not exceed the applicable percentage ratio specified in the Listing Rules. Therefore, such transaction is not subject to the requirements under Chapters 14 and 14A of the Listing Rules. However, as the gearing ratio of Chongqing No. 2 Machine Tools Factory reaches 70.04%, the provision of guarantee for the Chongqing No. 2 Machine Tools Factory is subject to consideration and approval at the general meeting according to requirements of the Articles.

Pursuant to the Articles, the provision of guarantee by the Company for the Loans of Chongqing No. 2 Machine Tools Factory is subject to approval by the Shareholders at the general meeting.

LETTER FROM THE BOARD

12. MERGER BY ABSORPTION OF CHONGQING POWER TRANSFORMER BY THE COMPANY

Information on Chongqing Power Transformer

Chongqing Power Transformer, established on 5 March 1996, is mainly engaged in manufacturing and repair of transformers, lease of self-owned properties, etc. Chongqing Power Transformer has a registered capital of RMB 161.41 million, with original equity structure as follows:

Name of Contributors	Amount of Contribution (RMB0'000)	Shareholding Percentage (%)
Chongqing Machinery & Electric Co., Ltd.	10,604.00	65.69%
Chongqing Machinery and Electronic Holding (Group) Co., Ltd.	537.00	3.33%
Three Gorges Capital Holdings Co., Ltd.	5,000.00	30.98%

In 2016, the Company acquired the entire equity interests in Chongqing Power Transformer each held by Chongqing Machinery and Electronic Holding (Group) Co., Ltd. and Three Gorges Capital Holdings Co., Ltd. Therefore, Chongqing Power Transformer became a wholly-owned subsidiary of the Company.

As at 31 December 2016, Chongqing Power Transformer had total assets of RMB318.8947 million and net assets of RMB318.8943 million. As of the year ended 31 December 2016, Chongqing Power Transformer had no operating income due to the total operating cost of RMB167,300, investing revenue of RMB92.1271 million and net profits of RMB91.9598 million.

Reasons for and Benefits of the Merger by Absorption of Chongqing Power Transformer

Considering that Chongqing Power Transformer has 37.8% equity interests in Chongqing ABB Power Transformer Co., Ltd. as its major assets and it has no other businesses, the Company proposes to merge Chongqing Power Transformer by absorption in order to streamline management hierarchy and improve management efficiency.

Arrangement for Merger by Absorption of Chongqing Power Transformer

Subject to approval on the proposal to acquire and merge Chongqing Power Transformer at the Annual General Meeting. The Company will fully take over all the assets and liabilities of Chongqing Power Transformer and will cancel the registration of Chongqing Power Transformer in compliance with related legal procedures, after which the Company will directly hold 37.8% equity interests in Chongqing ABB Power Transformer Co., Ltd.

The Board is of the opinion that merger by absorption of Chongqing Power Transformer is in the best interests of the Company and its Shareholders as a whole and will not have a material adverse impact on the financial conditions of the Company.

LETTER FROM THE BOARD

13. REVISING REMUNERATION POLICY OF THE FOURTH SESSION OF EXTERNAL DIRECTORS AND SUPERVISORS

Reference is made to the remuneration policy of the fourth session of external directors and supervisors passed at the 2015 annual general meeting of the Company, and hereby add a new provision: on each onsite meeting of directors, the Company made allowance of travelling expenses and overtime meal of RMB1,000 to RMB2,000 in total for external directors and supervisors' attending meetings. External directors and supervisors will not assume any other positions except directors/supervisors of the Company.

14. 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 number 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 any 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 number of the Domestic Shares in issue; and
 - (ii) 20 per cent of the aggregate number 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, and/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 marketing 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) so as to reflect the new capital and/or share capital structure of the Company.

As at the Latest Practicable Date, the Company had 3,684,640,154 Shares in issue. 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 additional Shares will be issued by the Company prior to the Annual General Meeting.

15. ANNUAL GENERAL MEETING AND PROXY ARRANGEMENT

The notice of the Annual General Meeting set out on pages 19 to 23 of this circular. At the Annual General Meeting, resolutions will be proposed to approve, inter alia, (i) the report of the Board for the year ended 31 December 2016; (ii) the report of the Supervisory Committee for the year ended 31 December 2016; (iii) the audited financial statements of the Company and its subsidiaries and the Auditor's Report for the year ended 31 December 2016; (iv) the profit appropriation proposal; (v) the appointment of the Company's auditor; (vi) continuing provision of guarantee by the Company for loans of Holroyd of GBP17 million; (vii) continuing provision of guarantee by the Company for loans of PTG Development of USD70 million; (viii) provision of guarantee by Chongqing General for loans of Chongtong Chengfei of RMB455 million; (ix) provision of guarantee by Chongqing Machine Tools for loans of Chongqing Tool Factory of RMB28 million; (x) provision of guarantee by Chongqing Machine Tools for loans of Chongqing No. 2 Machine Tools Factory of RMB37 million; (xi) merger by absorption of Chongqing Power Transformer by the Company; (xii) revising remuneration policy of the fourth session of external directors and supervisors; and (xiii) granting of general mandate.

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 reply slip dispatched on 28 April 2017 by the Company in accordance with the instructions printed thereon not later than Friday, 26 May 2017 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

LETTER FROM THE BOARD

Annual General Meeting or any adjournment thereof (as the case may be). Completion and return of the form of proxy will not preclude you from attending the Annual General Meeting and voting in person if you so wish.

To the best of the Directors' knowledge, information and belief after having made all reasonable enquiries, none of the Directors or Shareholders has a material interest in the resolutions to be proposed at the Annual General Meeting and no Shareholder is required to abstain from voting on any of the resolutions at the Annual General Meeting.

16. PROCEDURES FOR VOTING AT THE ANNUAL GENERAL MEETING

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

17. RECOMMENDATION

The Directors consider that all resolutions to be 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.*
Wang Yuxiang
Executive Director and Chairman

* *For identification purposes only*

1. RESPONSIBILITY STATEMENT

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

2. DISCLOSURE OF INTERESTS

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

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

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

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

Name of Shareholder	Number of shares	Class	Capacity	Note	Percentage of total issued domestic shares (%)	Percentage of total issued H shares (%)	Percentage of total issued shares (%)
Chongqing Machinery and Electronic Holding (Group) Co., Ltd.	1,924,225,189	domestic shares	Beneficial owner	(1)	74.46(L)	-	52.22
	11,652,000	H shares	Beneficial owner	(1)	-	1.06(L)	0.32
Chongqing Yufu Assets Management Group Co., Ltd.	232,132,514	domestic shares	Beneficial owner	(1)	8.98(L)	-	6.30
Chongqing Construction Engineering Group Co., Ltd.	232,132,514	domestic shares	Beneficial owner	(2)	8.98(L)	-	6.30
China Huarong Asset Management Co., Ltd.	195,962,467	domestic shares	Beneficial owner	(3)	7.58(L)	-	5.32
Chongqing State-Owned Assets Supervision and Administration Commission	2,388,490,217	domestic shares	Interest in controlled corporation	(1)	92.42(L)	-	64.82
	11,652,000	H shares	Beneficial owner	(1)	-	1.06(L)	0.32
Ministry of Finance of the PRC	195,962,467	domestic shares	Interest in controlled corporation	(3)	7.58(L)	-	5.32

(L) Long Position

H shares of RMB1.00 each of the Company

Name of Shareholder	Number of shares	Capacity	Note	Percentage of	Percentage
				total issued H shares (%)	of total issued shares (%)
Templeton Asset Management Ltd.	142,803,300 (L)	Investment manager		12.98 (L)	3.88 (L)
The Bank of New York Mellon (formerly known as "The Bank of New York")	87,276,000 (L) 0 (P)	Custodian		7.93 (L) 0 (P)	2.37 (L) 0 (P)
The Bank of New York Mellon Corporation	87,276,000 (L) 87,276,000 (P)	Interest of corporation controlled by substantial shareholder	(4)	7.93 (L) 7.93 (P)	2.37 (L) 2.37 (P)
GE Asset Management Incorporated	75,973,334 (L)	Investment manager		6.91 (L)	2.06 (L)

(L) Long Position

(S) Short Position

(P) Lending Pool

Notes:

- As Chongqing Machinery and Electronic Holding (Group) Co., Ltd. and Chongqing Yufu Assets Management Group Co., Ltd. were wholly owned by Chongqing State-Owned Assets Supervision and Administration Commission, Chongqing State-Owned Assets Supervision and Administration Commission is deemed to be interested in 1,924,225,189 domestic shares and 11,652,000 H shares and 232,132,514 domestic shares of the Company held by the two companies.
- Chongqing Construction Engineering Group Co., Ltd. is held as to 76.53% by Chongqing State-Owned Assets Supervision and Administration Commission through its wholly-owned subsidiaries (Chongqing Construction Engineering Investment Holdings Co., Ltd.). Therefore, Chongqing State-Owned Assets Supervision and Administration Commission is deemed to be interested in 232,132,514 domestic shares of the Company held by Chongqing Construction Engineering Group Co., Ltd.
- China Huarong Asset Management Co., Ltd. is held as to 63.36% directly by the Ministry of Finance of the People's Republic of China and as to 4.22% indirectly by the Ministry of Finance of the People's Republic of China through China Life Insurance (Group) Company, a wholly-owned subsidiary of the Ministry. Therefore, the Ministry of Finance of the People's Republic of China is deemed to be interested in 195,962,467 domestic shares of the Company held by China Huarong Asset Management Co., Ltd.

4. The Bank of New York Mellon Corporation holds 100% interest in The Bank of New York Mellon (formerly known as “The Bank of New York”), which holds 87,276,000 of H shares of the Company. The interest in 87,276,000 H shares relates to the same block of shares in the Company and includes a lending pool of 87,276,000 of H shares of the Company

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

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

As at the Latest Practicable Date, none of the Directors and the supervisors of the Company had any direct or indirect interest in any assets which have been acquired or disposed by or leased to the Company or are proposed to be acquired or disposed by or leased to the Company since 31 December 2016, being the date to which the latest published audited accounts of the Company were made up.

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

5. SERVICE CONTRACTS

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

6. COMPETING INTEREST

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

7. LITIGATION

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

8. MATERIAL ADVERSE CHANGE

As at the Latest Practicable Date, the Directors confirmed that there was no material adverse change in the financial or trading position of the Group since 31 December 2016, the date to which the latest published audited consolidated accounts of the Group were made up.

9. MISCELLANEOUS

- (i) The Company's registered office and principal place of business in the PRC is No. 60, Middle Section of Huangshan Avenue, New North Zone, Chongqing, the PRC.
- (ii) The principal place of business of the Company in Hong Kong is Room 502, 5/F, China Building, 29 Queen's Road Central, Central, Hong Kong.
- (iii) The Company's H Share Registrars and transfer office in Hong Kong is Computershare Hong Kong Investor Services Limited at Rooms 1712-1716, 17/F, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong.
- (iv) The company secretary of the Company is Miss Chiu Hoi Shan, who is a practicing solicitor of the High Court of Hong Kong.
- (v) Unless stated otherwise, in the event of inconsistency, the English text of this circular shall prevail over the Chinese text.

**CQME****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)*

(Stock Code: 2722)

NOTICE OF THE ANNUAL GENERAL MEETING

NOTICE IS HEREBY GIVEN that an Annual General Meeting (the “Meeting” or “AGM”) of Chongqing Machinery & Electric Co., Ltd.* (the “Company”) will be held at the Conference Room, 13/F, Jidian Building, No. 60, Middle Section of Huangshan Avenue, New North Zone, Chongqing City, the PRC on Friday, 16 June 2017 at 9:00 a.m. (Chongqing and Hong Kong time) (or 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”) for the year ended 31 December 2016;
2. To consider and approve the report of the Supervisory Committee of the Company for the year ended 31 December 2016;
3. To consider and approve the audited financial statements of the Company and its subsidiaries and the Auditor’s Report for the year ended 31 December 2016;
4. To consider and approve the profit appropriation proposal of the Company for the year ended 31 December 2016 and the declaration of the final dividend of RMB 0.035 per share (before tax);
5. To consider and approve the re-appointment of PricewaterhouseCoopers Zhong Tian CPAs (special general partnership) as the PRC auditor and PricewaterhouseCoopers as the international auditor of the Company in 2017 to hold office until the conclusion of the next annual general meeting and the total review and audit fees of RMB3.5 million for the Company’s 2017 interim financial statements and annual financial statements;
6. To consider and approve the continuing provision of guarantee by the Company for Loans of Holroyd of GBP17 million;
7. To consider and approve the continuing provision of guarantee by the Company for Loans of PTG Development of USD70 million;

* For identification purposes only

8. To consider and approve the provision of guarantee by Chongqing General for the Loans of Chongtong Chengfei of RMB455 million;
9. To consider and approve the provision of guarantee by Chongqing Machine Tools for loans of Chongqing Tool Factory of RMB28 million;
10. To consider and approve the provision of guarantee by Chongqing Machine Tools for loans of Chongqing No. 2 Machine Tools Factory of RMB37 million;
11. To consider and approve the merger by absorption of Chongqing Power Transformer by the Company; and
12. To consider and approve the revised remuneration policy of the fourth session of external directors and supervisors.

SPECIAL RESOLUTION

13. To grant a general mandate to the Board 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 (the “General Mandate”), subject to the following conditions:

“THAT

- (A) (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 number 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 number of the Domestic Shares in issue; and
 - (ii) 20 per cent of the aggregate number of the H Shares in issue, respectively, in each case as at the date of passing of this special resolution; and

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

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

Chongqing, the PRC
28 April 2017

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 notorially certified copy of that power of attorney or authority must be deposited with the Company’s H shares registrar Computershare Hong Kong Investor Services Limited, at 17M Floor, 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. 60, Middle Section of Huangshan Avenue, New North Zone, 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. In order to determine the Members who are entitled to attend and vote at the Meeting, the register of Members will be closed from 17 May 2017 to 16 June 2017, both days inclusive, during which period no transfer of H shares of the Company will be effected. 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 16 May 2017.
4. In order to ascertain the shareholders who are entitled to receive the proposed final dividend, the register of members of the Company will be closed from Thursday, 22 June 2017 to Tuesday, 27 June 2017 (both days inclusive), during which period no transfer of shares will be effected. All transfer documents accompanied by the relevant share certificates must be lodged at our H Share Registrar Computershare Hong Kong Investor Services Limited at Rooms 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong for registration no later than 4:30 p.m. on Wednesday, 21 June 2017.
5. Whether or not holders of H shares of the Company can attend the Meeting, please 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 17M Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, or by fax on or before Friday, 26 May 2017.
6. Whether or not holders of domestic shares of the Company can attend the Meeting, please complete the enclosed reply slip for the Meeting and return it, by hand or by post, to the Company's mailing address at No. 60, Middle Section of Huangshan Avenue, New North Zone, Chongqing City, the PRC, or by fax on or before Friday, 26 May 2017.

As at the date of this notice, the executive Directors are Mr. Wang Yuxiang, Ms. Chenping and Mr. Yang Quan; the non-executive Directors are Mr. Huang Yong, Mr. Wei Fusheng, Mr. Deng Yong and Ms. He Xiaoyan; and the independent non-executive Directors are Mr. Lo Wah Wai, Mr. Ren Xiaochang, Mr. Jin Jingyu and Mr. Liu Wei.