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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 with limited liability)

(Stock Code: 02722)

SUPPLEMENTAL ANNOUNCEMENT IN RELATION TO 2021 ANNUAL REPORT

Reference is made to the 2021 Annual Report published by Chongqing Machinery & Electric Co., Ltd. (the “**Company**”) on 14 April 2022. Capitalised terms used herein shall bear the same meanings as defined in the 2021 Annual Report.

The Company hereby provides the following supplemental information regarding the loans provided by the Group disclosed in the 2021 Annual Report:

(i) Major terms of loans granted (including details of the collaterals), size and diversity of clients and concentration of loans on major clients

The Company operates financial services business through its subsidiary, Chongqing Electrical Holdings Group Finance Company Limited (the “**Finance Company**”), a licensed non-banking financial institution approved by the China Banking and Insurance Regulatory Commission. The Finance Company only serves the members of the Group and the Parent Group and provides them with approved financial services such as settlement, loans, bills and intermediary business, with the purpose of centralizing management of funds of the Group and the Parent Group, and improves the efficiency of the use of internal funds.

In the year of 2021, the total revenue of the Finance Company amounted to RMB67.62 million, accounting for approximately 0.91% of the consolidated revenue of the Group. The total loan scale of the Finance Company (i.e. total loans granted to the members of the Group and the Parent Group) was RMB1.953 billion (excluding discounting services fee and interests) in 2021, which was strictly controlled to be within the annual cap approved by the shareholders at the relevant general meeting. Types of loans include credit loans, guaranteed secured loans and

* *For identification purposes only*

mortgage loans. The collaterals involved in the mortgage loan include land use right, real estate and movable property. The total amount of guaranteed loans and secured loans are accounted for approximately 62.89% and 16.93% of the entire loan portfolio of the Finance Company as at the end of 2021 respectively. The interest rate of the loans provided by the Finance Company in 2021 ranged from 3.3% to 6.003%.

In terms of corporations, there are 153 loans involved in total, involving 14 customers among which there are 8 customers with assets exceeding RMB1 billion, with loan scale of RMB1.543 billion.

In terms of concentration of loans, there are 4 customers whose loan balance accounts for more than 10% of the total loan balance of the Finance Company, involving a total loan scale of RMB1.249 billion. The total amount of loans granted to the top five customers of the Finance Company is accounted for approximately 73.77% of the total loan size of the Finance Company as at the end of 2021.

(ii) Management’s discussion on the movements in loan impairments (and write-offs) and the underlying reasons

As of the end of 2020 and 2021, the loan classification of the Finance Company falls within the normal class, and accordingly the loan impairment provision should be accrued at 2.5% pursuant to the “Administrative Measures for the Loan Loss Reserves of Commercial Banks” (《商業銀行貸款損失準備管理辦法》) issued by China Banking Regulatory Commission (中國銀行業監督管理委員會). As of the end of 2021, the balance of loan impairment reserves was RMB48,869,823.05, representing an increase of RMB1,947,665.82 as compared with the end of 2020, mainly due to the increase of RMB77,906,632.88 in loan balance and interest receivable at the end of 2021 as compared with that in the end of 2020.

(iii) Other key internal controls

Credit approval

The credit risk assessment of the Finance Company is mainly carried out by the Loan Review Committee which comprises of five committee members with financial, risk control compliance, financial and legal backgrounds. It will independently and comprehensively assess the borrower’s operating conditions, risk of defaults, rationality of capital needs and risk management and control measures of the Finance Company, as well as the borrower’s credit rating and specific credit plan, and report the above to the authorized management for approval. According to the internal control principle of job separation and mutual restriction, credit approval is reviewed and approved by different functional departments and at multiple management levels.

Loan Recoverability and collection

To date, all loans issued by the Finance Company have been recovered through normal procedures when they are due. There is no overdue loan so far.

According to the relevant loan management system of the Finance Company, the loan collection procedures are divided into “normal loan collection” and “overdue loan collection”.

Normal loan collection: The Finance Company will remind the borrower in advance to repay the principal and interest according to the repayment and interest collection cycle as agreed in the loan contract. The Finance Company shall also verify the borrower’s account balance on the repayment date to ensure the effective recovery of loan on maturity.

Overdue loan collection: The Finance Company will issue a demand note to the borrower for overdue loans in a timely manner, and will internally transfer the case to overdue loan management the next day following the due date. The Finance Company will take various remedies and actively exercise the rights under the collateral pursuant to the terms of the contract. If the borrower is unable to repay the loan on time due to temporary operational difficulties, the Finance Company may negotiate with the borrower for loan reorganisation. In case of non-recoverable loans, the Finance Company will formulate and implement a recovery and disposal plan, including taking necessary legal actions.

Save for the above supplemental information, all information contained in the 2021 Annual Report remains unchanged.

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

Chongqing, the PRC
16 September 2022

As at the date of the announcement, the executive Directors are Mr. Zhang Fulun, Ms. Chen Ping and Mr. Yang Quan; the non-executive Directors are Mr. Huang Yong, Ms. Wang Tingting, Mr. Dou Bo and Mr. Cai Zhibin; and the independent non-executive Directors are Mr. Lo Wah Wai, Mr. Ren Xiaochang, Mr. Jin Jingyu and Mr. Liu Wei.

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