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**THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION**

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

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

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

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

(Stock Code: 2722)

- (1) CONTINUING CONNECTED TRANSACTIONS;
  - (2) MAJOR TRANSACTIONS AND CONTINUING CONNECTED TRANSACTIONS;
  - (3) RE-ELECTION OF DIRECTORS AND CONTINUOUS APPOINTMENT OF INDEPENDENT NON-EXECUTIVE DIRECTOR WHO HAS SERVED MORE THAN NINE YEARS;
  - (4) RE-ELECTION OF SUPERVISORS;
  - (5) REMUNERATION STANDARDS FOR THE FOURTH SESSION OF DIRECTORS AND SUPERVISORS;
  - (6) PROPOSED AMENDMENTS TO THE ARTICLES OF ASSOCIATION;
  - (7) PROPOSED GRANTING OF GENERAL MANDATE TO ISSUE NEW SHARES OF THE COMPANY;
  - (8) PROVISION OF GUARANTEE BY THE COMPANY FOR PTG LOANS OF GBP4 MILLION;
  - (9) PROVISION OF GUARANTEE BY THE COMPANY FOR LOANS OF HOLROYD OF GBP17 MILLION;
  - (10) PROVISION OF GUARANTEE BY THE COMPANY FOR LOANS OF PTG DEVELOPMENT OF USD70 MILLION;
- AND
- (11) NOTICE AND SUPPLEMENTAL NOTICE OF THE ANNUAL GENERAL MEETING OF THE COMPANY.

**Independent Financial Adviser to the Independent Board Committee and Independent Shareholders  
in respect of Continuing Connected Transactions and Major Transactions**



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The letter from the Board of the Company is set out on pages 6 to 30 of this circular.

Notice and supplemental notice convening the 2015 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 Tuesday, 28 June 2016 at 9:00 a.m. are set out on pages 72 to 81 of this circular.

A revised 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](http://www.hkexnews.hk)) and the Company ([www.chinacqme.com](http://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 despatched on 13 May 2016 by the Company in accordance with the instructions printed thereon not later than Wednesday, 8 June 2016 and (ii) the enclosed revised 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.

8 June 2016

\* For identification purposes only

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## DEFINITIONS

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

“2017-2019 Group Financial Services Framework Agreement”	the financial services framework agreement entered into between the Company and the Finance Company on 7 April 2016, pursuant to which the Finance Company will provide deposits, loans, guarantees and other financial services to the Group during 2017-2019
“2017-2019 Master Sales Agreement”	the agreement entered into between the Company and the Parent Company on 7 April 2016, pursuant to which the Group has agreed to sell control valves and parts for steering systems, gears and clutch assemblies, the BV series of electric cables, refrigeration machines, fans, wires and cables, copper plates, gas compressors, and materials such as steel production to the Parent Group during 2017-2019
“2017-2019 Master Supplies Agreement”	the master supplies agreement entered into between the Company and the Parent Company on 7 April 2016, pursuant to which the Parent Group has agreed to supply parts and raw materials such as gears, component parts, YB2 series engines, electricity, water, gas and electrolytic copper, transportation and storage services, contract energy management services to the Group during 2017-2019
“2017-2019 Parent Group Financial Services Framework Agreement”	the financial services framework agreement entered into between the Parent Company and the Finance Company on 7 April 2016, pursuant to which the Finance Company will provide deposits, loans, guarantees and other financial services to the Parent Group during 2017-2019
“Announcement”	the announcement dated 7 April 2016 published by the Company in relation to, the 2017-2019 Master Sales Agreement, the 2017-2019 Master Supplies Agreement, 2017-2019 Master Leasing Agreement, 2017-2019 Group Financial Services Framework Agreement and 2017-2019 Parent Group Financial Services Framework Agreement
“Annual General Meeting” or “AGM”	means the 2015 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 Tuesday, 28 June 2016 at 9:00 a.m., to consider and, if appropriate, to approve the resolutions contained in the notice of the annual general meeting and the supplemental notice which are set out on pages 72 to 81 of this circular, or any adjournment thereof

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## DEFINITIONS

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“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
“CBRC”	China Banking Regulatory Commission (中國銀行業監督管理委員會)
“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
“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
“Existing Group Financial Services Framework Agreement”	the financial services framework agreement entered into between the Company and the Finance Company on 14 October 2013, pursuant to which the Finance Company will provide deposits, loans, guarantees and other financial services to the Group during 2014-2016
“Existing Master Sales Agreement”	the master sales agreement entered into between the Company and the Parent Company on 14 October 2013, pursuant to which the Group agreed to sell certain products such as control valves and parts for steering systems, gears and clutch assemblies and the BV series of electric cables to the Parent Group
“Existing Master Supplies Agreement”	the master supplies agreement entered into between the Company and the Parent Company on 14 October 2013, pursuant to which the Parent Group agreed to supply parts and raw materials such as gears, component parts, YB2 series engines, electricity, water, gas and electrolytic copper to the Group
“Existing Parent Group Financial Services Framework Agreement”	the financial services framework agreement entered into between the Parent Company and the Finance Company on 14 October 2013, pursuant to which the Finance Company will provide deposits, loans, guarantees and other financial services to the Parent Group during 2014-2016

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## DEFINITIONS

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“Finance Company”	Chongqing Machinery and Electric Holding (Group) Finance Co., Ltd.* (重慶機電控股集團財務有限公司), a limited liability company established in the PRC on 16 January 2013 by the Company, the Parent Company and China Industrial International Trust Limited* (興業國際信託有限公司), which is owned as to 51%, 30% and 19% by the Company, the Parent Company and China Industrial International Trust Limited respectively
“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
“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
“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
“Independent Board Committee”	an independent committee of the Board composed of independent non-executive Directors, namely Mr. Lo Wah Wai, Mr. Ren Xiaochang, Mr. Jin Jingyu and Mr. Liu Wei
“Independent Financial Adviser” or “TC Capital”	TC Capital International Limited, a licensed corporation to carry out type 1 (dealing in securities) and type 6 (advising on corporate finance) regulated activities under the SFO (Chapter 571 of the Laws of Hong Kong), being the independent financial adviser to the Independent Board Committee and the Independent Shareholders in relation to the terms and the transactions (including the annual caps) for continuing connected transactions and major transactions of the Group
“Independent Shareholder(s)”	has the meaning ascribed to it under Rule 14A.10(5) of the Listing Rules, and in relation to the Company means the Shareholders other than Parent Company and its associates
“Latest Practicable Date”	means 2 June 2016, being the latest practicable date prior to the printing of this circular for ascertaining certain information in this circular

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## DEFINITIONS

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“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
“Parent Group”	means Parent Company and its associates, excluding the Group
“PBOC”	the People’s Bank of China, the central bank of the PRC
“PRC”	means the People’s Republic of China, which, for the purpose of this circular, excludes the Hong Kong Special Administrative Region, the Macau Special Administrative Region and the Taiwan region
“Promoter”	has the meaning ascribed to it under the Listing Rules
“Prospectus”	means the prospectus dated 30 May 2008 issued by the Company
“PTG”	means Precision Technologies Group Limited, a wholly-owned subsidiary of the Company and a limited company incorporated in the United Kingdom
“PTG Development”	means PTG Investment Development Company Ltd., a wholly-owned subsidiary of PTG and a limited company incorporated in Hong Kong
“Relevant Period”	means the period from the date of passing the resolution until the earlier of: (a) the conclusion of the next annual general meeting of the Company following the passing of the relevant resolution, unless, by a 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 at a general meeting revoking or varying the authority set out in the resolution approving the General Mandate

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## DEFINITIONS

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“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)
“SFO”	means the Securities and Futures Ordinance (Chapter 571 of the laws of Hong Kong)
“Shengpu”	means Chongqing Shengpu Materials Co., Ltd.* (重慶盛普物資有限公司), a wholly-owned subsidiary of the Company
“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
“GBP”	means British pound sterling, the lawful currency of the United Kingdom
“RMB”	means Renminbi, the lawful currency of the PRC
“USD”	means US dollars, the lawful currency of the United States

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## LETTER FROM THE BOARD

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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)

*Executive Directors:*

Mr. Wang Yuxiang  
Mr. Xiang Hu  
Mr. Yang Quan

*Non-executive Directors:*

Mr. Huang Yong  
Mr. Wang Jiyu  
Mr. Yang Jingpu  
Mr. Deng Yong

*Independent Non-executive Directors:*

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

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

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

*Principal place of business  
in Hong Kong:*

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

8 June 2016

*To the Shareholders*

Dear Sir or Madam,

- (1) CONTINUING CONNECTED TRANSACTIONS;  
(2) MAJOR TRANSACTIONS AND CONTINUING CONNECTED TRANSACTIONS;  
(3) RE-ELECTION OF DIRECTORS AND CONTINUOUS APPOINTMENT OF INDEPENDENT  
NON-EXECUTIVE DIRECTOR WHO HAS SERVED MORE THAN NINE YEARS;  
(4) RE-ELECTION OF SUPERVISORS;  
(5) REMUNERATION STANDARDS FOR THE FOURTH SESSION  
OF DIRECTORS AND SUPERVISORS;  
(6) PROPOSED AMENDMENTS TO THE ARTICLES OF ASSOCIATION;  
(7) PROPOSED GRANTING OF GENERAL MANDATE TO  
ISSUE NEW SHARES OF THE COMPANY;  
(8) PROVISION OF GUARANTEE BY THE COMPANY FOR PTG LOANS OF GBP4 MILLION;  
(9) PROVISION OF GUARANTEE BY THE COMPANY FOR  
LOANS OF HOLROYD OF GBP17 MILLION;  
(10) PROVISION OF GUARANTEE BY THE COMPANY FOR  
LOANS OF PTG DEVELOPMENT OF USD70 MILLION;  
AND  
(11) NOTICE AND SUPPLEMENTAL NOTICE OF THE ANNUAL GENERAL MEETING OF  
THE COMPANY.

\* For identification purposes only



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## LETTER FROM THE BOARD

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### 1. INTRODUCTION

Reference is made by the Board to the announcements of the Company dated 7 April 2016 and 13 May 2016, in relation to the 2017-2019 Master Sales Agreement, the 2017-2019 Master Supplies Agreement, the 2017-2019 Master Leasing Agreement, the 2017-2019 Group Financial Services Framework Agreement and the 2017-2019 Parent Group Financial Services Framework Agreement as well as the proposed annual cap amounts for the continuing connected transactions contemplated under such agreements for the three years ending 31 December 2017, 2018 and 2019.

The purpose of this circular is to give you the notice of the Annual General Meeting and the supplemental 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. CONTINUING CONNECTED TRANSACTIONS

#### **Background**

References are made to the announcement of the Company dated 14 October 2013, as well as the circular of the Company dated 15 November 2013, in relation to, among others, the Existing Master Sales Agreement and the Existing Master Supplies Agreement which constitute continuing connected transactions of the Company under Chapter 14A of the Listing Rules and will expire on 31 December 2016.

#### **2017-2019 Master Sales Agreement**

The Company entered into the Existing Master Sales Agreement on 14 October 2013, pursuant to which the Group agreed to sell certain products such as control valves and parts for steering systems, gears and clutch assemblies and the BV series of electric cables to the Parent Group.

As the Existing Master Sales Agreement will expire on 31 December 2016, the Company renewed the Existing Master Sales Agreement with the Parent Company under the same terms by entering into the 2017-2019 Master Sales Agreement on 7 April 2016, details are set out as follows:

#### ***Date***

7 April 2016

#### ***Parties***

- (i) the Company, as supplier; and
- (ii) the Parent Company, as purchaser.

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## LETTER FROM THE BOARD

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### *Term*

Subject to the approval being obtained from the Independent Shareholders, commencing from 1 January 2017 and expiring on 31 December 2019.

### *Nature of Transaction*

The Group sells control valves and parts for steering systems, gears and clutch assemblies, the BV series of electric cables, refrigeration machines, fans, wires and cables, copper plates, gas compressors, and raw materials such as steel products to the Parent Group.

### *Payment terms*

The payment terms will be specified on each separate contract to be agreed by both parties on normal commercial terms, such as adopting accrued payment for 0-3 months according to different types of products.

### **Pricing Basis for the 2017-2019 Master Sales Agreement**

The 2017-2019 Master Sales Agreement was entered into in the ordinary and usual course of business of the Group. The terms of the Agreement were negotiated on an arm's length basis and on normal commercial terms. The pricing or consideration of the 2017-2019 Master Sales Agreement will be determined with reference to the following:

- (i) the market price of at least two independent third parties obtained through prices quoted on websites for the industry (including website of Alibaba (www.1688.com)) or enquiries in the market (i.e. the price of the same or similar product provided to independent third parties by suppliers other than the Company and its subsidiaries in the same region during the ordinary course of business on normal commercial terms);
- (ii) if there is no market price determined by an independent third party, the transaction price between the Group and an independent third party;
- (iii) if none of the above is applicable, costs plus a percentage mark-up (tax-inclusive), which is not less than 10% (i.e. price = cost \* (1 + percentage mark-up)), whereas the 10% mark-up is determined based on the average margin of similar products of the Group during the past three years, except that the percentage mark-up for raw materials procured by Shengpu and sold to the Parent Group will be approximately 1%, being the handling fee of the Group.

Most of the products sold to the Parent Group by the Group are fully competitive products open to the market. Therefore, the pricing basis (i) and (ii) were and will be adopted for most of the products under the Existing Master Sales Agreement and the 2017-2019 Master Sales Agreement, except that pricing basis (iii) was and will be adopted for the price of gas compressors (since they are produced for military use and market price is not available) and raw materials procured by Shengpu and sold to the Parent Group.

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## LETTER FROM THE BOARD

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After reviewing the relevant basis, the Directors (including the independent non-executive Directors) are of the view that the terms of the 2017-2019 Master Sales Agreement are entered into on normal commercial terms, and are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

### **The historical data of transaction and proposed annual caps under the Master Sales Agreement**

The historical transaction records and the annual cap amounts under the Existing Master Sales Agreement:

	<b>For the year ended 31 December 2013</b>	<b>For the year ended 31 December 2014</b>	<b>For the year ended 31 December 2015</b>	<b>For the period from 1 January to 31 March 2016</b>
	<i>RMB millions</i>	<i>RMB millions</i>	<i>RMB millions</i>	<i>RMB millions</i>
Annual cap amount	210.0	220.0	250.0	310.0
Historical transaction record	113.0	87.3	53.6	9.2
Utilization rate	53.8%	39.7%	21.4%	3.0%

### **The proposed annual caps under the 2017-2019 Master Sales Agreement**

	<b>For the year ending 31 December</b>		
	<b>2017</b>	<b>2018</b>	<b>2019</b>
	<i>RMB millions</i>	<i>RMB millions</i>	<i>RMB millions</i>
Proposed annual caps	180.0	180.0	190.0

### **Proposed annual caps basis for the 2017-2019 Master Sales Agreement**

The proposed annual caps under the 2017-2019 Master Sales Agreement are determined with reference to:

- (i) the estimated demand for the production and sales in relation to vehicle parts and components, power equipment, general machinery and CNC machine tools;
- (ii) the estimated sales volume of the Group for each of the three financial years ending 31 December 2019;
- (iii) the prospect of the PRC economy and the markets relevant to the Group, in particular, the PRC automobile and power equipment segments;
- (iv) the historical amount of the sales transactions for the financial year ended 31 December 2015;

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## LETTER FROM THE BOARD

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- (v) Shengpu serves as the centralized procurement platform of bulk materials for the Group. In order to achieve synergy and reduce costs, the Group will procure and sell raw materials to the Parent Group through this centralized procurement platform and is expected to see noticeable increase in the coming three years. The price of raw materials such as copper and steel product has increased since 2016;
- (vi) According to the “Thirteenth Five-year Plan” of Chongqing city, an urban railway transport network of “One Ring Eight Lines” will be established. Regarding the Chongqing railway transport projects to be constructed in 2016-2020, it is expected that the Parent Group will be able to undertake projects of RMB5,000 million, being approximately RMB3,000 million in 2017-2019. According to figures between Chongqing Pigeon Electric Wires & Cables Co., Ltd. and the Parent Group in 2015, the actual procurement amount of wires and cables for the project of RMB100 million was about RMB4 million. With reference to such ratio, it is expected that the procurement amount of wires and cables for railway transport project in 2017-2019 will be RMB120 million. Further, the Parent Group will promote business of electrical and mechanical turnkey services, and thus may increase the sales amount of wires and cables; and
- (vii) SAIC-IVECO HONGYAN Commercial Vehicle Co., Ltd. (“SAIC-IVECO”) has improved its technology for commercial vehicles, and that the warranty of one series of commercial vehicle traction device has been extended from 300,000 km mileage in 3 years to unlimited mileage in 3 years. This means that SAIC-IVECO will purchase better automotive parts, and that the demand for automotive parts within the guaranteed period will rise. Therefore, it is expected that the income of SAIC-IVECO will greatly increase, and hence will increase the procurement amount of automotive parts from the Group.

The Directors (including the independent non-executive Directors) are of the opinion that although the historical sales under the Existing Master Sales Agreement dropped year by year due to (i) nationwide economic downturn (ii) effect of overall decrease of operating revenue of the Group year by year and the sluggish business trend of commercial vehicle of the Parent Group and (iii) the drop in price of materials such as copper and steel products, considering the factors set out in items (i) to (vii) above, the proposed annual caps are fair and reasonable and that the transactions contemplated under the 2017-2019 Master Sales Agreement are entered into on normal commercial terms and in the ordinary and usual course of business of the Group, and the terms of the agreement are fair and reasonable and in the interest of the Shareholders as a whole.

Although the transaction amount for the period from 1 January to 31 March 2016 is RMB9.2 million, which is relatively low compared with the proposed annual caps under the 2017-2019 Master Sales Agreement, the Directors are of the view that the proposed annual caps are fair and reasonable because (i) the first 3 months of 2016 covered the period of Chinese New Year, which is a traditional festival in China, during which various products of the Group experienced low sales temporarily and (ii) transactions between the Group and the Parent Group will substantially increase in the second half

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## LETTER FROM THE BOARD

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of 2016 because the Chongqing railway transport projects will commence in the latter half of 2016 and hence the amount of products to be supplied by the Group to the Parent Group afterwards will escalate.

### **Reasons for, and Benefits of, the Transactions contemplated under the 2017-2019 Master Sales Agreement**

From the perspective of the Group, the sales of the products to the Parent Group would secure a reliable customer base and a stable income and ensure punctual payment for the products sold.

### **Internal Control**

The Company has implemented the following measures regarding its internal control system for the connected transactions:

- (i) The Company has established a special office with dedicated personnel in place to monitor and manage the connected transactions;
- (ii) The special office will review the implementation of the caps of the connected transactions and of pricing terms monthly to ensure both annual caps and pricing standards have been fully complied with; and
- (iii) The audit and risk management committee of the Company will review the implementation of connected transactions regarding sales and supplies monthly.

### **Implications Under the Listing Rules**

As the Parent Company is the Controlling Shareholder of the Company, holding 52.54% equity interest in the Company, the Parent Group is a connected person of the Group under the Listing Rules. Therefore, the transactions contemplated under each of the 2017-2019 Master Sales Agreement constitute continuing connected transactions of the Company. As the highest applicable percentage ratios calculated in accordance with Chapter 14A of the Listing Rules in respect of the respective annual caps under the 2017-2019 Master Sales Agreement exceed 5% and such annual caps exceed HK\$10,000,000, each of the 2017-2019 Master Sales Agreement constitutes a non-exempted continuing connected transaction of the Company under Chapter 14A of the Listing Rules and is subject to the reporting, annual review, announcement and Independent Shareholders' approval requirements under the Listing Rules.

## **3. MAJOR TRANSACTIONS AND CONTINUING CONNECTED TRANSACTIONS**

### **Background**

References are made to the announcement of the Company dated 14 October 2013, as well as the circular of the Company dated 15 November 2013 in relation to, among other things, the Existing Group Financial Services Framework Agreement and the Existing Parent Group Financial Services

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## LETTER FROM THE BOARD

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Framework Agreement which constitute major transactions and continuing connected transactions of the Company under Chapter 14 and Chapter 14A of the Listing Rules and will expire on 31 December 2016.

### **2017-2019 Group Financial Services Framework Agreement**

On 7 April 2016, the Group and the Finance Company entered into the 2017-2019 Group Financial Services Framework Agreement, pursuant to which, the Finance Company will provide financial services to the Group, including loan services, guarantee services and other financial services and, subject to the approval being obtained from the Independent Shareholders, deposit services. The Group is not under any obligation to obtain any or all of the financial services provided by the Finance Company and may obtain such financial services based on its business needs.

The major terms of deposit services under the 2017-2019 Group Financial Services Framework Agreement are set out below:

***Date:***

7 April 2016

***Parties:***

- (i) the Company; and
- (ii) the Finance Company

***Term:***

Subject to the approval being obtained from the Independent Shareholders, the terms of deposit services under the 2017-2019 Group Financial Services Framework Agreement will become effective from 1 January 2017 and will expire on 31 December 2019. The terms of loan services, guarantee services and other financial services under the 2017-2019 Group Financial Services Framework Agreement will become effective from 1 January 2017 and will expire on 31 December 2019.

***Services:***

Pursuant to the 2017-2019 Group Financial Services Framework Agreement, the Finance Company agreed to provide financial services to the Group, including deposit services, loan services, guarantee services and other financial services.

The Finance Company undertakes under the 2017-2019 Group Financial Services Framework Agreement that the terms of any financial services to be provided by the Finance Company to the Group will be no less favourable than those of similar financial services provided by independent third parties to the Group (subject to no violation of relevant laws and regulations).

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## LETTER FROM THE BOARD

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The Group is not under any obligation to obtain any or all of the financial services provided by the Finance Company and may obtain such financial services based on its business needs.

***Payment terms:***

The payment terms will be specified on each separate contract to be agreed by the parties on normal commercial terms. Generally payment of interest will be made quarterly.

***Pricing standards:***

The pricing standards of the financial services provided by the Finance Company are as follows:

The interest rate of deposits provided by the Finance Company will not be lower than the interest rates for deposits of similar nature and under similar terms provided to the Group by other independent commercial banks (at least two banks) in the PRC.

The Company will obtain the interest rates for deposits of similar nature and under similar terms from at least two banks among the national commercial banks in the PRC and local commercial banks in Chongqing that have business relations with the Company, and compare with the interest rates provided by the Finance Company to the Group for deposits of similar nature and under similar terms to ensure that the interests the Group will receive on its deposits are in compliance with the above pricing standards for deposit services.

**Proposed Annual Cap Amounts and the Basis for the Financial Services under the 2017-2019 Group Financial Services Framework Agreement**

The historical transaction records and the annual cap amounts for the deposit services under the Group Financial Services Framework Agreement are set out below:

	<b>For the year ended 31 December 2013 RMB millions</b>	<b>For the year ended 31 December 2014 RMB millions</b>	<b>For the year ended 31 December 2015 RMB millions</b>	<b>For the period from 1 January to 31 March 2016 RMB millions</b>
Annual cap amount of maximum daily balance (including corresponding interest)	1,250.0	1,600.0	1,840.0	2,116.0
Maximum daily balance of deposits (including corresponding interest)	1,112.6	1,178.1	1,058.9	1,052.5
Utilization rate	89.0%	73.6%	57.5%	49.7%

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## LETTER FROM THE BOARD

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The proposed annual caps for the deposit services under the 2017-2019 Group Financial Services Framework Agreement for each of the three years ending 31 December 2019 are set out below:

	<b>For the year ended 31 December 2017 <i>RMB millions</i></b>	<b>For the year ended 31 December 2018 <i>RMB millions</i></b>	<b>For the year ended 31 December 2019 <i>RMB millions</i></b>
Annual cap amount of maximum daily balance (including corresponding interest)	2,600.0	3,000.0	3,500.0

As at 31 December 2013, 31 December 2014 and 31 December 2015, the Group had cash and cash equivalents of RMB2,239.5 million, RMB1,887.5 million and RMB2,001.4 million, respectively.

The Group will settle the capital among all subsidiaries collectively beginning from the year of 2016, thus it is expect to increase approximately an amount of RMB500.0 million. In 2016, the Company anticipates to issue corporate bonds amounted to RMB1,500.0 million, and an increase in capital of approximately RMB500.0 million is estimated subsequent to the repayment of corporate bonds amount of RMB1,000.0 million which will be due in August 2016. It will be used to repay the bank loans of its subsidiaries and supplement working capital. The repayment method is that the Company will deposit the funds raised in the Finance Company, and the Finance Company will pay the subsidiaries by means of entrusted loan for a term of 1 year, so as to enable the subsidiaries to repay the bank loans. When the entrusted loan expires, the subsidiaries shall raise funds by other means to repay the Company. The Company will then continue to make loan to subsidiaries by entrusted loan again. Therefore, it is expected that the Company's daily deposit amount in the Finance Company will increase by approximately RMB500.0 million. Further, since the Group enhances its management on cash flow, adjustment in the product mix and its transformation and upgrading, coupled with the possible better macroeconomic environment in the future, it is expected that the Group will hold cash and cash equivalent approximately of RMB3,000.0 million by the end of 2016, at the growth rate of approximately 15% year-by-year from 2017 to the end of 2019. Further, considering the land transfer agreements entered into by Chongqing Machine Tool (Group) Co., Ltd and Chongqing Water Turbine Works Co., Ltd. in 2014, it is expected that approximately RMB700.0 million will be received in 2017-2019 as the balance of the consideration for the land transfer. The expected maximum proportion of deposits in the Finance Company is approximately 80%.

The proposed annual caps for the deposit services under the 2017-2019 Group Financial Services Framework Agreement are determined with references to: (a) the data set out above; (b) the expectation of the Group's capital needs for the period from now up to 31 December 2019; (c) the financial capability of the Finance Company; and (d) the historical transaction records of the deposit services under the Group Financial Services Framework Agreement.



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## LETTER FROM THE BOARD

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The Directors (including the independent non-executive Directors) are of the opinion that the proposed annual caps and pricing of the 2017-2019 Group Financial Services Framework Agreement are fair and reasonable and that the transactions contemplated under it are entered into on normal commercial terms and in the ordinary and usual course of business of the Group, and the terms of the Agreement are fair and reasonable and in the interest of the Company and the Shareholders as a whole.

### **2017-2019 Parent Group Financial Services Framework Agreement**

On 7 April 2016, the Parent Company and the Finance Company entered into the 2017-2019 Parent Group Financial Services Framework Agreement, and on 13 May 2016, the Parent Company and Finance Company entered into Parent Group Financial Services Framework Supplemental Agreement, pursuant to which, the Finance Company will provide financial services to the Parent Group, including deposit services, guarantee services and other financial services and, subject to the approval of the Independent Shareholders, loan services. The Finance Company is not under any obligation to provide any or all of the financial services to the Parent Group and may offer such financial services based on its business needs.

The major terms of the loan services contemplated under 2017-2019 Parent Group Financial Services Framework Agreement are set out below:

***Date:***

7 April 2016

***Parties:***

- (i) the Parent Company; and
- (ii) the Finance Company

***Term:***

Subject to the approval being obtained from the Independent Shareholders, the terms of loan services under the 2017-2019 Parent Group Financial Services Framework Agreement will become effective from 1 January 2017 and expire on 31 December 2019. The terms of deposit services, guarantee services and other financial services under the 2017-2019 Parent Group Financial Services Framework Agreement will become effective from 1 January 2017 and expire on 31 December 2019.

***Services:***

Pursuant to the 2017-2019 Parent Group Financial Services Framework Agreement, the Finance Company has agreed to provide the financial services to the Parent Group, including deposit services, loan services, guarantee services and other financial services. The Finance Company is not under any obligation to provide any or all of the financial services to the Parent Group and may provide such financial services based on its business needs.

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## LETTER FROM THE BOARD

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### *Payment terms*

The payment terms will be specified on each separate contract to be agreed by the parties on normal commercial terms. Generally payment of interest will be made quarterly.

### *Pricing standards*

The pricing standards of the loan services provided by the Finance Company are as follows:

The interest rates for loans provided to the Parent Group by the Finance Company will not be lower than the interest rates for loans of similar nature and under similar terms charging the Parent Group by other independent commercial banks (at least two) in the PRC.

The Company will make inquiries to at least two banks among the national commercial banks in the PRC or the local commercial banks in Chongqing that have business relations with the Company in respect of loan services of similar nature and under similar terms of the Parent Group (the bank implements united credit policies on the Parent Group, i.e. enterprises to which the Parent Group belongs have same credit rating), and submit the results to the Finance Company. The Finance Company will then determine the final price provided to the Parent Group by reference to the Parent Group's business risks, comprehensive returns, capital cost of the Finance Company and regulatory indicators and other factors, so as to ensure that the interests of loans provided by the Finance Company to the Parent Group are in compliance with the above pricing standards for loan services.

### **Proposed Annual Cap Amounts and the Basis for the Financial Services under the 2017-2019 Parent Group Financial Services Framework Agreement**

#### *Loan services*

The historical transaction records and the annual cap amounts for the loan services under the Parent Group Financial Services Framework Agreement are set out below:

	<b>For the year ended 31 December 2013 RMB millions</b>	<b>For the year ended 31 December 2014 RMB millions</b>	<b>For the year ended 31 December 2015 RMB millions</b>	<b>For the period from 1 January to 31 March 2016 RMB millions</b>
Annual cap amount of maximum daily loan balance (including corresponding interest)	1,170.0	1,570.0	2,130.0	2,500.0
Maximum daily balance of loans (including corresponding interest)	1,035.6	608.1	775.1	750.5
Utilization rate	88.5%	38.7%	36.4%	30.0%

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## LETTER FROM THE BOARD

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The proposed annual caps for the loan services under the 2017-2019 Parent Group Financial Services Framework Agreement for each of the three years ending 31 December 2019 are set out below:

	<b>For the year ended 31 December 2017 <i>RMB millions</i></b>	<b>For the year ended 31 December 2018 <i>RMB millions</i></b>	<b>For the year ended 31 December 2019 <i>RMB millions</i></b>
Annual cap amount of maximum daily loan balance (including corresponding interest)	2,500.0	2,800.0	3,000.0

As at 31 December 2013, 31 December 2014 and 31 December 2015, the borrowings and loans of the Parent Group amounted to RMB5,182.6 million, RMB3,442.3 million and RMB4,908.4 million, respectively.

In 2016, the Parent Group expected to carry out the “three concentrations” to its all subsidiaries, namely concentration of deposits, concentration of loans and concentration of settlements. As a result, the demand on the capital deposits and loans on Finance Company are expected to expand. Given consideration to the business size and total loan limitation of the Finance Company, 50% of the total loan demand from the Parent Group will be provided by the Finance Company.

The proposed annual caps for the loan services under the 2017-2019 Parent Group Financial Services Framework Agreement are determined with reference to (a) the data set out above; (b) the expectation of the Parent Group’s capital needs for the period from now up to 31 December 2019; (c) the Finance Company’s financial ability; and (d) the historical transaction records of the loan services.

The Directors (including the independent non-executive Directors) are of the opinion that the proposed annual caps and pricing of the 2017-2019 Parent Group Financial Services Framework Agreement are fair and reasonable and that the transactions contemplated under it are entered into on normal commercial terms and in the ordinary and usual course of business of the Group, and the terms of the Agreement are fair and reasonable and in the interest of the Company and the Shareholders as a whole.

### **Internal Controls and Risk Management**

In order to safeguard the interests of the Shareholders, the Group and the Finance Company provide for the following risk management measures:

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## LETTER FROM THE BOARD

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**(a) *Capital requirement of the Finance Company***

Pursuant to the relevant regulations set by CBRC, financial institutions in the PRC have to comply with certain requirements, which include, among other things, the minimum total capital requirement of a capital adequacy ratio of not less than 10% as set out by CBRC. Based on the registered capital of RMB600,000,000 of the Finance Company and that the Finance Company shall provide the financial services not exceeding the proposed annual caps, the Finance Company sets its capital adequacy ratio for the period of 2017 to 2019 at not less than 10%, which is in compliance with relevant provisions of the CBRC. The minimum registered capital of the Finance Company is RMB300,000,000.

**(b) *Internal control of the Finance Company***

The establishment of the Finance Company as a non-bank financial institution was authorized by CBRC, which carries out on-going stringent supervision over the businesses of the Finance Company. The Finance Company is required to provide regulatory report to CBRC on a monthly basis.

The Finance Company has established its own credit policies and credit approval procedures for the loan applications, bills discounting services and bills acceptance services, which are designed in accordance with the relevant PBOC and CBRC regulations. Such measures are able to ensure that the various financial services provided by the Finance Company shall not exceed the proposed annual caps approved.

The Group has adopted the internal control procedures and corporate governance procedures to monitor the status of the financial conditions of the Finance Company (in the case of deposit services, loan services, guarantee services and other financial services). The audit and the risk management committee of the Company will review the finance, operation, risk management system and regulatory compliance of the Company, particularly the implementation of connected transactions, monthly.

**(c) *Qualifications of the Finance Company***

The management of the Finance Company has extensive experience in the financial industry where the Group operates and/or financial management. The Finance Company has certain key committees and departments in maintaining the internal control environment and the risk management functions, including, the risk management committee/department, the loan approval committee and the supervisory committee. The risk management committee of the Finance Company has established the risk management and control strategies and policies, and monitors the implementation of the relevant policies of the Finance Company while the supervisory committee of the Finance Company will ensure the Finance Company's compliance with the relevant rules and regulations, and to monitor its operational activities.

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## LETTER FROM THE BOARD

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- (d) The audit and the risk management committee of the Company will review the implementation of connected transactions under the 2017-2019 Group Financial Services Framework Agreement and the 2017-2019 Parent Group Financial Services Framework Agreement monthly.

### **Reasons and benefit of entering into 2017-2019 Group Financial Services Framework Agreement**

- (a) The Finance Company will gradually become the capital settlement center, capital management center, financing support center, capital operation center and information service center of the Group, which would be able to enhance the financial management and control practices, reduce operational risk and consolidate internal resources of the Group;
- (b) The Finance Company is regulated by the PBOC and the CBRC and is required to provide its services in accordance with the rules and operational requirements of these regulatory authorities. In addition, capital risk could be reduced through the risk management measures;
- (c) The interest rates for the capital deposited by the Group with the Finance Company will not be lower than interest rates for deposits of similar nature and under similar terms provided to Group by other independent commercial banks in the PRC. Such arrangement will enable the Group to increase its interest income more effectively; and
- (d) The Group is able to obtain loans from the Finance Company at an interest rate not higher than the interest rates for loans of similar nature and under similar terms charging the Group by other independent commercial banks in the PRC, which could effectively lower its financing costs.

### **Reasons and benefit of entering into 2017-2019 Parent Group Financial Services Framework Agreement**

- (a) It will expand the business scale of the Finance Company, thus benefiting the development of the Finance Company;
- (b) It will consolidate cash resources, enhance the capital utilization efficiency and lower the finance cost;
- (c) It will enlarge the operation scale of the Group, thus enhancing the profitability of the Group; and
- (d) The Company through its direct 51% equity interest in the Finance Company will be able to share the profits of the Finance Company, obtained through provision of loan services under the 2017-2019 Parent Group Financial Services Framework Agreement.

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## LETTER FROM THE BOARD

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### **Implications Under the Listing Rules**

#### ***2017-2019 Group Financial Services Framework Agreement***

As disclosed in the Announcement, as the Parent Company is the Controlling Shareholder of the Company, holding 52.54% equity interest in the Company, the Parent Group is a connected person of the Group under the Listing Rules. The Finance Company, which is owned as to 30% by the Parent Company, is a connected person of the Company. Therefore, the transactions contemplated under the 2017-2019 Group Financial Services Framework Agreement constitute continuing connected transactions of the Company.

As one or more of the applicable percentage ratios calculated in accordance with the Listing Rules in respect of the maximum daily amount of the deposit services exceed 5% and the annual caps exceeds HK\$10,000,000, the deposit services under the 2017-2019 Group Financial Services Framework Agreement are subject to the reporting, annual review, announcement and Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules. Furthermore, as one or more of the applicable percentage ratios calculated in respect of the maximum daily deposit amount exceed 25%, such transactions also constitute major transactions of the Company under Rule 14.06(3) of the Listing Rules and are subject to the notification, publication and Shareholders' approval requirements for major transactions under Chapter 14 of the Listing Rules.

#### ***2017-2019 Parent Group Financial Services Framework Agreement***

As disclosed in the Announcement, as the Parent Company is the Controlling Shareholder of the Company, holding 52.54% equity interest in the Company, the Parent Group is a connected person of the Group under the Listing Rules. The Finance Company, which is owned as to 51% by the Company, is a subsidiary of the Company. The Finance Company is also owned as to 30% by the Parent Company and is the Parent Company's associate. Pursuant to the Listing Rules, the Parent Group is a connected person of the Company. Therefore, the transactions contemplated under the 2017-2019 Parent Group Financial Services Framework Agreement constitute continuing connected transactions of the Company.

As one or more of the applicable percentage ratios calculated in accordance with the Listing Rules in respect of the maximum daily amount of the loan services exceed 5% and the annual cap exceeds HK\$10,000,000, the loan services under the 2017-2019 Parent Group Financial Services Framework Agreement are subject to the reporting, annual review, announcement and Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules. Furthermore, as one or more of the applicable percentage ratios calculated in respect of the maximum daily loan amount exceed 25%, such transactions also constitute major transactions of the Company under Rule 14.06(3) of the Listing Rules and are subject to the notification, announcement and Shareholders' approval requirements for major transactions under Chapter 14 of the Listing Rules.

### **General Information**

The Group is principally engaged in manufacturing and sales of vehicle parts and components, power equipment, general machinery and CNC machine tools.

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## LETTER FROM THE BOARD

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The Parent Group is principally engaged in automobiles and ancillary automobile business (including special purpose vehicles, compartments and transmission axles), electronic information business and other business.

The Finance Company is a non-bank financial institution established in January 2013 under the PRC laws and with the approval of CBRC. It is subject to the regulation of the PBOC and CBRC. Its principal business is provision of financial services (including but not limited to deposit services, loan services, guarantee services and other financial services) to the Group and the Parent Group.

The Independent Board Committee comprising all independent non-executive Directors has been formed in accordance with the Listing Rules to advise the Independent Shareholders on the 2017-2019 Master Sales Agreement, the terms of deposit services under the 2017-2019 Group Financial Services Framework Agreement, and the terms of loan services under the 2017-2019 Parent Group Financial Services Framework Agreement. The Independent Financial Adviser has been appointed to advise the Independent Board Committee and the Independent Shareholders as to whether the terms and conditions of the agreements for the above non-exempted continuing connected transactions, the transactions contemplated thereunder and their respective annual caps are fair and reasonable so far as the Independent Shareholders are concerned and in the interests of the Company and the Shareholders as a whole.

The AGM will be convened by the Company at which resolutions will be proposed to seek approval from the Independent Shareholders for the 2017-2019 Master Sales Agreement, the deposit services under the 2017-2019 Group Financial Services Framework Agreement and the loan services under the 2017-2019 Parent Group Financial Services Framework Agreement and their respective proposed annual caps for the three years ending 31 December 2019. The Parent Company, holding 52.54% equity interest in the Company, will abstain from voting on the relevant resolutions to be proposed at the AGM.

Mr. Wang Yuxiang (chairman of the Parent Company), Mr. Huang Yong (president of the Parent Company) and Mr. Wang Jiyu (vice president of the Parent Company) hold management positions in the Parent Company. Therefore, they are deemed to have material interests in the transactions contemplated under the 2017-2019 Master Sales Agreement, the 2017-2019 Group Financial Services Framework Agreement and the 2017-2019 Parent Group Financial Services Framework Agreement and transactions contemplated thereunder and have abstained from voting on the relevant Board resolutions to approve the above agreements.

#### **4. RE-ELECTION OF DIRECTORS AND CONTINUOUS APPOINTMENT OF INDEPENDENT NON-EXECUTIVE DIRECTOR WHO HAS SERVED MORE THAN NINE YEARS**

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

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## LETTER FROM THE BOARD

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According to Appendix 14 to the Listing Rules, it is recommended that serving more than nine years could be relevant to the determination of a non-executive director's independence. If an independent non-executive director serves more than nine years, any further appointment of such independent non-executive director should be subject to a separate resolution to be approved by Shareholders.

**Mr. Lo Wah Wai** has been appointed as an independent non-executive Director since 10 January 2008 and should he be re-elected at the AGM, he may continue to serve the Company for more than nine years. The Company has received from Mr. Lo Wah Wai confirmation of independence according to Rule 3.13 of the Listing Rules. Following an assessment conducted by the Board through the Nomination Committee, the Board viewed that Mr Lo is committed to his responsibilities as a director of the Company and remains objective and independent participating in deliberations and decision-makings of the Board and the Board committees, notably in fulfilling his responsibilities as the Chairman of the Audit and Risk Management Committee. His professional expertise in the audit and finance sector, his knowledge in corporate governance and regulatory matters and his experience in the business of the Company and its subsidiaries will continue to contribute to the effective functioning of the Board, thereby safeguarding the interests of the shareholders of the Company. In view thereof, the Board considered that, though Mr Lo has served more than nine years for the Company, he is an independent individual within the meaning of the Listing Rules, thus it is recommended the retention of Mr. Lo to continue to act as an independent non-executive Director.

**Mr. Ren Xiaochang** has been appointed as an independent non-executive Director since 27 July 2007 and should he be re-elected at the AGM, he may continue to serve the Company for more than nine years. The Company has received from Mr. Ren Xiaochang confirmation of independence according to Rule 3.13 of the Listing Rules. Following an assessment conducted by the Board through the Nomination Committee, the Board viewed that Mr. Ren is committed to his responsibilities as a director of the Company and remains objective and independent participating in deliberations and decision-makings of the Board, notably in fulfilling his responsibilities as the Chairman of the Remuneration Committee. His good insight on the Group's operation and management, his knowledge in corporate governance and regulatory matters and his experience in the business of the Company and its subsidiaries will continue to contribute to the effective functioning of the Board, thereby safeguarding the interests of the shareholders of the Company. In view thereof, the Board consider that, though Mr Ren has served more than nine years for the Company, he is an independent individual within the meaning of the Listing Rules, thus it is recommended retention of Mr. Ren to continue to act as an independent non-executive Director.

Any Shareholder who wishes to nominate a person to stand for election as a Director of the Company at the AGM must lodge with the Company at its principal place of business in Room 502, 5/F., China Building, 29 Queen's Road Central, Central, Hong Kong within the period from Friday, 13 May 2016 to Thursday, 16 June 2016, both days inclusive, (i) his written nomination of the candidate, (ii) written confirmation from such nominated candidate of his willingness to be elected as Director and (iii) the biographical details of such nominated candidate as required under Rule 13.51(2) of the Listing Rules for publication by the Company.



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## LETTER FROM THE BOARD

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### 5. RE-ELECTION OF SUPERVISORS

The Company has 5 Supervisors, all of the Supervisors shall retire by rotation under Article 124 of the Articles at the AGM and, being eligible, offer themselves for re-election as Supervisors. Details of the candidates for the Supervisors proposed for re-election at the AGM are set out in Appendix IV to this circular.

Any Shareholder who wishes to nominate a person to stand for election as a Supervisor of the Company at the AGM must lodge with the Company at its principal place of business in Room 502, 5/F., China Building, 29 Queen's Road Central, Central, Hong Kong within the period from Friday, 13 May 2016 to Thursday, 16 June 2016, both days inclusive, (i) his written nomination of the candidate, (ii) written confirmation from such nominated candidate of his willingness to be elected as Supervisor and (iii) the biographical details of such nominated candidate as required under Rule 13.51(2) of the Listing Rules for publication by the Company.

### 6. REMUNERATION STANDARDS FOR THE FOURTH SESSION OF DIRECTORS AND SUPERVISORS

#### a. The proposed remuneration of executive Directors and chairman of the Supervisory Committee are as follows:

Pursuant to the Management Measures Concerning the Remuneration for the Fourth Session of Senior Management of Chongqing Machinery & Electric Co., Ltd. (《重慶機電股份有限公司第四屆高級管理人員薪酬管理辦法》), the remuneration of executive Directors and senior management is composed of basic salary, performance-related salary and tenure incentive.

- (i) The basic salary of the chairman, general manager and the chairman of the Supervisory Committee for 2016-2018 is calculated at 4 times of average wage (in the scope of the consolidated financial statements) of the on-the-job workers of the Group last year; and basic salary of the remaining senior management will be calculated at 3.6 times of average wage (in the scope of the consolidated financial statements) of the on-the-job workers of the Group last year.
- (ii) The performance-related salary of executive Directors and senior management for 2016-2018 will be accumulatively provided in levels based on the completed total profit according to the following percentages, and will be issued upon year end assessment:

Level	Total profit of the Company for the current year	Provision percentage
1	Less than or equal to RMB100 million	0.15%
	More than RMB100 million and less than RMB300 million	
2		0.10%
	More than RMB300 million and less than RMB500 million	
3		0.05%
4	More than RMB500 million	0.03%

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## LETTER FROM THE BOARD

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- (iii) Setting different assessment indicators pursuant to the roles and responsibilities of senior management and carrying out the floating assessment in respect of 50% performance-related salary of senior management in the Company according to the detailed rules of assessment, the formula of the assessment is as follows:

The basis of performance-related salary = (standard of performance-related salary × 50% + standard of performance-related salary × the scores of assessment in annual results indicators/100×50%)

The individual performance-related salary = The basis of performance-related salary × individual coefficient of annual assessment

The specific percentage will be implemented upon assessment by the Board.

- (iv) Appropriate tenure incentive will be granted to senior management depending on the operating results during the tenure. Assessment of operating results during the tenure shall be conducted every three years, and the objects of the assessment during the tenure should be set by the senior management and the Board at the beginning of the assessment period, which should be based on the sum of the basic salary and performance-related salary during the tenure of three years, and the implementation should be subject to approval by the Board upon assessment and determination by the Remuneration Committee.

The above standards will be valid from January 2016 to December 2018.

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

- (i) The remuneration of independent non-executive Directors who are Hong Kong residents is HK\$13,000 per month;
- (ii) The remuneration of each independent non-executive Director in Mainland China is RMB6,700 per month;
- (iii) The remuneration of each non-executive Director is RMB5,000 per month;
- (iv) The remuneration of each independent Supervisor is RMB5,000 per month;
- (vi) The remuneration of each non-independent Supervisor is RMB3,000 per month.

The above standards will be valid from July 2016 to June 2019.

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## LETTER FROM THE BOARD

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### 7. PROPOSED AMENDMENTS TO THE ARTICLES OF ASSOCIATION

In order to further enhance the corporate governance structure of the Company, ensure the power and decision-making agency of the Company in efficient operation, it is proposed to make the following amendments to the articles of association of the Company:

- (i) “The Company shall have a Board of Directors. The Board of Directors shall be composed of twelve directors, of whom one shall be Chairman of the Board” under provision (1) of Article 101 in the Articles of Association.

Be amended as “The Company shall have a Board of Directors. The Board of Directors shall be composed of eleven directors, of whom one shall be Chairman of the Board”.

- (ii) “In the case of an equality of votes, the chairman of the Board shall be entitled to one additional vote.” under provision (3) of Article 112 in the Articles of Association should be deleted.

- (iii) “The supervisory committee shall be composed of six persons, one of whom shall be the chairman of the supervisory committee. The term of office of a supervisor shall be three years. A supervisor may serve consecutive terms if re-elected upon the expiration of his term.” under provision (1) of Article 124 in the Articles of Association.

Be amended as “The supervisory committee shall be composed of five persons, one of whom shall be the chairman of the supervisory committee. The term of office of a supervisor shall be three years. A supervisor may serve consecutive terms if re-elected upon the expiration of his term.”

- (iv) “Members of the Supervisory Committee shall consist of two Supervisors representing the shareholders, two independent supervisors (independent from the Company and not having any position in the Company) and two Supervisors representing the staff and workers of the Company” under provision (1) of Article 125 in the Articles of Association.

Be amended as “Members of the Supervisory Committee shall consist of one Supervisor representing the shareholders, two independent supervisors (independent from the Company and not having any position in the Company) and two Supervisors representing the staff and workers of the Company”.

### 8. 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.

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## LETTER FROM THE BOARD

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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.

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 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) so as to reflect the new capital and/or share capital structure of the Company.

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## LETTER FROM THE BOARD

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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.

### **9. PROVISION OF GUARANTEE BY THE COMPANY FOR PTG LOANS OF GBP4 MILLION**

PTG requested the Company to provide guarantee for its loans totalling GBP4 million (“PTG Loans”). PTG is a wholly-owned subsidiary of the Company.

#### **Reasons for and Benefits of the Provision of Guarantee for the PTG Loans**

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

#### **Terms of the Guarantee**

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

PTG is not a connected person of the Group and the guarantee to be provided for PTG 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 reaches 110.6%, the provision of guarantee by the Company for PTG 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 PTG is subject to approval by the Shareholders at the general meeting.

### **10. PROVISION OF GUARANTEE BY THE COMPANY FOR LOANS OF HOLROYD OF GBP17 MILLION**

Holroyd requested the Company 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.

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## **LETTER FROM THE BOARD**

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### **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 82.35%, 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.

### **11. PROVISION OF GUARANTEE BY THE COMPANY FOR LOANS OF PTG DEVELOPMENT OF USD70 MILLION**

PTG Development requested the Company 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 14A of the Listing Rules. However, as the gearing ratio of PTG Development reaches 98.78%, 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.

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## LETTER FROM THE BOARD

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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.

### **12. ANNUAL GENERAL MEETING AND PROXY ARRANGEMENT**

The notice of the Annual General Meeting and the supplemental notice of the Annual General Meeting are set out on pages 72 to 81 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 2015; (ii) the report of the Supervisory Committee for the year ended 31 December 2015; (iii) the audited financial statements of the Company and its subsidiaries and the Auditor's Report for the year ended 31 December 2015; (iv) the profit appropriation proposal; (v) the appointment of the Company's auditor; (vi) the granting of the General Mandate; (vii) the 2017-2019 Master Sales Agreement; (viii) deposit services under the 2017-2019 Group Financial Services Framework Agreement; (ix) loan services under the 2017-2019 Parent Group Financial Services Framework Agreement; (x) re-election of Directors and continuous appointment of independent non-executive Director who has served more than nine years; (xi) re-election of Supervisors; (xii) remuneration standards for the fourth session of Director and Supervisors; (xiii) proposed amendments to the Articles of Association; (xiv) provision of guarantee by the Company for PTG Loan of GBP4 million; (xv) provision of guarantee by the Company for Loans of Holroyd of GBP17 million; and (xvi) provision of guarantee by the Company for Loans of PTG Development of USD70 million.

A revised form of proxy for use at the Annual General Meeting is enclosed with this circular and such revised form of proxy is also published on the websites of the Stock Exchange ([www.hkex.com.hk](http://www.hkex.com.hk)) and the Company ([www.chinacqme.com](http://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 13 May 2016 by the Company in accordance with the instructions printed thereon not later than Wednesday, 8 June 2016 and (ii) the enclosed revised 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.

To the best of the Directors' knowledge, information and belief after having made all reasonable enquiries, other than the Parent Company and its associates who shall abstain from voting at the AGM in respect of (i) the 2017-2019 Master Sales Agreement; (ii) deposit services under the 2017-2019 Group Financial Services Framework Agreement; and (iii) loan services proposals under the 2017-2019 Parent Group Financial Services Framework Agreement; 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.

### **13. 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.

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## LETTER FROM THE BOARD

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### 14. 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 and the supplemental 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*





**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)

8 June 2016

*To the Independent Shareholders*

Dear Sir or Madam,

Reference is made to the circular issued by the Company to the Shareholders dated 8 June 2016 (the "Circular") of which this letter forms a part. Unless otherwise specified, capitalised terms used herein shall have the same meanings as those defined in the Circular.

We have been appointed by the Board to advise you on the 2017-2019 Master Sales Agreement, the terms of the deposit services under the 2017-2019 Group Financial Services Framework Agreement and the terms of loan services under the 2017-2019 Parent Group Financial Services Framework Agreement. TC Capital has been appointed as the Independent Financial Adviser to advise you and us in this regard. Details of its advice, together with the principal factors and reasons it has taken into consideration in giving such advice, are set out on pages 32 to 51 of the Circular and the additional information is set out in the appendices thereto.

Having considered the 2017-2019 Master Sales Agreement, the terms of deposit services under the 2017-2019 Group Financial Services Framework Agreement and the terms of loan services under the 2017-2019 Parent Group Financial Services Framework Agreement, and taking into account the independent advice of TC Capital, in particular the principal factors, reasons and recommendations set out in its letter on pages 32 to 51 of the Circular, we consider that the 2017-2019 Master Sales Agreement, the terms of deposit services under the 2017-2019 Group Financial Services Framework Agreement and the terms of loan services under the 2017-2019 Parent Group Financial Services Framework Agreement are fair and reasonable so far as the Independent Shareholders are concerned, and are in the interests of the Company and the Shareholders as a whole. Accordingly, we recommend you to vote in favor of the ordinary resolutions to be proposed at the AGM for 2015 to approve the annual caps for such transactions for the year ending 31 December 2019.

Yours faithfully,

*the Independent Board Committee*

**Lo Wah Wai, Ren Xiaochang, Jin Jingyu and Liu Wei**

\* *For identification purposes only*

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## APPENDIX II LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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*The following is the letter of advice from TC Capital to the Independent Board Committee and the Independent Shareholders prepared related to the continuing connected transactions and the major transactions for the purpose of inclusion in this circular.*



8 June 2016

*The Independent Board Committee and the Independent Shareholders*  
**Chongqing Machinery & Electric Co., Ltd.**

Dear Sirs,

### **(1) CONTINUING CONNECTED TRANSACTIONS; AND (2) MAJOR TRANSACTIONS AND CONTINUING CONNECTED TRANSACTIONS**

#### **INTRODUCTION**

We refer to our appointment as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders in relation to (i) the 2017-2019 Master Sales Agreement; (ii) the deposit services (the “**Deposit Services**”) contemplated under the 2017-2019 Group Financial Services Framework Agreement; and (iii) the loan services (the “**Loan Services**”) contemplated under the 2017-2019 Parent Group Financial Services Framework Agreement, together with the corresponding proposed annual caps for the three years ending 31 December 2019 (the “**Annual Caps**”), details of which are set out in the letter from the Board (the “**Letter from the Board**”) in the circular of the Company to the Shareholders dated 8 June 2016 (the “**Circular**”), of which this letter forms part. Capitalised terms used in this letter have the same meanings as those defined in the Circular unless the context otherwise requires.

As stated in the Letter from the Board, as at the Latest Practicable Date, the Parent Company was interested in approximately 52.54% equity interest in the Company and is therefore the Controlling Shareholder (as defined under the Listing Rules) of the Company. As such, the Parent Company is a connected person of the Company within the meaning of the Listing Rules. The Finance Company, which is owned as to 30% by the Parent Company and 51% by the Company, is an associate of the Parent Company and a subsidiary of the Company, respectively. Therefore, the 2017-2019 Master Sales Agreement, the 2017-2019 Group Financial Services Framework Agreement and the 2017-2019 Parent Group Financial Services Framework Agreement and the transactions contemplated thereunder constitute continuing connected transactions of the Company under Chapter 14A of the Listing Rules.

As the highest applicable percentage ratios calculated in accordance with Chapter 14A of the Listing Rules in respect of the respective annual caps under the 2017-2019 Master Sales Agreement exceed 5% and such annual caps exceed HK\$10,000,000, the 2017-2019 Master Sales Agreement constitutes a non-

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## APPENDIX II LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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exempted continuing connected transaction of the Company under Chapter 14A of the Listing Rules and is subject to the reporting, annual review, announcement and Independent Shareholders' approval requirements under the Listing Rules.

As one or more of the applicable percentage ratios calculated in accordance with the Listing Rules in respect of the maximum daily amount of the Deposit Services exceed 5% and the annual caps exceed HK\$10,000,000, the Deposit Services are subject to the reporting, annual review, announcement and Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules. Furthermore, as one or more of the applicable percentage ratios calculated in respect of the maximum daily deposit amount exceed 25%, such transactions also constitute major transactions of the Company under Rule 14.06(3) of the Listing Rules and are subject to the notification, publication and Shareholders' approval requirements for major transactions under Chapter 14 of the Listing Rules.

As one or more of the applicable percentage ratios calculated in accordance with the Listing Rules in respect of the maximum daily amount of the Loan Services exceed 5% and the annual cap exceeds HK\$10,000,000, the Loan Services are subject to the reporting, annual review, announcement and Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules. Furthermore, as one or more of the applicable percentage ratios calculated in respect of the maximum daily loan amount exceed 25%, the Loan Services also constitute major transactions of the Company under Rule 14.06(3) of the Listing Rules and are subject to the notification, publication and Shareholders' approval requirements for major transactions under Chapter 14 of the Listing Rules.

We have been appointed by the Company to advise (i) the Independent Board Committee and the Independent Shareholders as to whether or not the sales (the "**Agreed Sales**") under the 2017-2019 Master Sales Agreement, the Deposit Services and the Loan Services are entered in the ordinary and usual course of business of the Company, and the terms of the Agreed Sales, the Deposit Services and the Loan Services and the Annual Caps are on normal commercial terms, fair and reasonable insofar as the Independent Shareholders are concerned and in the interests of the Company and the Shareholders as a whole; and (ii) whether the Independent Shareholders should vote in favour of the Agreed Sales, the Deposit Services, the Loan Services and the Annual Caps. As at the Latest Practicable Date, we did not have any relationships or interests with the Company or any other parties that could reasonably be regarded as relevant to the independence of us.

### **BASIS OF OPINION**

In putting forth our recommendation, we have considered, amongst other things, (i) the 2017-2019 Master Sales Agreement; (ii) the 2017-2019 Group Financial Services Framework Agreement; (iii) the 2017-2019 Parent Group Financial Services Framework Agreement; (iv) the annual report of the Company for the year ended 31 December 2014 (the "**2014 Annual Report**"); (v) the annual report of the Company for the year ended 31 December 2015 (the "**2015 Annual Report**"); and (vi) other information as set out in the Circular. We have also relied on all relevant information, opinions and facts supplied and representations made to us by the Directors and the representatives of the Company.

We have assumed that all such information, opinions, facts and representations, which have been provided to us by the Directors or the representatives of the Company, for which they are fully responsible, were true, accurate and complete in all respects at the date hereof and may be relied upon. We have no

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## APPENDIX II LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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reason to doubt the truth, accuracy and completeness of the information and representations provided to us by the Company. The Company has also confirmed to us that no material facts have been omitted from the information supplied and referred to in the Circular, which would make any statements therein misleading.

We consider that we have reviewed sufficient information currently available to reach an informed view and to justify our reliance on the accuracy of the information contained in the Circular so as to provide a reasonable basis for our recommendation. We have not, however, carried out any independent verification of the information provided by the Directors and the representatives of the Company and the Parent Group, nor have we conducted any independent investigation into the business, affairs, operations, financial position or future prospects of each of the Group, the Parent Group, the Finance Company and any of their respective subsidiaries and associates.

### PRINCIPAL FACTORS AND REASONS CONSIDERED

In formulating our opinion in respect of the Agreed Sales, the Deposit Services, the Loan Services and the Annual Caps, we have taken into account the following principal factors and reasons:

**1. Background information of the parties to the 2017-2019 Master Sales Agreement, the 2017-2019 Group Financial Services Framework Agreement and the 2017-2019 Parent Group Financial Services Framework Agreement**

*Information of the Group*

As stated in the Letter from the Board, the Group is principally engaged in manufacturing and sales of vehicle parts and components, power equipment, general machinery and CNC machine tools.

*Information of the Parent Group*

As stated in the Letter from the Board, the Parent Group is principally engaged in automobiles and ancillary automobile business (including special purpose vehicles, compartments and transmission axles), electronic information business and other business.

*Information of the Finance Company*

As stated in the Letter from the Board, the Finance Company is a non-bank financial institution established in January 2013 under the PRC laws and with the approval of CBRC. It is subject to the regulation of the PBOC and CBRC. Its principal business is provision of financial services (including but not limited to deposit services, loan services, guarantee services and other financial services) to the Group and the Parent Group.

**2. The Agreed Sales**

In arriving at our opinion on the Agreed Sales, we have taken into consideration of the following factors and reasons:

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**APPENDIX II LETTER FROM THE INDEPENDENT FINANCIAL ADVISER**

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***Background of the 2017-2019 Master Sales Agreement***

As disclosed in the Letter from the Board, on 14 October 2013, the Company entered into the Existing Master Sales Agreement, pursuant to which the Group agreed to sell certain products such as control valves and parts for steering systems, gears and clutch assemblies and the BV series of electric cables to the Parent Group.

As the Existing Master Sales Agreement will expire on 31 December 2016, the Company renewed the Existing Master Sales Agreement with the Parent Company under the same terms by entering into the 2017-2019 Master Sales Agreement on 7 April 2016.

***Principal terms of the 2017-2019 Master Sales Agreement***

The principal terms of the 2017-2019 Master Sales Agreement have been set out in the Letter from the Board and are summarized below.

- Date : 7 April 2016
- Parties : (i) the Company (as supplier); and  
(ii) the Parent Company (as purchaser)
- Term : Subject to the approval being obtained from the Independent Shareholders, commencing from 1 January 2017 and expiring on 31 December 2019.
- Nature of transaction : The Group sells the following four types of products to the Parent Group: (i) control valves and parts for steering systems; (ii) gears and clutch assemblies; (iii) the BV series of electric cables; and (iv) refrigeration machines, fans, wires and cables, copper plates, compressors, and raw materials such as steel products.
- Payment terms : The payment terms will be specified on each separate contract to be agreed by both parties on normal terms, such as adopting accrued payment for 0-3 months according to different types of products.

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## APPENDIX II LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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Pricing basis:

The pricing or consideration under the 2017-2019 Master Sales Agreement will be determined with reference to:

- (1) the market price of at least two independent third parties obtained through prices quoted on websites for the industry (including website of Alibaba (www.1688.com)) or enquiries in the market (i.e. the price of the same or similar product provided to independent third parties by suppliers other than the Company and its subsidiaries in the same region during the ordinary course of business on normal commercial terms);
- (2) if there is no market price determined by an independent third party, the transaction price between the Group and an independent third party;
- (3) if none of the above is applicable, cost plus a percentage mark-up (tax-inclusive), which is not less than 10% (i.e. price = cost x (1 + percentage mark-up)), whereas the 10% mark-up is determined based on the average gross margin of the Group in the past three years, except that the percentage mark-up for raw materials procured by Shengpu and sold to the Parent Group will be approximately 1% being the handling fee of the Group.

Most of the products sold to the Parent Group are fully competitive products open to the market. Therefore, the pricing basis (i) and (ii) were and will be generally adopted for most of the products under the Existing Master Sales Agreement and the 2017-2019 Master Sales Agreement, except that pricing basis (iii) was will be adopted for the price of gas compressors (since they are produced for military use and market price is not available) and raw materials procured by Shengpu and sold to the Parent Group.

We have conducted the below works in relation to the pricing basis of the four types of products under the Agreed Sales:

- for control valves and parts for steering systems, we have obtained the top 5 contracts/invoices between the Group and the company in the Parent Group which conducted the largest amount of this type of products for each of the years ended 31 December 2014 and 31 December 2015. As shown in the invoices, the price to such company is determined based on the purchase price + 1% management fee + interest;
- for gears and clutch assemblies, we have obtained the top 5 contracts/invoices between the Group and the company in the Parent Group which conducted the largest amount of this type of products for each of the years ended 31 December 2014 and 31 December 2015 and the contracts/invoices between the Group and the independent third parties of similar products. The management of the Company advised that the price to such company is determined with reference to the price to the independent third parties of similar products adjusting by the difference in specifications;

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## APPENDIX II LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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- for the BV series of electric cables, we have obtained the top 5 contracts/invoices between the Group and the company in the Parent Group which conducted the largest amount of this type of products for each of the years ended 31 December 2014 and 31 December 2015. We have selected the largest amount of products in each of the top 5 contracts/invoices between the Group and such company for each of the years ended 31 December 2014 and 31 December 2015 and compared to the contracts/invoices between the Group and the independent third parties of similar products. We noted that the prices of the products sold to such company are higher than that of the product sold to independent third parties; and
  
- for refrigeration machines, fans, wires and cables, copper plates, compressors, and raw materials such as steel products, we have obtained the top 5 contracts/invoices between the Group and the company in the Parent Group which conducted the largest amount of this type of products for each of the years ended 31 December 2014 and 31 December 2015. We have selected the three largest amount of products in each of the top 5 contracts/invoices between the Group and such company for each of the years ended 31 December 2014 and 31 December 2015 and compared to the contracts/invoices between the Group and the independent third parties of similar products. The management of the Company advised that the prices of the products sold to such company is determined with reference to the prices of the products sold to the independent third parties of similar products adjusting by the difference in specifications.

Given (i) the 5 invoices/contracts for each type of products of the Agreed Sales represented the top 5 transactions in the company in the Parent Group which conducted the largest amount of this type of products for each of the years ended 31 December 2014 and 31 December 2015; (ii) the total amount of the above selected products represented approximately 30.1% and 38.0% of the total amount of the Agreed Sales for the years ended 31 December 2014 and 31 December 2015 respectively; and (iii) the auditor of the Company has issued an unqualified letter mentioned that nothing has come to their attention that causes them to believe that the pricing of the connected transactions, on a sample basis, are not in accordance with the Company's pricing policies as mentioned in the 2015 Annual Report, we consider that it is reasonably fair and justified to reach our conclusion on whether the pricing basis of the Agreed Sales was followed.

As mentioned above, the prices of the contracts with the Parent Group are no less favourable than that of the contracts with independent third parties or cost plus a percentage mark-up, which was not less than 10%, except that the percentage mark-up for raw materials procured by Shengpu and sold to the Parent Group will be approximately 1% being the handling fee of the Group. We are of the view that the above pricing policies are fair and reasonable so far as the Independent Shareholders are concerned.

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## APPENDIX II LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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### *Reasons for and benefits of the Agreed Sales*

The management of the Company advised that the Parent Group has been one of the Group's long-term customers since 2007. By entering into the 2017-2019 Master Sales Agreement, the sale of the products to the Parent Group would provide a reliable customer base, a stable income and timely payment for the products sold.

The 2017-2019 Master Sales Agreement does not restrict the Group to sell the products to the Parent Group only and therefore offers an additional option to the Group. Therefore, the Group may, but is not obliged to, continue to sell the products to the Parent Group if the price is competitive.

In light of the above, we concur with the Directors' view that the Agreed Sales is entered into the ordinary and usual course of the business of the Company and in the interests of the Company and Shareholders as a whole.

### *Annual caps and its basis of determination*

A summary of the historical amount for the Agreed Sales for the year ended 31 December 2014, the year ended 31 December 2015 and the three months ended 31 March 2016, and the proposed Annual Caps are set out in the table below:

	Historical amount			Proposed annual caps		
	2014	2015	2016	2017	2018	2019
	(RMB'000)	(RMB'000)	(Jan-Mar) (RMB'000)	(RMB'000)	(RMB'000)	(RMB'000)
The Agreed Sales	87,300	53,600	9,200	180,000	180,000	190,000

### *Basis of determination of the proposed annual caps for the Agreed Sales*

As stated in the Letter from the Board, although the transaction amount for the period from 1 January to 31 March 2016 is RMB9.2 million, which is relatively low compared with the proposed annual caps under the 2017- 2019 Master Sales Agreement, the Directors are of the view that the proposed annual caps are fair and reasonable because (i) the first 3 months of 2016 covered the period of Chinese New Year, which is a traditional festival in China, during which various products of the Group experienced low sales temporarily; and (ii) transactions between the Group and the Parent Group will substantially increase in the second half of 2016 because the Chongqing railway transport projects will commence in the latter half of 2016 and hence the amount of products to be supplied by the Group to the Parent Group afterwards will escalate.

As further stated in the Letter from the Board, the proposed annual caps above have been determined based on (i) the estimated demand for the production and sales in relation to vehicle parts and components, power equipment, general machinery and CNC machine tools; (ii) the estimated sales volume of the Group for each of the three financial years ending 31 December 2019; (iii) the prospect of the PRC economy and the markets relevant to the Group, in particular, the PRC automobile and power equipment segments; (iv) the historical amount of the sales transactions for the



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## APPENDIX II LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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financial year ended 31 December 2015; (v) Chongqing Shengpu Materials Co., Ltd.\* (重慶盛普物資有限公司), a wholly-owned subsidiary of the Company, serves as the centralized procurement platform of bulk materials for the Group. In order to achieve synergy and reduce costs, the Group will procure and sell raw materials to the Parent Group through this centralized procurement platform and is expected to see noticeable increase in the coming three years. The price of raw materials such as copper and steel product has increased in 2016; (vi) the future development of the railway transport business of the Parent Group as described below; and (vii) the future development of the commercial vehicles business of the Parent Group as described below.

As discussed with the management of the Company, the proposed annual caps of the Agreed Sales are closely related to (i) the future business, especially the engineering business and commercial vehicles business, of the Parent Group over the next three years; and (ii) the increase in the Agreed Sales due to the centralized procurement platform of bulk materials for the Parent Group through Chongqing Shengpu Materials Co., Ltd.\* (重慶盛普物資有限公司). Therefore, to arrive at our view, we have discussed with management of the Company on the following factors:

*(1) The future development of the engineering business of the Parent Group*

As stated in the Letter from the Board, according to the “Thirteenth Five-year Plan” of Chongqing city, an urban railway transport network of “One Ring Eight Lines” will be established. Regarding the Chongqing railway transport projects to be constructed in 2016-2020, it is expected that the Parent Group will be able to undertake projects of RMB5,000 million, meaning approximately RMB3,000 million in 2017-2019. According to historical figures between Chongqing Pigeon Electric Wires & Cables Co., Ltd. and the Parent Group in 2015, the actual procurement amount of wires and cables for project of RMB100 million was about RMB4 million. With reference to such ratio, it is expected that the procurement amount of wires and cables for railway transport project in 2017-2019 will be approximately RMB120 million. Further, the Parent Group will promote business of electrical and mechanical turnkey services, and thus may increase the sales amount of wires and cables.

The representatives of the Parent Group advised that revenue of the engineering business of the Parent Group will increase around 10-20% per annum for each of the years ending 31 December 2016 and 31 December 2017 and will reach RMB1,000 million for the year ended 31 December 2017 and then remain stable after considering that (i) the Parent Group obtained the mechanical and electrical installation works construction contract qualification (Class 1)\* (機電安裝工程施工總承包壹級資質) in April 2015, which enables the Parent Group to participate in the Chongqing railway transport projects; and (ii) the Parent Group is expected to secure more contracts in the Chongqing railway transport projects starting from the second half of 2016 according to the expected development of the Chongqing railway transport projects. Moreover, according to the documents provided by the Company, the procurement amount of wires and cables from the Parent Group was approximately 4% of its revenue from railway transport project in 2015.

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## APPENDIX II LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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(2) *The future development of commercial vehicles business of the Parent Group*

As stated in the Letter from the Board, SAIC-IVECO Hongyan Commercial Vehicle Ltd. (上汽依維柯紅岩商用車有限公司) (“SAIC-IVECO”), a non-wholly owned subsidiary of the Parent Group, has improved its technology for their commercial vehicles and that the warranty of one series of commercial vehicle traction device has been extended from 300,000 kilometers mileage in 3 years to unlimited mileage in 3 years. This means that SAIC-IVECO will purchase better automotive parts and the demand for automotive parts within the guaranteed period will rise. Thus, the management of the Company expected SAIC-IVECO would increase the revenue substantially from 2015 to 2019. As such, demand on vehicle parts and components, power equipment, general machinery and CNC machine tools are expected to amount to approximately RMB17.5 million, RMB22.6 million and RMB27.8 million for the three years ending 31 December 2019 respectively based on the Parent Group’s development on its commercial vehicles business, especially business development of SAIC-IVECO.

We have discussed with the representatives of the Parent Group for the future plan of SAIC-IVECO and note that (i) the revenue of SAIC-IVECO for the year ending 31 December 2017 is targeted to increase to the level at the year ended 31 December 2014; and (ii) the revenue of SAIC-IVECO for the year ending 31 December 2016 and 31 December 2017 will increase around 15-25% per annum by (i) adjusting its products structure in response to the market demand, including but not limited to adjusting the product mix of tractor and dump truck; and (ii) increasing its marketing activities, including but not limited to the warranty of one series of commercial vehicle traction device is changed from 300,000 kilometers mileage in 3 years to unlimited mileage in 3 years. Based on the above, it is expected that demand on vehicle parts and components, power equipment, general machinery and CNC machine tools from the Parent Group for the year ending 31 December 2017 will be almost the same as the amount for the year ended 31 December 2014 and demand on vehicle parts and components, power equipment, general machinery and CNC machine tools from the Parent Group for the year ending 31 December 2018 and 31 December 2019 will increase around 15-25% per annum.

(3) *Centralized procurement platform of bulk materials for the Group and Parent Group*

Chongqing Shengpu Materials Co., Ltd.\* (重慶盛普物資有限公司), a wholly-owned subsidiary of the Company, has served as the centralized procurement platform of bulk materials for the Group and the Parent Group since 2012 in order to achieve synergy and reduce costs. As confirmed with the management of the Company, the amount of purchase of the bulk materials from Chongqing Shengpu Materials Co., Ltd decreased approximately 30% from 2014 to 2015 due to the decrease in revenue of the Parent Group. The management of the Company expected the Parent Group will utilize this services in the coming three years for their construction projects as mention above. Also, the management of the Company expected the increasing trend of price of raw material would increase the total purchase amount. For instance, the price of rebar (螺紋鋼), a type of steel, increased from approximately RMB1,600 per ton in December 2015 to approximately RMB2,500 per ton in April 2016. As such, sales

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## APPENDIX II LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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due to centralized procurement platform are expected to amount to approximately RMB40.1 million, RMB44.1 million and RMB44.1 million for the three years ending 31 December 2019 respectively.

In light of the above, we are of the view that the proposed annual caps for the Agreed Sales for the three years ending 31 December 2019 are determined based on reasonable estimation and after due and careful consideration and they are fair and reasonable so far as the Company and the Independent Shareholders are concerned.

### 3. The Deposit Services

In arriving at our opinion on the provision of the Deposit Services, we have taken into consideration the following factors and reasons:

#### *Background of the 2017-2019 Group Financial Services Framework Agreement*

As disclosed in the Company's announcement dated 14 October 2013, the Company entered into the Existing Group Financial Services Framework Agreement with the Finance Company pursuant to which the Finance Company has agreed to provide the Group with financial services including (i) deposit services; (ii) loan services; (iii) guarantee services; and (iv) other financial services. The term of the Existing Group Financial Services Framework Agreement will expire on 31 December 2016.

On 7 April 2016, the Company and the Finance Company entered into the 2017-2019 Group Financial Services Framework Agreement, pursuant to which the Finance Company will provide financial services to the Group, including loan services, guarantee services and other financial services and, subject to the approval being obtained from the Independent Shareholders, the Deposit Services. The Group is not under any obligation to obtain any or all of the financial services provided by the Finance Company and may obtain such financial services based on its business needs.

#### *Principal terms of the 2017-2019 Group Financial Services Framework Agreement*

The principal terms of the 2017-2019 Group Financial Services Framework Agreement have been set out in the Letter from the Board and are summarized below.

Date	:	7 April 2016
Parties	:	(i) the Finance Company (as provider of services); and (ii) the Company (as recipient of services)

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## APPENDIX II LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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Term : Subject to the approval being obtained from the Independent Shareholders, the terms of the Deposit Services will become effective from 1 January 2017 and will expire on 31 December 2019. The terms of loan services, guarantee services and other financial services under the 2017-2019 Group Financial Services Framework Agreement will become effective from 1 January 2017 and expire on 31 December 2019.

Services : Pursuant to the 2017-2019 Group Financial Services Framework Agreement, the Finance Company has agreed to provide financial services to the Group, including deposit services, loan services, guarantee services and other financial services.

The Finance Company undertakes under the 2017-2019 Group Financial Services Framework Agreement that the terms of any financial services to be provided by the Finance Company to the Group will be no less favorable than those of similar financial services provided by independent third parties to the Group (subject to no violation of relevant laws and regulations).

The Group is not under any obligation to obtain any or all of the financial services provided by the Finance Company and may obtain such financial services based on its business needs.

Payment terms : The payment terms will be specified on each separate contract to be agreed by the parties on normal commercial terms. Generally payment of interest will be made quarterly.

Pricing standards : Details of the pricing standards of the 2017-2019 Group Financial Services Framework Agreement are set out in the Letter from the Board. The pricing standards of the Deposit Services is as follows:

The interest rate of deposits provided by the Finance Company will not be lower than the interest rates for deposits of similar nature and under similar terms provided to the Group by other independent commercial banks (at least two banks) in the PRC.

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## APPENDIX II LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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The Company will obtain the interest rates for deposits of similar nature and under similar terms from at least two banks among the national commercial banks in the PRC and local commercial banks in Chongqing that have business relations with the Company, and compare with the interest rates provided by the Finance Company to the Group for deposits of similar nature and under similar terms to ensure that the interests the Group will receive on its deposits are in compliance with the above pricing standards for the Deposit Services.

We have obtained and reviewed a deposit contract of the Group in the Finance Company in July 2013 for a term of a year from July 2013 to June 2014 for any deposit of the Group in the Finance Company and a deposit contract of the Group in the Finance Company in March 2015 for a term of a year from March 2015 to February 2016 for any deposit of the Group in the Finance Company and 2 quotations with independent commercial banks in the PRC for each deposit for similar nature and compared the interest rates of deposit offered by the Finance Company to the Group against the then rates provided by other two independent commercial banks in the PRC. We noted that the interests received from the Finance Company for the Deposit Services are no less favourable than that of the independent third parties. Given (i) the period of the two deposit contracts covered the whole year in 2014 and 2015; and (ii) as stated in the 2015 Annual Report, the auditor of the Company has issued an unqualified letter mentioned that nothing has come to their attention that causes them to believe that the pricing of the connected transactions, on a sample basis, are not in accordance with the Company's pricing policies, we consider that it is reasonably fair and justified to reach our conclusion on whether the pricing standards of the Deposit Services was followed.

We are of the view that the above pricing policies for the Deposit Services are fair and reasonable so far as the Independent Shareholders are concerned, as the interests received for the Deposit Services will be set at such rates not lower than the rates stipulated by the independent third parties, thus the more favourable rate will always prevail.

### ***Reasons for and benefits of the provision of the Deposit Services***

As stated in the Letter from the Board, the Company considers that the entering into the 2017-2019 Group Financial Services Framework Agreement will benefit the Group and the Finance Company for the following reasons:

- (1) the Finance Company will gradually become the capital settlement center, capital management center, financing support center, capital operation center and information service center of the Group, which would be able to enhance the financial management and control practices, reduce operational risk and consolidate internal resources of the Group;

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- (2) the Finance Company is regulated by the PBOC and the CBRC and is required to provide its services in accordance with the rules and operational requirements of these regulatory authorities. In addition, capital risk could be reduced through the risk management measures;
- (3) the interest rates for the capital deposited by the Group with the Finance Company will not be lower than the interest rates for deposits of similar nature and under similar terms provided to the Group by other independent commercial banks in the PRC. Such arrangement will enable the Group to increase its interest income more effectively; and
- (4) the Group is able to obtain loans from the Finance Company at an interest rate not higher than the interest rates for loans of similar nature and under similar terms charging the Group by other independent commercial banks in the PRC, which could effectively lower its financing costs.

Also, the 2017-2019 Group Financial Services Framework Agreement does not restrict the Group to financial services provided by third party and therefore offers an additional financing option to the Group and increases the financial flexibility of the Group. Therefore, the Group may, but is not obliged to, continue to use the Deposit Services if the service quality provided continues to be competitive. Having such flexibility afforded under the 2017-2019 Group Financial Services Framework Agreement, the Group is able to better manage its current capital and cashflow position.

Having taken into account the reasons set out above, we are of the view that the Deposit Services is entered into the ordinary and usual course of the business of the Company and in the interests of the Company and its Shareholders as a whole.

### *Annual caps and its basis of determination*

A summary of the historical amount for the Deposit Services for the year ended 31 December 2014, the year ended 31 December 2015 and the three months ended 31 March 2016, and the proposed Annual Caps are set out in the table below:

	Historical amount			Proposed annual caps		
	2014	2015	2016 (Jan-Mar)	2017	2018	2019
	(RMB'000)	(RMB'000)	(RMB'000)	(RMB'000)	(RMB'000)	(RMB'000)
Maximum daily balance of deposits (including corresponding interest) placed/to be placed by the Group with the Finance Company	1,178,100	1,058,900	1,052,500	2,600,000	3,000,000	3,500,000

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### *Basis of determination of the proposed annual caps for the Deposit Services*

According to the Letter from the Board, the proposed annual caps of the Deposit Services have been determined with reference to (i) the implementation of the capital centralization of all subsidiaries of the Group and the Company's bond issuance with aggregated amount of RMB1,500 million which will be used for repaying the Company's bond with amount RMB1,000 million and the rest of the RMB500 million will be deposited in the Finance Company; (ii) the cash and cash equivalents of the Group in a growth rate of 15% per annum from 2017 to the end of 2019; (iii) the expectation of the Group's capital needs for the period from now up to 31 December 2019; (iv) the financial capability of the Finance Company; and (v) the historical transaction records of the deposit services under the Existing Group Financial Services Framework Agreement. In assessing the fairness and reasonableness of the proposed annual caps of the Deposit Services, we have considered the following reason:

(1) *Historical transaction amounts of the Deposit Services and the Company's bond issuance in 2016*

The historical highest daily balances of the Deposit Services for the three financial years ended 31 December 2015 and the period from 1 January 2016 to 31 March 2016 were all over RMB1,000 million. As stated in the Letter from the Board, the Company anticipates to issue corporate bonds amounted to RMB1,500 million in 2016, and increased amount of approximately RMB500 million in 2016, and increased amount of approximately RMB500 million is estimated to be occurred subsequent to the repayment of corporate bonds amount of RMB1,000 million which will be due in August 2016. It will be used to repay the bank loans of its subsidiaries and supplement working capital. The repayment method is that the Company will deposit the funds raised in the Finance Company, and the Finance Company will pay the subsidiaries by means of entrusted loan for a term of 1 year, so as to enable the subsidiaries to repay the bank loans. When the entrusted loan expires, the subsidiaries shall raise funds by other means to repay the Company. The Company will then continue to make loan to subsidiaries by entrusted loan again. Therefore, the Company expected that its daily deposit amount in the Finance Company will increase by approximately RMB500 million.

(2) *The expectation of the Group's capital needs up to 31 December 2019*

As stated in the 2015 Annual Report, the net increase in cash and cash equivalents for the year ended 31 December 2015 was approximately RMB340 million. As discussed with the management of the Company, the increase was due to the strict control of accounts receivable, acceleration of funds flow and decrease in restricted cash and this strategy will continue in the coming few years in order to maintain stable cashflow. Since the cash and cash equivalents was expected to increase as a result of the abovementioned strategy, the management of the Company expected that the net cashflow will maintain or further improve. Profit for the year of the Group were approximately RMB540.4 million for the year ended 31 December 2013, RMB563.8 million for the year ended 31 December 2014 and RMB466.6 million for the year ended

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31 December 2015. Since the Group is a profit making company and the Group is implementing the centralized settlement of the capital of all subsidiaries of the Group, the expected cash inflow in the coming few years is positive with steadily growth and the amount of deposit will increase accordingly.

(3) *The financial ability of the Finance Company*

In considering the Finance Company's financial ability in the provision of the Deposit Services, we have obtained the management account of the Finance Company for the year ended 31 December 2014 and 2015. According to the relevant financial statements, the total assets of the Finance Company was approximately RMB2,586.2 million as at 31 December 2015, representing an increase of approximately 4.8% from the total assets of approximately RMB2,468.5 million as at 31 December 2014. The Finance Company also recorded net assets of approximately RMB716.6 million, and RMB778.1 million as at 31 December 2014 and 31 December 2015 respectively. Capital adequacy ratios of the Finance Company were approximately 41.0% as at 31 December 2014 and 39.0% as at 31 December 2015. The capital adequacy ratio for both 2014 and 2015 were better than the standard of 10% for finance companies as required by CBRC. Non-performing asset ratios of the Finance Company were both zero as at 31 December 2014 and 31 December 2015, both were better than the standard of 4% for finance companies as required by CBRC. Bad loan ratios of the Finance Company were both zero as at 31 December 2014 and 31 December 2015, both were better than the standard of 5% for finance companies as required by CBRC. Liquidity ratio of the Finance Company were approximately 44.4% as at 31 December 2014 and 64.4% as at 31 December 2015, both were better than the standard of 25% for finance companies as required by CBRC. We have also checked the continuing validity of the Finance Company's license issued by CBRC. We concur with Directors' view that the Finance Company is able to provide the Deposit Services to the Group.

In light of the above, we are of the view that the proposed annual caps for the Deposit Services for the three years ending 31 December 2019 are determined based on reasonable estimation and after due and careful consideration and they are fair and reasonable so far as the Company and the Independent Shareholders are concerned.

#### **4. The Loan Services**

In arriving at our opinion on the Loan Services, we have taken into consideration of the following factors and reasons:

***Background of the 2017-2019 Parent Group Financial Services Framework Agreement***

As disclosed in the Company's announcement dated 14 October 2013, the Finance Company entered into the Existing Parent Group Financial Services Framework Agreement with the Parent Company pursuant to which the Finance Company has agreed to provide the Parent Group with a



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range of financial services including (i) deposit services; (ii) loan services; (iii) guarantee services; and (iv) other financial services. The term of the Existing Parent Group Financial Services Framework Agreement will expire on 31 December 2016.

On 7 April 2016, the Parent Company and the Finance Company entered into the 2017-2019 Parent Company Financial Services Framework Agreement, and on 13 May 2016, the Parent Company and the Finance Company entered into the Parent Group Financial Services Framework Supplemental Agreement, pursuant to which, the Finance Company will provide financial services to the Parent Group, including deposit services, guarantee services and other financial services and, subject to the approval of the Independent Shareholders, the Loan Services. The Finance Company is not under any obligation to provide any or all of the financial services to the Parent Group and may offer such financial services based on its business needs.

### *Principal terms of the 2017-2019 Parent Group Financial Services Framework Agreement*

The principal terms of the 2017-2019 Parent Group Financial Services Framework Agreement have been set out in the Letter from the Board and are summarized below.

Date	:	7 April 2016
Parties	:	(i) the Finance Company (as provider of services); and (ii) the Parent Company (as recipient of services)
Term	:	Subject to the approval being obtained from the Independent Shareholders, the terms of the Loan Services will become effective from 1 January 2017 and expire on 31 December 2019. The terms of deposit services, guarantee services and other financial services under 2017-2019 Parent Group Financial Services Framework Agreement will become effective from 1 January 2017 and expire on 31 December 2019.
Services	:	Pursuant to the 2017-2019 Parent Group Financial Services Framework Agreement, the Finance Company has agreed to provide the financial services to the Parent Group, including deposit services, loan services, guarantee services and other financial services.

The Finance Company is not under any obligation to provide any or all of the financial services to the Parent Group and may provide such financial services based on its business needs.

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Payment terms : The payment terms will be specified on each separate contract to be agreed by the parties on normal commercial terms. Generally payment of interest will be made quarterly.

Pricing standards : Details of the pricing standards of the 2017-2019 Parent Group Financial Services Framework Agreement are set out in the Letter from the Board. The pricing standards of the Loan Services are as follows:

The interest rates for loans provided to the Parent Group by the Finance Company will not be lower than the interest rates for loans of similar nature and under similar terms charging the Parent Group by other independent commercial banks (at least two banks) in the PRC.

The Company will make inquiries to at least two banks among the national commercial banks in the PRC and the local commercial banks in Chongqing that have business relations with the Company in respect of the Loan Services of similar nature and under similar terms of the Parent Group (the bank implements united credit policies on the Parent Group, i.e. enterprises to which the Parent Group belongs have same credit rating), and submit the results to the Finance Company. The Finance Company will then determine the final price provided to the Parent Group by reference to the Parent Group's business risks, comprehensive returns, capital cost of the Finance Company and regulatory indicators and others factors, so as to ensure that the interests of loans provided by the Finance Company to the Parent Group are in compliance with the above pricing standards for the Loan Services.

For the Loan Services, we have obtained and reviewed eight contracts entered into between the subsidiary of the Parent Company and the Finance Company and 2 quotations with independent commercial banks in the PRC for each loan for similar nature. We have compared the interest rate offered by the Finance Company to the Parent Company against the then loan interest rates offered by commercial banks in the PRC and the local commercial banks in Chongqing for similar type of loan. We noted that the loan interest rates charged by the Finance Company are no more favourable than those of the independent third parties. Given (i) the period of the eight contracts covered the whole year in 2014 and 2015; and (iii) as stated in the 2015 Annual Report, the auditor of the Company has issued an unqualified letter mentioned that nothing has come to their attention that causes them to believe that the pricing of the connected transactions, on a sample basis, are not in accordance with the Company's pricing policies, we are of the view that it is reasonably fair and justified to reach our conclusion on whether the pricing standards of the Loan Services was followed.

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We are of the view that the above pricing policies for the Loan Services are fair and reasonable so far as the Independent Shareholders are concerned, as the interests charged for the Loan Services will be set at such rates not less than the rates or fees offered by the independent third parties.

### *Reasons for and benefits of the provision of the Loan Services*

As stated in the Letter from the Board, the Company considers that the entering into the 2017-2019 Parent Group Financial Services Framework Agreement will benefit the Group and the Finance Company for the following reasons:

- (1) it will expand the business scale of the Finance Company, thus benefiting the development of the Finance Company;
- (2) it will consolidate cash resources, enhance the capital utilization efficiency and lower the finance cost;
- (3) it will enlarge the operation scale of the Group, thus enhancing the profitability of the Group; and
- (4) the Company through its direct 51% equity interest in the Finance Company will be able to share the profits of the Finance Company, obtained through provision of loan services under the 2017-2019 Parent Group Financial Services Framework Agreement.

As stated in the Letter from the Board, the borrowings and loans of the Parent Group were approximately RMB5,182.6 million as at 31 December 2013, RMB3,442.3 million as at 31 December 2014 and RMB4,908.4 million as at 31 December 2015. The management of the Company advised that turnover of the Parent Group were approximately RMB15,009.8 million, RMB14,849.8 million and RMB14,000.0 million for the years ended 31 December 2013, 31 December 2014 and 31 December 2015 respectively. Profit of the Parent Group were approximately RMB343.6 million, RMB386.1 million and RMB127.6 million for the years ended 31 December 2013, 31 December 2014 and 31 December 2015 respectively. The Parent Group is one of the top 500 companies and one of top 500 manufacturing enterprises in the PRC since 2012 according to the China Enterprise Confederation. By considering the above, we concur with the Directors' view that, through the 2017 – 2019 Parent Group Financial Services Framework Agreement, the Finance Company will benefit from the Parent Group's business scale and its own flexibility to consolidate the cash resources of the Parent Group, which is therefore able to expand the business scale and financial performance of the Finance Company.

Having taken into account the reasons set out above, we are of the view that the provision of the Loan Services are entered into the ordinary and usual course of the business of the Company and in the interest of the Company and its Shareholders as a whole.

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### *Annual caps and its basis of determination*

A summary of the historical amount for the Loan Services for the year ended 31 December 2014, the year ended 31 December 2015 and the three months ended 31 March 2016, and the proposed Annual Caps are set out in the table below:

	Historical amount			Proposed annual caps		
	2014	2015	2016	2017	2018	2019
	(RMB'000)	(RMB'000)	(Jan-Mar) (RMB'000)	(RMB'000)	(RMB'000)	(RMB'000)
Maximum daily loan balance (including corresponding interest) granted/to be granted by the Finance Company	608,100	775,100	750,500	2,500,000	2,800,000	3,000,000

### *Basis of determination of the proposed annual caps for the Loan Services*

According to the Letter from the Board, the proposed annual caps of the Loan Services have been determined with reference to (i) the capital needs of the Parent Group for coming few years as a result of the “three concentrations” of the Parent Group, namely concentration of deposits, concentration of loans and concentration of settlements; and (ii) the expectation of half of the overall loan of the Parent Group to be provided by Finance Company.

As stated in the Letter from the Board, the borrowings and loans of the Parent Group were RMB5,182.6 million as at 31 December 2013, RMB3,442.3 million as at 31 December 2014 and RMB4,908.4 million as at 31 December 2015. The management of the Company advised that turnover of the Parent Group were approximately RMB15,009.8 million, RMB14,849.8 million and RMB14,000.0 million for the years ended 31 December 2013, 31 December 2014 and 31 December 2015 respectively. Based on the borrowings and loans of the Parent Group as at 31 December 2015 of approximately RMB4,908.4 million and the expectation of half of the overall loan of the Parent Group to be provided by Finance Company, the annual cap of the Loan Services for the year ending 31 December 2017 will be approximately RMB2,500 million. To cater for the growth of the business of the Parent Group as mentioned in the paragraph headed “Annual caps and its basis of determination” under the section headed “The Agreed Sales” above, the annual caps of the Loan Services for the years ending 31 December 2017 and 31 December 2018 are set at 10% increment.

In light of the above, we are of the view that the proposed annual caps for the Loan Services for the three years ending 31 December 2019 are determined based on reasonable estimation and after due and careful consideration and they are fair and reasonable so far as the Company and the Independent Shareholders are concerned.

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## APPENDIX II LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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### RECOMMENDATION

Having considered the principal factors and reasons as discussed above, we are of the view that the terms of the Agreed Sales, the Deposit Services and the Loan Services are entered in the ordinary and usual course of business of the Company, and the terms of the Agreed Sales, the Deposit Services, the Loan Services and the Annual Caps are on normal commercial terms, fair and reasonable insofar as the Independent Shareholders are concerned and in the interests of the Company and the Shareholders as a whole. Accordingly, we would recommend (i) the Independent Board Committee to advise the Independent Shareholders; and (ii) the Independent Shareholders, to vote in favour of the ordinary resolutions in this regard.

Yours faithfully,  
For and on behalf of  
**TC Capital International Limited**  
**Edward Wu**  
*Chairman*

*Note:* Mr. Edward Wu has been a responsible officer of Type 6 (advising on corporate finance) regulated activities under the SFO since 2005. He has participated in and completed various advisory transactions in respect of connected transactions of listed companies in Hong Kong.

\* *For identification purposes only*

**1. FINANCIAL INFORMATION OF THE GROUP**

The Company is required to set out in this circular the information for the last three financial years with respect to the Group's profits and losses, financial record and position (set out as a comparative table), and the latest published audited balance sheet together with the notes to the annual accounts for the corresponding financial year.

The audited consolidated financial statements of the Group together with the relevant notes for each of the three years ended 31 December 2013, 2014 and 2015 have been set out in the annual reports of the Group ended 31 December 2013, 2014 and 2015 dated 8 April 2014 (pages 107-264), 10 April 2015 (pages 115-284), 11 April 2016 (pages 112-280) respectively, which have been published on the websites of the Company (<http://www.chinacqme.com>) and the Stock Exchange (<http://www.hkex.com.hk>).

**2. STATEMENT OF INDEBTEDNESS****Borrowings**

As at the close of business on 2 June 2016, being the Latest Practicable Date for the purpose of this indebtedness statement prior to the printing of this circular, the Group had outstanding borrowings of approximately RMB2.677 billion, comprising (i) bank loans of RMB1.677 billion; and (ii) corporate bonds of RMB1.0 billion (the aforesaid figures are unaudited).

**Disclaimer**

Save as aforesaid or as otherwise disclosed herein, and apart from intra-group liabilities and normal trade payables, as at the close of business on 2 June 2016, the Group did not have any outstanding issued or agreed-to-be-issued loan capital, bank overdrafts, loans, or other similar borrowings, liabilities or liabilities under acceptance credit, debentures, mortgages, charges, hire-purchase commitments, guarantees or other material contingent liabilities.

**3. WORKING CAPITAL**

In determining the working capital sufficiency of the Group, the Directors of the Company made assumption that RMB1.5 billion corporate bond issue that is shown to be required by the working capital forecast would be completed before the due date of the current corporate bond of RMB1 billion, which is 17 August 2016. On 12 April 2016, the approval of corporate bond public issue to eligible investors of the Company (the "Approval") was received from China Securities Regulatory Commission ("CSRC") (the "Proposed Bond Issue"). At the Latest Practicable Date, the Company is ready to initiate the Proposed Bond Issue at its discretion within 6 months from the date of the Approval, and has already entered into an underwriting agreement with Shenwan Hongyuan Securities Limited (申萬宏源證券承銷保薦有限責任公司) and Huafu Securities Limited (華福證券有限責任公司) pursuant to which the underwriters are obliged to subscribe all of the outstanding amounts of the Proposed Bond Issue which have not been subscribed by other eligible investors. The Directors paid close attention to the prevailing interest rate on current bond market to seek for the best opportunity to commence pricing of Proposed Bond Issue. The Directors do not foresee any factors that might result in the Group not being able to undergo the Proposed Bond Issue before

the due date of the current corporate bond based on the excellent historical credit history and the AA+ credit rating on the Proposed Bond Issue from a qualified professional firm which is consistent with the Company's past credit rating.

Having taken into account the financial resources available to the Group, including internally generated funds, the Proposed Bond Issue and the available banking facilities, the Directors of the Company are of the opinion that the Group has sufficient working capital for its requirement for at least 12 months from the date of this circular.

#### **4. FINANCIAL AND TRADING PROSPECTS**

In 2016, the global economy still faces various challenges ahead as there are many uncertainties, such as whether the economies in Europe and America will maintain the growth momentum, how the interest rate hike in the US will affect the direction of capital flow around the globe, whether the issue of high level European debt will be resolved effectively, and whether the slowdown in the economic growth of emerging countries can be managed. The Chinese economy has entered the "New Normal". The year 2016 marks the start of the "Thirteenth Five-year Plans" of China. The Chinese government gives top priority to "slashing overcapacity, reducing inventories, deleveraging, saving costs and making up for the deficiencies". With the ongoing implementation of national strategies including "One Belt, One Road" and "Yangtze River Economic Belt" as well as new types of urbanization, it is expected that the Chinese economy will deliver stable performance.

To cope with the current market situation, the Group will focus on the following tasks in 2016:

##### **(I) Deepen the exploration of two markets and promote the growth in the number of orders**

In the domestic market, the Group will adhere to principles of "orders are the king", "results are the king", and implement the sales strategy of management accountability, while streamlining the marketing strategy, and reinforcing the management of sales channels and customer relationship. In the international market, the Group will take advantage of the "One Belt and One Road" initiatives, and continue to explore the markets across Europe, South Asia and Southeast Asia, with the aim of establishing the preliminary marketing networks for the global market.

##### **(II) Deepen refined management and enhance quality and efficiency**

With a focus on key indicators for efficiency, quality, structure and innovation, the Group will refine its quality management and promote the "project for high-quality products". The centralised deployment and control of capital and credit will be deepened to reduce financial costs. Comprehensive budget management will be implemented, and the real-time early warning and advanced control will be regulated. The quality control on operation will be run on a more precise level, while indicators like trade receivables, inventory, cash flow and operating profit will be put under more stringent control. Efforts on energy saving and consumption reduction will be strengthened. Pilot programme for the optimisation of logistics will be conducted to reduce logistic costs. The Group will also deepen the central procurement and push ahead with the "Internet + central procurement" through e-commerce platforms, with a view to achieving enhancement in quality and efficiency.

**(III) Deepen technological progress and promote the materialisation of new industries and new projects**

The relocation project for environmental protection and projects such as the offshore wind power blade and high-horsepower engine developed by Chongqing Cummins will be followed up continuously. Various projects, such as the agricultural cotton-picking project, the machine tools intelligent manufacturing project, EPC general contracting, PPP projects for environmental protection will be promoted, with a view to creating new growth points. Investment in the research and development of new enterprise products will be increased, specific funds for innovation projects will be established, the establishment of system for the research and development of the company's products will be explored, the platform for research and development, experiment and testing will be gradually established, and the construction of the centre for branding, patents and technologies will be promoted.

**(IV) Deepen transformation and reform and accelerate the optimisation and restructuring process**

The implementation of the capital operation project of the Company will be speeded up, the plan for the reform of the enterprise under the model of "one policy for one enterprise" will be developed, and breakthrough in the reform of mixed ownership and equity participation of employees will be endeavoured to make. Merger and acquisition projects will be promoted continuously.

**(V) Deepen the construction of information capabilities and materialise the industrial application of the Internet**

Various systems of the Company will be improved, including the data centre, business intelligence, financial management and human resources management. The intelligent production process will be facilitated, new approaches to production will be fostered, and the intelligent level of the research and development, production, management and services function of the Company will be enhanced.

**(VI) Deepen the reform on human resources and motivate the vitality of employees**

The dynamic adjustment mechanism which brings the total number of employees and expenses on human resources in line with the operational efficiency will be established. In response to the construction of the research and development centre in Europe, the system for multi-engagement of core technical professionals will be explored, the internal communication platform for staff will be established, and reasonable mobility of the human resources of the Company will be endeavored to achieve. Talents with global vision and comprehensive capabilities will be introduced and trained, such as operation and management talents, high-calibre research talents and highly skilled talents with practical expertise.



**(VII) Deepen internal control and management, and focus on risk prevention**

Through promoting supervision featuring with “dynamic and appropriate services + professional tracking and audit”, the Company will continue to carry out assessment on internal control, take remedial measures in respect of any defect in a timely manner and carrying out monitors on key risk data and information on material legal risks and ensure the effectiveness of risk management and the internal supervision system.

**(VIII) Deepen the maintenance of investor relations and maximise shareholders’ interest**

Regulate disclosure of information, and strengthen communication with investors and the media through different approaches. Enhance the corporate governance, maximise the interest of relevant investors and safeguard the legitimate interests of investors.

**5. EFFECT OF THE 2017-2019 GROUP FINANCIAL SERVICES FRAMEWORK AGREEMENT ON THE EARNINGS, ASSETS AND LIABILITIES OF GROUP**

In respect of the 2017-2019 Group Financial Services Framework Agreement, (1) the capital deposited by the Group with the Finance Company will receive interest at a rate not lower than the interest rates for deposits of similar nature and under similar terms charging the Group by other independent commercial banks in the PRC. Such arrangement will enable the Group to increase its interest income more effectively; (2) the Group is able to obtain loans from the Finance Company at an interest rate not higher than the interest rates for loans of similar nature and under similar terms charging the Group by other independent commercial banks in the PRC, which could effectively lower its financing costs; and (3) the Company will be benefited from the profits of the Finance Company, through its direct equity interest of 51% in the Finance Company.

In respect of the 2017-2019 Group Financial Services Framework Agreement, there has been no, and the Group does not expect there will be any, significant effect on the earnings, assets and liabilities of the Group.

**6. EFFECT OF THE 2017-2019 GROUP FINANCIAL SERVICES FRAMEWORK AGREEMENT ON THE EARNINGS, ASSETS AND LIABILITIES OF THE PARENT GROUP**

In respect of the 2017-2019 Parent Group Financial Services Framework Agreement, (1) the interest rate for loans provided by the Finance Company to the Parent Group will not be lower than the interest rates for loan of a similar nature and under similar terms charging the Parent Group by other independent commercial banks in the PRC. Such arrangement will enable the Group to increase its interest income more effectively; (2) it will help expand the business scale of the Finance Company, thus enhancing the development of the Finance Company, which in turn will facilitate the expansion of the Group’s business scale; and (3) the Company will be able to share the profits of the Finance Company, through its direct 51% equity interest of 51% in the Finance Company when providing loan and guarantee services to the Parent Group.

In respect of the 2017-2019 Parent Group Financial Services Framework Agreement, there has been no, and the Group does not expect there will be any, significant effect on the earnings, assets and liabilities of the Group.

## CANDIDATES FOR DIRECTORS OF THE FOURTH SESSION OF THE BOARD

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

Name	Age	Position
Wang Yuxiang	54	Executive Director
Chen Ping	53	Executive Director
Yang Quan	51	Executive Director
Huang Yong	53	Non-executive Director
Deng Yong	56	Non-executive Director
Wei FuSheng	54	Non-executive Director
He Xiaoyan	53	Non-executive Director
Lo Wah Wai	52	Independent Non-executive Director
Ren Xiaochang	59	Independent Non-executive Director
Jin Jingyu	50	Independent Non-executive Director
Liu Wei	51	Independent Non-executive Director

**Executive Directors**

**Mr. Wang Yuxiang**, aged 54, has served as the Chairman, executive Director, chairman of the nomination committee and strategic committee of the Company since 18 June 2013. He joined the Parent Group and served as the chairman and Party Committee secretary since April 2013, and has also served as a director and chairman of Chongqing Machinery and Electronics Holding (Group) Finance Co., Ltd. since August 2013. Mr. Wang has over 30 years of experience in business and regional economic management. Mr. Wang served as the deputy director and a member of the Party Committee of Chongqing State-owned Assets Supervision and Administration Commission from June 2009 to April 2013 (and concurrently served as the Party Committee secretary of Chongqing Consultation Research Institute (重慶市諮詢研究院) from November 2011 to April 2013), the deputy director and a member of the Party group of Chongqing Economic and Information Technology Commission (重慶市經濟和信息化委員會) from March 2009 to June 2009, the deputy director and a member of the Party Group of Chongqing Economic Commission (重慶市經濟委員會) from April 2004 to March 2009 (during which he was delegated by three ministries and commissions including the Organization Department of the CPC Central Committee to take a temporary post as the deputy director of the Marketing Department of China Southern Power Grid from March to October 2006), the secretary of the Disciplinary Inspection Committee of China National Erzhong Group Co. from July 2000 to April 2004 (and concurrently served as the Party Committee secretary of Deyang Heavy Industry Park (德陽重工園區) from November 2000 to April 2004 and took a temporary post as the deputy secretary of Enterprise Work Committee of Chongqing Municipal Party Committee and the deputy secretary of the Communist Party Committee of SASAC of Chongqing City successively), the secretary of the Communist Youth League, vice-section level inspector and section level inspector of the Disciplinary Inspection Committee, Party branch secretary of heavy machinery workshop, office director, deputy plant manager, general Party branch secretary and plant manager of the Heavy Machinery Branch Factory (重機分廠) of China National Erzhong Group Co. from November 1984 to July 2000, and a worker of No. 3 metal workshop and an officer of the Communist Youth League of China National Erzhong Factory (中國第二重

型機械廠) from December 1979 to November 1984. Mr. Wang is a senior economist, a senior political scientist, and the Executive Vice President of the Second Council of Chongqing Enterprises Confederation (重慶市企業聯合會), Chongqing Entrepreneurs Association (重慶市企業家協會) and Chongqing Federation of Industrial Economics (重慶市工業經濟聯合會). He is also a member of the Leading Group Office for the Development of Creative Industries in Chongqing (重慶市創意產業發展領導小組辦公室), and a Director of the Fourth Council of China Machinery Industry Federation (中國機械工業聯合會). He graduated from Sichuan Cadre Correspondence School (四川幹部函授學院) with an associate degree in Party policy in September 1988, the correspondence course of economic management of the Party School of Sichuan Provincial Committee in December 1995, the program of Master of Business Administration (MBA) of Chongqing University in December 1999 and the program of EMBA in Xiamen University in December 2011. He graduated from the Class of Chongqing Enterprise Leaders of Tsinghua University (one-year term) in December 2013.

**Ms. Chen Ping (陳萍)**, aged 53, is the general manager of the Company. Ms. Chen engages in merger and reorganization of enterprises, equity investment, capital operations and other works, owns extended experience in corporate management. She was the vice president and a member of the Party Committee of Chongqing Machinery and Electronic Holding (Group) Co., Ltd. from February 2004 to May 2016. She has been the chairman of Chongqing Machinery and Electronic Holding Group Xinbo Investment Management Co., Ltd. (重慶機電控股集團信博投資管理有限公司) from January 2016 until now, the chairman of Chongqing Hi-tech Hongma Capital Management Limited from May 2015 until now, the executive director (legal representative) of Chongqing Machinery and Electronic Holding Group Investment Management Co., Ltd. (重慶機電控股集團資產管理有限公司) from July 2009 to October 2014. She served as the assistant to the president of Chongqing Light Textile Holding (Group) Co., Ltd. and the manager of Chongqing Zhuoyue Industrial Development Co., Ltd. from December 2002 to February 2004, a manager of assets operation department in Chongqing Light Textile Holding (Group) Co., Ltd. from March 2001 to December 2002, the deputy manager of assets operation department of Chongqing Light Textile Holding (Group) Co., Ltd. and president of Chongqing Longhua Printing Co., Ltd. (重慶龍華印務有限公司) from August 2000 to March 2001, deputy head, head and assistant researcher of the enterprise management department of Chongqing Light Industry Bureau from October 1983 to August 2000. Ms. Chen is a senior economist with a Bachelor of Science after the graduation in biology from Yuzhou University and obtained a postgraduate degree in business administration from Chongqing Master College of Business Administration (重慶工商管理碩士學院) in July 2001 and a master degree in EMBA (Executive Master of Business Administration) from the school of business and economics of Chongqing University in December 2013.

**Mr. Yang Quan**, aged 51, executive director and vice general manager of the Company, has served as a vice general manager of the Company since May 2012, and an executive director of the Company since December 2012. He has been a director of Chongqing Youyan Smelting New Material Co., Ltd. (重慶有研重冶新材料有限公司) since July 2014. He has concurrently served as a director of Chongqing Hongyan Fangda Automotive Suspension Co., Ltd. (重慶紅岩方大汽車懸架有限公司) since June 2013 and a director of Precision Technology Investment and Development Co., Ltd. (精密技術投資發展有限公司) since April 2012, a director of Chongqing Gas Compressor Factory Co., Ltd. (重慶氣體壓縮機廠有限責任公司) since December 2011, and an executive director and general manager of Chongqing Shengpu Materials Co., Ltd. (重慶盛普物資有限公司) since December 2011. Mr. Yang has over 20 years of experience in enterprise management, once served as the manager of the business management department and assistant to general

manager of the Company from August 2007 to May 2012, the head of the economic operation department and head of the business management department of the securities work steering team of Chongqing Machinery and Electronics Holding (Group) Co., Ltd. (重慶機電控股(集團)公司) from March 2004 to August 2007, the party branch secretary of the foundry workshop, deputy director of the “five-initiative” reform office, secretary and deputy director of the hot plate workshop, chief of the equipment division, managing factory director, and chief economist of Chongqing No. 2 Machine Tools Factory (重慶第二機床廠) from July 1987 to March 2004. Mr. Yang is an engineer, graduated from the College of Mechanical Engineering of Sichuan University with a bachelor’s degree in foundry in July 1987, and studied for EMBA in Xiamen University from November 2011.

Save as disclosed above, Mr. Wang Yuxiang, Ms. Chen Ping and Mr. Yang Quan did not hold any directorships in any other listed companies or any other major appointments and qualifications in the last three years. Other than the directorship in the Company and various subsidiaries of the Company, Mr. Wang Yuxiang, Ms. Chen Ping, Mr. Yang Quan do not hold other positions in the Company or other members of the Group.

Save as disclosed above, Mr. Wang Yuxiang, Ms. Chen Ping and Mr. Yang Quan do not have any relationship with any Directors, senior management or substantial or controlling Shareholders of the Company nor had any of them any interests in the Shares of the Company within the meaning of Part XV of the SFO as at the Latest Practicable Date. As at the Latest Practicable Date, Mr. Wang Yuxiang, Ms. Chen Ping, Mr. Yang Quan do not hold Shares in the Company.

Pursuant to the service agreement between the Group and each of Mr. Wang Yuxiang, Ms. Chen Ping and Mr. Yang Quan,

- (a) the appointment of Mr. Wang Yuxiang, Ms. Chen Ping and Mr. Yang Quan, as executive Directors is for a fixed term of three years commencing from date of the AGM, subject to retirement by rotation and re-election at the annual general meeting of the Company in accordance with the Articles; and
- (b) the remuneration of Mr. Wang Yuxiang, Ms. Chen Ping and Mr. Yang Quan, would be fixed with reference to their respective duties and responsibilities with the Company as well as by reference to the remuneration standards for Directors as approved at the AGM.

The Board is not aware of any other matters in relation to the appointment of Mr. Wang Yuxiang, Ms. Chen Ping and Mr. Yang Quan, as executive Directors that need to be brought to the attention of the Shareholders, nor is there any information that needs to be disclosed by the Company pursuant to Rules 13.51(2)(h) to 13.51(2)(v) of the Listing Rules.

#### **Non-executive Directors**

**Mr. Huang Yong**, aged 53, joined the Parent Group in July 1984. Since July 2007, he has been a non-executive Director of the Company. Mr. Huang has been a director and the president of the Parent Company since 2004. Since January 2011, Mr. Huang has concurrently served as the chairman of Chongqing General Aviation Industry Group Co., Ltd. (重慶通用航空產業集團有限公司). Since January 2013, he has

concurrently served as the chairman of Enstrom Helicopter Corporation (美國恩斯特龍直升機公司). He is also served as a Director of Chongqing Jin Tong Scrap Car Recycling (Group) Co., Ltd. (重慶市金通報廢汽車回收處理(集團)有限公司) since March 2014. Mr. Huang has over 20 years of experience in the automobile industry. He was the general manager of Chongqing General Aviation Industry Group Co., Ltd. (重慶通用航空產業集團有限公司) from January 2011 to May 2013 and the vice chairman and general manager of Chongqing Hongyan Motor Co., Ltd from 2003 to 2004. From 2000 to 2004, Mr. Huang was the general manager and thereafter the chairman of Chongqing Heavy Vehicle Group Co., Ltd. From 1996 to 2000, he was the deputy plant manager of Sichuan Automobile Manufacturing Plant, and from 1984 to 1996, he worked in Sichuan Automobile Manufacturing Plant. Mr. Huang is a senior engineer and a tutor of postgraduate students of Chongqing University of Technology. He graduated from Hunan University with a bachelor's degree in automobile manufacturing in 1984 and obtained his master's degree in engineering from Chongqing University in 2000.

**Mr. Wei Fusheng**, aged 54, currently serving as the secretary of the Party Committee and chairman of Chongqing Construction Engineering Group Co., Ltd. Mr. Wei has extensive working experience in government and enterprise management. He was the deputy director of State-Owned Assets Supervision and Administration Commission of Chongqing Municipal Government from May 2014 to January 2016; deputy director, director and Party Committee secretary of Chongqing Coal Mine Safety Supervision Bureau (重慶市煤礦安全監察局) from November 2001 to May 2014; director, deputy chief engineer, deputy director and director of Safety Supervision Bureau of production department of Yongrong Mine bureau (永榮礦務局生產處) from June 1995 to November 2001, technician, deputy chief of mine, deputy chief engineer and chief engineer of Shuanghe Coal Mine of Yongrong Mining Bureau (永榮礦務局雙河煤礦) from July 1983 to June 1995. Mr. Wei is a senior engineer. He graduated in Coal Mining of School of Mining Engineering (採礦工程系煤礦開採專業) from Chongqing University with a bachelor's degree in engineering in July 1983 and obtained a master degree in engineering from Mining & Mineral Engineering (礦業工程專業) of Graduate School of Chongqing University in June 2001.

**Mr. Deng Yong**, aged 56, is the chief financial officer of Chongqing Yufu Assets Management Co., Ltd. He joined the Company with the position of non-executive Director in April 2013. He has served as a non-executive director of Bank of Chongqing Co., Ltd. (stock code: 1963.HK) since February 2013, a director of Chongqing Chuanyi Automation Co., Ltd. since April 2013, and a director of Chongqing Chuanyi Automation Co., Ltd. (stock code: 603100.SH) since April 2013. Mr. Deng Yong has over 20 years of experience in the financial industry. He served as assistant to the president and the general manager of the planning and financial department of the Southwest Securities Co., Ltd (stock code: 600369.SH) from August 2008 to April 2012, the assistant to the general manager and the manager of the financial department of Chongqing Yufu Assets Management Co., Ltd. from March 2004 to August 2008, deputy general manager of the Linjiang Road and Jiulongpo Divisions of China Galaxy Securities Co., Ltd. from September 2000 to March 2004, deputy general manager of the Chongqing Securities Division of China Cinda Trust & Investment Company (中國信達信託投資公司重慶證券營業部) from June 1997 to September 2000 (he was seconded to work for the workgroup of red chips of Chongqing Municipal Government (重慶市政府紅籌股工作小組) from September 1997 to June 1998), the manager of the securities investment department of Chongqing Trust & Investment Company (重慶市信託投資公司) from September 1992 to June 1997 and an employee at the Chongqing branch of the China Construction Bank from July 1988 to September 1992. Mr.

Deng Yong is an engineer graduated from Chongqing University with a bachelor's degree in Applied Mathematics in July 1982. He studied and obtained a postgraduate degree majoring in econometrics from the Applied Mathematics Faculty of Chongqing University from September 1986 to July 1988.

**Ms. He Xiaoyan (何小燕女士)**, aged 53, now is the risk Director of China Huarong Assets Management Co., Ltd. Chongqing Branch Company (中國華融資產管理股份有限公司重慶分公司). Ms. He has extensive experience in the financial industry. From January to June 2015, she was the Chairman and party secretary of Chongqing Bishan ICBC Rural Bank Co., Ltd; from August 2007 to January 2015, she was appointed as the deputy general manager of the corporate department, general manager of the investment bank department and general manager of the department of assets and liabilities management in ICBC Chongqing Branch (中國工商銀行重慶市分行); from March 1989 to August 2007, she was the deputy head, head and deputy president in the Branch of ICBC in south bank district of Chongqing; from August 1980 to March 1989, she worked on statistical analysis and credits in the office of PBC in south bank district of Chongqing. Ms. He is a senior economist. She graduated from Sichuan Bank School (四川銀行學校) in July 1980; graduated from statistics major of the higher education self-learning exam in December 1988 and graduated from financial major of Correspondence school of Chongqing Party School (重慶市委黨校函授學院) in December 1998.

Save as disclosed above, Mr. Huang Yong, Mr Wei Fusheng, Mr. Deng Yong and Ms. He Xiaoyan did not hold any directorships in any other listed companies or any other major appointments and qualifications in the last three years. Other than the directorship in the Company and various subsidiaries of the Company, Mr. Huang Yong, Mr Wei Fusheng, Mr. Deng Yong and Ms. He Xiaoyan do not hold other positions in the Company or other members of the Group.

Save as disclosed above, Mr. Huang Yong, Mr Wei Fusheng, Mr. Deng Yong and Ms. He Xiaoyan do not have any relationship with any Directors, senior management or substantial or controlling Shareholders of the Company nor had any of them any interests in the Shares of the Company within the meaning of Part XV of the SFO as at the Latest Practicable Date. As at the Latest Practicable Date, Mr. Huang Yong, Mr Wei Fusheng, Mr. Deng Yong and Ms. He Xiaoyan do not hold Shares in the Company.

Pursuant to the service agreement between the Group and each of Mr. Huang Yong, Mr Wei Fusheng, Mr. Deng Yong and Ms. He Xiaoyan,

- (a) the appointment of Mr. Huang Yong, Mr Wei Fusheng, Mr. Deng Yong and Ms. He Xiaoyan, as non-executive Directors is for a fixed term of three years commencing from the date of the AGM, subject to retirement by rotation and re-election at the annual general meeting of the Company in accordance with the Articles; and
- (b) the remuneration of Mr. Huang Yong, Mr Wei Fusheng, Mr. Deng Yong and Ms. He Xiaoyan, would be fixed with reference to their respective duties and responsibilities with the Company as well as by reference to the remuneration standards for Directors as approved at the AGM.

The Board is not aware of any other matters in relation to the appointment of Mr. Huang Yong, Mr. Wei Fusheng, Mr. Deng Yong and Ms. He Xiaoyan, as non-executive Directors that need to be brought to the attention of the Shareholders, nor is there any information that needs to be disclosed by the Company pursuant to Rules 13.51(2)(h) to 13.51(2)(v) of the Listing Rules.

#### **Independent Non-executive Directors**

**Mr. Lo Wah Wai**, aged 52, joined our Company in January 2008 and has been an independent non-executive Director of the Company and the chairman of the Company's Audit and Risk Management Committee since January 2008. He had more than eight years of experience in auditing and business consulting services in an international accounting firm, two years of which were spent in the United States. Mr. Lo was an independent non-executive director of Far East Pharmaceutical Technology Limited (stock code: 399.HK) in September 2004. A petition was filed on 15 September 2004 to wind up Far East Pharmaceutical Technology Limited in respect of the default of a syndicated bank loan and since then, liquidators have been appointed. Mr. Lo was not involved in the arrangement of the syndicated bank loan and his appointment was made after the said default had occurred. Mr. Lo is also an independent non-executive director of Tenfu (Cayman) Holdings Company Limited (stock code: 6868.HK). He has served as an independent non-executive director of Chongqing Medicines (Group) Co., Ltd. (重慶醫藥(集團)股份有限公司) since July 2012. He is a practising member of the Hong Kong Institute of Certified Public Accountants and a member of the American Institute of Certified Public Accountants. Mr. Lo graduated from the Chinese University of Hong Kong with a bachelor's degree in business administration in 1986 and New Jersey Institute of Technology, the U.S., with a master's degree in science in 1992.

**Mr. Ren Xiaochang**, aged 59, joined the Company in July 2007 and has been an independent non-executive Director of the Company and the chairman of our remuneration committee since then. He is currently the chairman and legal representative of China Automotive Engineering Research Institute Co., Ltd. (stock code: 601965.SH). Mr. Ren has over 30 years of experience in the automobile industry. Mr. Ren has been with Chongqing Research Institute of Automobile (renamed as China Automotive Engineering Research Institute Co., Ltd.) since January 1982 and once served as the deputy director of the Car Design Department, vice chief, chief, the vice chairman, general manager (superintendent), chairman and deputy secretary to the Party Committee of it in charge of operational management, strategic planning, human resources and assets management, etc. Mr. Ren is also currently an independent director of China Chang'an Automobile Group Co., Ltd. in charge of matters relating to the board of directors. Mr. Ren graduated from Hunan University with a bachelor's degree in engineering in 1982 and the Management School of Wuhan University of Technology with a master's degree in business administration in 2004. Mr. Ren is a senior engineer of researcher's grade, an expert of Machinery Industrial Scientific Technology Specialist of the PRC and an expert with special allowance from the State Council.

**Mr. Jin Jingyu**, aged 50, joined the Company in June 2012 and has served as an independent non-executive Director of the Company since June 2012. He has served at Chongqing Technology and Business University as the Chairman of the Academic Council of the School of Finance, and professor of finance and tutor of postgraduate students since March 2009. He has served as an independent non-executive director of Bank of Chongqing Co., Ltd.\* (stock code: 1963.HK) since March 2014, and an independent director of Chong Qing Financial Products Exchange Co. Ltd since June 2015. Mr. Jin has joined the Chongqing Technology and Business University (known as Chongqing Business School before 2003) since May 1997

and served as the deputy director of the Finance and Investment Department from March 2000 to March 2001 and an associate professor and professor of finance from November 2000 to November 2005. He studied in the Mathematics Department of Henan University from September 1988 to July 1992 as an undergraduate student; studied in the University of Science and Technology of China majored in management science from September 1992 to July 1995 and obtained a master's degree in engineering; studied in the Southwest Jiaotong University majored in management science and engineering from March 2003 to January 2007 and received a doctor's degree in management. Mr. Jin held several concurrent posts as follows: from September 1997 to September 2002, a business director of the Financing Service Company (融資服務公司) and general manager of the 1st Business Department of Dapeng Securities Company Limited (大鵬證券有限責任公司); from July 2002 to June 2003, a director and secretary to the board of directors of Southwest Synthetic Pharmaceutical Co., Ltd. (西南合成製藥股份公司) (Stock code: 000788.SZ); from January 2006 to March 2010, a director and secretary to the board of directors of Chongqing Wanli New Energy Co., Ltd. (stock code 600847.SH, formerly known as Chongqing Wanli Storage Batteries Co., Ltd. (重慶萬里蓄電池股份有限公司)); from June 2005 to February 2010, the chairman of Chongqing Tiandi Pharmaceutical Co., Ltd. (重慶天地藥業有限公司). Mr. Jin is now a member of Guiding Committee on Education of Financial Majors in Universities and Colleges of Ministry of Education (教育部高等學校金融學類專業教學指導委員會), a member of the China Investment Professional Construction Committee (中國投資專業建設委員會), a member of the Enterprises Operations Branch of the Operations Research Society of China, adjunct researcher of the Research Center of the Economy of the Upper Reaches of Yangtze River (a major research center of humanities and social science of the Ministry of Education), a member of the Evaluation Committee of Professional Titles, the Teaching Steering Committee and the School of Economics of Chongqing Technology and Business University.

**Mr. Liu Wei**, aged 51, has served as an independent non-executive Director of the Company since September 2014. He is currently the head, professor and PhD candidate supervisor of the Business Management Department of the School of Economics and Business Administration of Chongqing University, the vice head of Business Administration and Economics Development Research Centre of Chongqing University. He has concurrently served as an independent director of Chongqing Zaisheng Technology Company Limited (重慶再升科技股份有限公司) (stock code: 603601.SH), Chongqing Guidance Fund for Technology Innovative Industries Venture Investment Co., Ltd (重慶科技創業風險投資引導基金有限公司) and Chongqing Technology Venture Investment Co., Ltd (重慶科技風險投資有限公司), an external director of Chongqing Iron & Steel (Group) Company Limited and Chongqing Landscaping Construction Investment (Group) Company Limited (重慶園林綠化建設投資(集團)有限公司), and a member of Investment Decision-making Committee of Shanghai Zhongwei Venture Capital Fund (上海中衛創業風險投資基金). Mr. Liu has served in Chongqing University since July 1990. He once served as the lecturer, associate professor and assistant to the head of department for Department of Mechanical Engineering, professor of College of Mechanical Engineering, and vice chief of the Industrial Engineering Research Institute. Mr. Liu graduated from Chongqing University with a bachelor's degree in Mining Machinery in July 1984, graduated from Chongqing University with a master's degree in Mechanics in July 1987, and graduated from Chongqing University with a doctorate degree in Mechanical Design and Theory in July 1990. He also conducted post-doctoral research in the University of Manchester Institute of Science and Technology from September 1996 to October 1997. He completed the training for independent directors of listed company by the Securities Association of China in December 2002.



Save as disclosed above, Mr. Lo Wah Wai, Mr. Ren Xiaochang, Mr. Jin Jingyu and Mr. Liu Wei did not hold any directorships in any other listed companies or any other major appointments and qualifications in the last three years nor had any of them any interests in the shares of the Company within the meaning of Part XV of the SFO. Other than the directorship in the Company, Mr. Lo Wah Wai, Mr. Ren Xiaochang, Mr. Jin Jingyu and Mr. Liu Wei do not hold other positions in the Company or other members of the Group.

Save as disclosed above, Mr. Lo Wah Wai, Mr. Ren Xiaochang, Mr. Jin Jingyu and Mr. Liu Wei do not have any relationship with any Directors, senior management or substantial or controlling Shareholders of the Company. As at the Latest Practicable Date, Mr. Lo Wah Wai, Mr. Ren Xiaochang, Mr. Jin Jingyu and Mr. Liu Wei do not hold Shares in the Company.

Pursuant to the service agreement between the Group and each of Mr. Lo Wah Wai, Mr. Ren Xiaochang, Mr. Jin Jingyu and Mr. Liu Wei,

- (a) the appointment of Mr. Lo Wah Wai, Mr. Ren Xiaochang, Mr. Jin Jingyu and Mr. Liu Wei, as independent non-executive Directors is for a fixed term of three years commencing from the date of the AGM, subject to retirement by rotation and re-election at annual general meeting of the Company in accordance with the Articles; and
- (b) the remuneration of Mr. Lo Wah Wai, Mr. Ren Xiaochang, Mr. Jin Jingyu and Mr. Liu Wei, would be fixed with reference to their respective duties and responsibilities with the Company as well as by reference to the remuneration standards for Directors as approved at the AGM.

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

#### **CANDIDATES FOR SUPERVISORS OF THE FOURTH SESSION OF THE SUPERVISORY COMMITTEE**

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

<b>Name</b>	<b>Age</b>	<b>Position</b>
Xiang Hu	51	Supervisor
Wu Yi	42	Independent Supervisor
Huang Hui	45	Independent Supervisor

*Note: According to Article 125 of the Articles: "appointment and removal of supervisors as staff representatives shall be subject to democratic election at the staff representative meetings, staff meetings or by other way", the Company will convene a staff meeting prior to 28 June 2016 at which the fourth session of Supervisors of staff representatives will be elected. The appointment of the fourth session of Supervisors of staff representatives is not subject to approval by the Shareholders at the AGM.*

**Mr. Xiang Hu**, aged 51, an executive Director and the secretary of the Board of the Company, joined the Company in September 2012, and has served as an executive Director of the Company since June 2014 and the secretary of the Board of the Company since January 2014, and also a director of Chongqing New North Zone Machinery and Electronic Microcredit Co., Ltd since March 2013. Mr. Xiang has over 20 years of experience in government service and news media. From September 2012 to January 2014, he served as a vice general manager of the Company. He served as the deputy director of the Chongqing Intellectual Property Rights Bureau from November 2004 to September 2012, the president of the Modern Workers Newspaper (現代工人報報社) (now known as Chongqing Times) from January 2003 to November 2004, the deputy party secretary of Nanchuan, Chongqing from May 1998 to January 2003, the general manager of Chongqing News Development Company (重慶新聞發展公司) under Xinhua News Agency from July 1993 to May 1998, and a journalist of the Sichuan branch office of Xinhua News Agency from July 1986 to July 1993. Mr. Xiang graduated from the Department of Law of Southwest University of Political Science and Law in July 1986, from the Graduate School of Southwest University of Political Science and Law majoring in law of economy in June 1997, and from Nanyang Technological University, Singapore, majoring in managerial economics and acquire the master degree of economics in July 2002.

**Ms. Wu Yi**, aged 42, has been an independent supervisor of the Company since September 2014. She is currently the director of Chongqing Bestone Law Firm (重慶百事得律師事務所), a member of Chongqing Lawyers Association and the Specially-invited Member of the fourth Committee of Chinese People's Political Consultative Conference of Chongqing. Ms. Wu once served as the lawyer of Chongqing Dongfanglianhe Law Firm (重慶東方聯合律師事務所), Chongqing Zhongzhu Law Firm (重慶中柱律師事務所) and Chongqing Branch of Beijing Kaiwen Law Firm (北京凱文律師事務所重慶分所) from August 1997 to April 2008. Ms. Wu studied at the School of Economic Law of Southwest University of Political Science and Law from September 1993 to July 1997 and graduated with a bachelor's degree and at the Graduate School of Southwest University of Political Science and Law from September 2003 to July 2006 and graduated with a master's degree in Laws. She studied at Peking University HSBC School of Business from September 2008 to July 2009 and graduated with a master's degree in Finance.

**Mr. Huang Hui**, aged 45, has been an independent supervisor of the Company since September 2014. He is currently a professor, a tutor of postgraduates in School of Accountancy, and a director of the Department of Financial Management of Chongqing Technology and Business University. Mr. Huang was once a teacher in No.2 Senior High School in Xinxian County of Henan Province (河南省新縣第二高級中學) from September 1991 to July 1998. Since July 2002, he has worked in School of Accountancy of Chongqing Technology and Business University. Mr. Huang graduated from the Department of Physics of Luoyang Normal College with a junior degree in 1991. He graduated from the Department of Politics and Laws of Henan College of Education (河南教育學院) with a bachelor's degree in 1996. He graduated from School of Economics and Management of Wuhan University of Technology with a master's degree in 2002. He graduated from the Management College of Huazhong University of Science and Technology with a doctor's degree in 2009. He was a visiting scholar in University of Missouri in US from April to May in 2010 and in the School of Economics and Management of Tsinghua University from September 2011 to July 2012. He completed his post-doctoral research in the Research Institute for Fiscal Science of the Ministry of Finance in 2013.

Save as disclosed above, as at the Latest Practicable Date, Mr. Xiang Hu, Ms. Wu Yi and Mr. Huang Hui did not hold any directorship or supervisorship in any other listed companies in the past three years, nor do they hold any other positions in the Group. In addition, none of them has any relationship with any Directors, senior management, substantial or controlling Shareholders of the Company. As at the date hereof, none of them has any interest in the Shares of the Company within the meaning of Part XV of SFO. The Board is not aware of any matters that need to be brought to the attention of the Shareholders, nor is there any information required to be disclosed under Rules 13.51(2)(h) to (v) of the Listing Rules.

Upon the appointment as a Supervisor of the Company, each of Mr. Xiang Hu, Ms. Wu Yi and Mr. Huang Hui will enter into a service contract with the Company for a fixed term of three years commencing from the date of AGM, and the remuneration of the Supervisors would be fixed with reference to their respective duties and responsibilities as well as by reference to the remuneration standards for Supervisor as approved at the AGM.

**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 INTEREST**

As at the Latest Practicable Date, none of the Directors, chief executive officers 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 Securities and Futures Ordinance (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 PERSONS’ 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 the domestic shares and H Shares of RMB1.00 each of the Company**

Name of shareholders	Number of shares	Categories	Capacity	Note	Percentage of	Percentage of	Percentage of
					total issued domestic shares (%)	total issued H Shares (%)	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
State-Owned Assets Supervision and Administration Commission of Chongqing Municipal Government	2,388,490,217	domestic shares	Interest in controlled corporation	(1)	92.42 (L)	-	64.82
	11,652,000	H Shares	Interest in controlled corporation	(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 shareholders	Number of shares	Capacity	Note	Percentage of	Percentage of
				total issued H Shares (%)	total issued shares (%)
Templeton Asset Management Ltd.	150,745,300 (L)	Investment Manager		13.70 (L)	4.09 (L)
The Bank of New York Mellon (formerly known as "The Bank of New York")	87,276,000 (L)	Custodian		7.93 (L)	2.37 (L)
	0 (P)	Interest in controlled corporation controlled by substantial shareholder		0 (P)	0 (P)
The Bank of New York Mellon Corporation	87,276,000 (L)		(4)	7.93 (L)	2.37 (L)
	87,276,000 (P)			7.93 (P)	2.37 (P)
GE Asset Management Incorporated	75,973,334 (L)	Investment Manager		6.91 (L)	2.06 (L)
Templeton Asset Management Limited	66,104,000 (L)	Investment Manager		6.01 (L)	1.79 (L)

(L) Long position

(S) Short position

(P) Lending Pool

*Notes:*

1. As Chongqing Machinery and Electronic Holding (Group) Co., Ltd. and Chongqing Yufu Assets Management (Group) Co. Ltd. are wholly owned by State-Owned Assets Supervision and Administration Commission of Chongqing Municipal Government, State-Owned Assets Supervision and Administration Commission of Chongqing Municipal Government is deemed to be interested in 1,924,225,189 domestic shares, and 11,652,000 H Shares and 232,132,514 domestic shares of the Company held by the two companies.
2. Chongqing Construction Engineering Group Co., Ltd. is held as to 96.18% by State-Owned Assets Supervision and Administration Commission of Chongqing Municipal Government through its three wholly-owned subsidiaries and as to 3.82% by the Ministry of Finance of the People's Republic of China through China Huarong Asset Management Co., Ltd.\* (中國華融資產管理股份有限公司), a subsidiary of the Ministry. Therefore, State-Owned Assets Supervision and Administration Commission of Chongqing Municipal Government and the Ministry of Finance of the People's Republic of China are deemed to be interested in 232,132,514 domestic shares of the Company held by Chongqing Construction Engineering Group Co., Ltd.
3. China Huarong Asset Management Co., Ltd.\* (中國華融資產管理股份有限公司) is directly held as to 63.36% by the Ministry of Finance of the People's Republic of China and indirectly held as to 4.22% by it through its wholly-owned China Life Insurance (Group) Company, therefore its interest in 195,962,467 domestic shares of the Company was deemed to be the interests of the Ministry of Finance of the People's Republic of China.
4. The Bank of New York Mellon Corporation holds 100% interest in The Bank of New York Mellon (formerly known as "The Bank of New York"), which holds 87,276,000 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 H Shares of the Company.

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

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

As at the Latest Practicable Date, none of the Directors and the Supervisors of the Company had any direct or indirect interest in any assets which have been acquired or disposed of by or leased to the Company or are proposed to be acquired or disposed of by or leased to the Company since 31 December 2015, 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 CONTRACT**

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

**6. COMPETING INTEREST**

As at the Latest Practicable Date, none of the Directors and his associates was interested in any business, 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 operation position of the Group since 31 December 2015, being the date to which the latest published audited consolidated accounts of the Group were made up.

**9. EXPERT'S QUALIFICATION AND CONSENT**

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

<b>Name</b>	<b>Qualification</b>
TC Capital International Limited	A licensed corporation to carry out type 1 (dealing in securities) and type 6 (advising on corporate finance) regulated activities under the SFO (Chapter 571 of the Laws of Hong Kong)

The Independent Financial Adviser has given and has not withdrawn its written consent to the issue of this circular with the inclusion of its letter, report and/or opinions and/or the references to its name in the form and context in which it respectively appears.

As at the Latest Practicable Date, (i) the Independent Financial Adviser did not have any interest, either direct or indirect, in any assets which had been, since 31 December 2015, being the date to which the latest published audited financial statements of the Company were made up, acquired or disposed of by or leased to any member of the Group or are proposed to be acquired or disposed of by or leased to any member of the Group; and (ii) the Independent Financial Adviser did not have any shareholding interests in any member of the Group and it did not have any right, whether legally enforceable or not, to subscribe for or nominate persons to subscribe for securities of any members of the Group.

**10. MATERIAL CONTRACTS**

As at the Latest Practicable Date, the following contracts (not being a contract entered into in the ordinary course of business) were entered into by members of the Group within the two years immediately preceding the Latest Practicable Date and is, or may be material:

- (i) On 20 February 2014, Chongqing Water Turbine Works Co., Ltd., a wholly owned subsidiary of the Company, and Chongqing Machine Tool (Group) Co., Ltd., entered into a Land Disposal Agreement with Chongqing Land Group at an aggregate consideration of RMB1,296,608,000. For details, please refer to the announcement published on the websites of the Stock Exchange and the Company on 20 February 2014.
- (ii) On 7 April 2015, Chongqing General Industry (Group) Co., Ltd., a wholly-owned subsidiary of the Company, and Carrier Asia Limited entered into the Equity Transfer Agreement for a disposal of 35% equity interest in Chongqing Midea General Refrigeration Equipment Co., Ltd. to Carrier Asia Limited at a consideration of RMB176,587,500. For details, please refer to the announcement published on the websites of the Stock Exchange and the Company on 7 April 2015.

**11. MISCELLANEOUS**

- (i) The registered office and the principal place of business in the PRC of the Company are at No. 60, Middle Section of Huangshan Avenue, New North Zone, Chongqing City, the PRC.
- (ii) The principal place of business of the Company in Hong Kong is Room 502, 5th Floor, 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, Shops 1712-1716, 17/F, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong.
- (iv) The company secretary of the Company is Ms. 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 language text of this circular shall prevail over the Chinese language text.

**12. DOCUMENTS AVAILABLE FOR INSPECTION**

Copies of the following documents will be available for inspection at the office of S.H. Leung & Co. at Room 502, 5th Floor, China Building, 29 Queen's Road Central, Central, Hong Kong during normal business hours on any workday from the date of this circular up to and including 28 June 2016:

- (i) the Articles;
- (ii) 2017-2019 Group Financial Services Framework Agreement;



- (iii) 2017-2019 Parent Group Financial Services Framework Agreement;
- (iv) 2017-2019 Master Sales Agreement;
- (v) the letter from the Independent Board Committee to the Independent Shareholders, the text of which is set out in page 31 of this circular;
- (vi) the letter from the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders, the text of which is set out in pages 32 to 51 of this circular;
- (vii) the written consent from the Independent Financial Advisor;
- (viii) the annual reports of the Company for the two financial years ended 31 December 2014 and 2015;
- (ix) the material contracts referred to in the paragraph headed “Material Contracts” in this Appendix; and
- (x) a copy of this circular.

**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 Tuesday, 28 June 2016 at 9:00 a.m. (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 2015;
2. To consider and approve the report of the Supervisory Committee of the Company for the year ended 31 December 2015;
3. To consider and approve the audited financial statement of the Company and its subsidiaries and the Auditor’s Report for the year ended 31 December 2015;
4. To consider and approve the profit appropriation proposal of the Company for the year ended 31 December 2015 and the declaration of the final dividend of RMB0.025 per share (tax inclusive);
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 2016 to hold office until the conclusion of the next annual general meeting and the total review and audit fees of RMB3.50 million for the Company’s 2016 interim financial statements and annual financial statements;

\* For identification purposes only

6. To consider and approve the Master Sales Agreement entered into between the Company and Chongqing Machinery and Electric Holding (Group) Co., Ltd. on 7 April 2016 (the “2017-2019 Master Sales Agreement”) and the proposed annual caps for such transactions for the three years ended 31 December 2019; and to authorize the directors of the Company to do all such further acts and thing and execute all such further documents and take all such steps that are ancillary to 2017-2019 Master Sales Agreement and of administrative nature which, in their absolute discretion, to implement and/or give effect to the matters contemplated under this resolution;
7. To consider and approve the transactions in respect of the deposit services under the financial services framework agreement entered into between the Company and Chongqing Machinery and Electric Holding (Group) Finance Co., Ltd. on 7 April 2016 (“2017-2019 Group Financial Services Framework Agreement”) and the proposed annual caps for such transactions for the three years ended 31 December 2019; and to authorize the directors of the Company to do all such further acts and things and execute all such further documents and take all such steps that are ancillary to the deposits services under 2017-2019 Group Financial Services Framework Agreement and of administrative nature which, in their absolute discretion, to implement and/or give effect to the matters contemplated under this resolution;
8. To consider and approve the transaction in respect of the loan services under the financial services framework agreement entered into between Chongqing Machinery and Electronic Holding (Group) Co., Ltd. and Chongqing Machinery and Electric Holding (Group) Finance Co., Ltd. on 7 April 2016 (“2017-2019 Parent Group Financial Services Framework Agreement”) and the proposed annual caps for such transactions for the three years ended 31 December 2019 and to authorize the directors of the Company to do all such further acts and things and execute all such further documents and take all such steps that are ancillary to the loan services under the 2017-2019 Parent Group Financial Services Framework Agreement and of administrative nature which, in their absolute direction, to implement and/or give effect to the matters contemplated under this resolutions;
9.
  - (a) To consider and approve the appointment of Mr. Wei Fusheng as a non-executive Director of the next session of the Board of the Company to hold office from the date of the AGM until expiry of the term of the next session of the Board and to authorize the Board to fix the remuneration of Mr. Wei Fusheng pursuant to the remuneration standard for Directors passed at the 2015 annual general meeting and to enter into a service agreement with him on and subject to such terms and conditions as the Board shall think fit and to do all such acts and things to give effect to such matters;
  - (b) To consider and approve the appointment of Mr. Deng Yong as a non-executive Director of the next session of the Board of the Company to hold office from the date of the AGM until expiry of the term of the next session of the Board and to authorize the Board to fix the remuneration of Mr. Deng Yong pursuant to the remuneration standard for Directors passed at the 2015 annual general meeting and to enter into a service agreement with him on and subject to such terms and conditions as the Board shall think fit and to do all such acts and things to give effect to such matters;

- (c) To consider and approve the appointment of Ms. He Xiaoyan as a non-executive Director of the next session of the Board of the Company to hold office from the date of the AGM until expiry of the term of the next session of the Board and to authorize the Board to fix the remuneration of Ms. He Xiaoyan pursuant to the remuneration standard for Directors passed at the 2015 annual general meeting and to enter into a service agreement with him on and subject to such terms and conditions as the Board shall think fit and to do all such acts and things to give effect to such matters;
- 10. To consider and approve the remuneration standards for the fourth session of the Board and the Supervisory Committee;
- 11. To consider and approve the provision of guarantee by the Company for loan of Holroyd of GBP17 million;
- 12. To consider and approve the provision of guarantee by the Company for loans of PTG Development of USD70 million.

#### **SPECIAL RESOLUTIONS**

- 13. To consider and approve the amendments to the Articles of Association of the Company by ways as stated in the circular dispatched to Shareholders by the Board of the Company and to authorize the Board to deal with all matters as required in respect of the amendments to the Articles of Association in accordance with any requirements under domestic or overseas laws (if any) and provisions of any stock exchange where the securities of the Company are listed;
- 14. To give 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, 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 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 of 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 domestic ordinary 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 of Associations 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.”

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

Chongqing, the PRC  
13 May 2016

*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 to be a Member. A form of proxy for use at the Meeting is enclosed herewith. Where two or more persons are registered as 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 Shares register 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 29 May 2016 to 28 June 2016, 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 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 27 May 2016.
4. In order to ascertain the shareholders who are entitled to receive the final dividend, the register of members of the Company will be closed from Tuesday, 5 July 2016 to Sunday 10 July 2016, 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 Register Computershare Hong Kong Investor Services Limited at Rooms 1712-1716, 17/F, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong for registration no later than 4:30 p.m. on Monday, 4 July 2016.
5. Whether the holders of H Shares of the Company could 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 Serviced Limited, at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, or by fax on or before Wednesday, 8 June 2016.
6. Whether the holders of domestic shares of the Company could 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 Wednesday, 8 June 2016.

*As at the date of the announcement, the executive Directors are Mr. Wang Yuxiang, Mr. Xiang Hu and Mr. Yang Quan; the non-executive Directors are Mr. Huang Yong, Mr. Wang Jiyu, Mr. Yang Jingpu and Mr. Deng Yong; and the independent non-executive Directors are Mr. Lo Wah Wai, Mr. Ren Xiaochang, Mr. Jin Jingyu and Mr. Liu Wei.*

**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)

**SUPPLEMENTAL NOTICE OF THE ANNUAL GENERAL MEETING**

Reference is made to the notice of the annual general meeting (the "Meeting" or "AGM") of Chongqing Machinery & Electric Co., Ltd.\* (the "Company") dated 13 May 2016 (the "Former AGM Notice") which sets out the resolutions to be considered by shareholders at the AGM 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 Tuesday, 28 June 2016 at 9:00 a.m. (or any adjournment thereof).

**SUPPLEMENTAL NOTICE IS HEREBY GIVEN** that the AGM, which will be held as originally scheduled, will consider and, if thought fit, pass the following ordinary resolution in addition to the resolutions set out in the Former AGM Notice:

**ORDINARY RESOLUTIONS**

9. (a) To consider and approve the appointment of Mr. Wang Yuxiang as an executive Director of the next session of the Board of the Company to hold office from the date of the AGM until expiry of the term of the next session of the Board and to authorize the Board to fix the remuneration of Mr. Wang Yuxiang pursuant to the remuneration standard for Directors passed at the 2015 annual general meeting and to enter into a service agreement with him on and subject to such terms and conditions as the Board shall think fit and to do all such acts and things to give effect to such matters;
- (b) To consider and approve the appointment of Ms. Chen Ping as an executive Director of the next session of the Board of the Company to hold office from the date of the AGM until expiry of the term of the next session of the Board and to authorize the Board to fix the remuneration of Ms. Chen Ping pursuant to the remuneration standard for Directors passed at the 2015 annual general meeting and to enter into a service agreement with her on and subject to such terms and conditions as the Board shall think fit and to do all such acts and things to give effect to such matters;
- (c) To consider and approve the appointment of Mr. Yang Quan as an executive Director of the next session of the Board of the Company to hold office from the date of the AGM until expiry of the term of the next session of the Board and to authorize the Board to

\* For identification purposes only



fix the remuneration of Mr. Yang Quan pursuant to the remuneration standard for Directors passed at the 2015 annual general meeting and to enter into a service agreement with him on and subject to such terms and conditions as the Board shall think fit and to do all such acts and things to give effect to such matters;

- (d) To consider and approve the appointment of Mr. Huang Yong as a non-executive Director of the next session of the Board of the Company to hold office from the date of the AGM until expiry of the term of the next session of the Board and to authorize the Board to fix the remuneration of Mr. Huang Yong pursuant to the remuneration standard for Directors passed at the 2015 annual general meeting and to enter into a service agreement with him on and subject to such terms and conditions as the Board shall think fit and to do all such acts and things to give effect to such matters;
- (h) To consider and approve the appointment of Mr. Lo Wah Wai as an independent non-executive Director of the next session of the Board of the Company to hold office from the date of the AGM until expiry of the term of the next session of the Board and to authorize the Board to fix the remuneration of Mr. Lo Wah Wai pursuant to the remuneration standard for Directors passed at the 2015 annual general meeting and to enter into a service agreement with him on and subject to such terms and conditions as the Board shall think fit and to do all such acts and things to give effect to such matters;
- (i) To consider and approve the appointment of Mr. Ren Xiaochang as an independent non-executive Director of the next session of the Board of the Company to hold office from the date of the AGM until expiry of the term of the next session of the Board and to authorize the Board to fix the remuneration of Mr. Ren Xiaochang pursuant to the remuneration standard for Directors passed at the 2015 annual general meeting and to enter into a service agreement with him on and subject to such terms and conditions as the Board shall think fit and to do all such acts and things to give effect to such matters;
- (j) To consider and approve the appointment of Mr. Jin Jingyu as an independent non-executive Director of the next session of the Board of the Company to hold office from the date of the AGM until expiry of the term of the next session of the Board and to authorize the Board to fix the remuneration of Mr. Jin Jingyu pursuant to the remuneration standard for Directors passed at the 2015 annual general meeting and to enter into a service agreement with him on and subject to such terms and conditions as the Board shall think fit and to do all such acts and things to give effect to such matters;
- (k) To consider and approve the appointment of Mr. Liu Wei as an independent non-executive Director of the next session of the Board of the Company to hold office from the date of the AGM until expiry of the term of the next session of the Board and to authorize the Board to fix the remuneration of Mr. Liu Wei pursuant to the remuneration standard for Directors passed at the 2015 annual general meeting and to enter into a service agreement with him on and subject to such terms and conditions as the Board shall think fit and to do all such acts and things to give effect to such matters;

10. (a) To consider and approve the appointment of Mr. Xiang Hu as a supervisor of the next session of the Board of Supervisors of the Company to hold office from the date of the AGM until expiry of the term of the next session of the Board of Supervisors and to authorize the Board to fix the remuneration of Mr. Xiang Hu pursuant to the remuneration standard for supervisors passed at the 2015 annual general meeting and to enter into a service agreement with him on and subject to such terms and conditions as the Board shall think fit and to do all such acts and things to give effect to such matters;
- (b) To consider and approve the appointment of Ms. Wu Yi as an independent supervisor of the next session of the Board of Supervisors of the Company to hold office from the date of the AGM until expiry of the term of the next session of the Board of Supervisors and to authorize the Board to fix the remuneration of Ms. Wu Yi pursuant to the remuneration standard for supervisors passed at the 2015 annual general meeting and to enter into a service agreement with her on and subject to such terms and conditions as the Board shall think fit and to do all such acts and things to give effect to such matters;
- (c) To consider and approve the appointment of Mr. Huang Hui as an independent supervisor of the next session of the Board of Supervisors of the Company to hold office from the date of the AGM until expiry of the term of the next session of the Board of Supervisors and to authorize the Board to fix the remuneration of Mr. Huang Hui pursuant to the remuneration standard for supervisors passed at the 2015 annual general meeting and to enter into a service agreement with him on and subject to such terms and conditions as the Board shall think fit and to do all such acts and things to give effect to such matters;
11. To consider and approve the provision of guarantee by the Company for PTG Loans of GBP4 million.

The ordinary resolutions numbered 9(a), 9(b), 9(c), 10, 11 and 12 set out in the Former AGM Notice shall be re-numbered and referred to as ordinary resolutions numbered 9(e), 9(f), 9(g), 11, 13 and 14;

The special resolutions numbered 13 and 14 set out in the Former AGM Notice shall be re-numbered and referred to as special resolutions numbered 15 and 16.

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

Chongqing, the PRC  
8 June 2016

*Notes:*

- (1) A revised proxy form is enclosed with this notice. Whether or not you are able to attend the AGM, you are requested to complete the enclosed revised proxy form in accordance with the instructions printed thereon and return the same to the Company's H Share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong as soon as possible but in any event not less than 24 hours before the time appointed for the holding of the AGM or any adjournment thereof (as the case may be). Completion and return of the revised proxy form will not preclude the shareholders of the Company from attending and voting in person at the AGM or at any adjournment thereof.
- (2) Please refer to the Former AGM Notice for details in respect of the eligibility for attending the AGM, proxy, registration procedures, closure of register of members and other relevant matters.
- (3) Please refer to the Former AGM Notice in respect of the timing and address for attending the AGM and other relevant matters.

*As at the date of the announcement, the executive Directors are Mr. Wang Yuxiang, Mr. Xiang Hu and Mr. Yang Quan; the non-executive Directors are Mr. Huang Yong, Mr. Wang Jiyu, Mr. Yang Jingpu and Mr. Deng Yong; and the independent non-executive Directors are Mr. Lo Wah Wai, Mr. Ren Xiaochang, Mr. Jin Jingyu and Mr. Liu Wei.*