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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 transferees or to the bank, stockbroker or other agent through whom the sale or transfer was affected for transmission to the purchaser(s) or transferee(s).

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CQME

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

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

(Stock Code: 2722)

- (1) CONNECTED TRANSACTIONS AND DISCLOSEABLE TRANSACTIONS-EQUITY TRANSFERS WITH THE PARENT COMPANY;**
(2) CHANGE OF A NON-EXECUTIVE DIRECTOR; AND
(3) NOTICE OF THE EXTRAORDINARY GENERAL MEETING OF THE COMPANY.

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



The letter from the Board of the Company is set out on pages 5 to 18 of this circular.

Notice convening the first 2017 Extraordinary 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 Monday, 27 November 2017 at 10:00 a.m. are set out on pages 119 to 120 of this circular.

A form of proxy for use at the Extraordinary General Meeting has already been despatched to the Shareholders of the Company on 13 October 2017 and such form of proxy is also published on the websites of the Stock Exchange (www.hkexnews.hk) and the Company (www.chinacqme.com). Whether or not you intend to attend the Extraordinary General Meeting, you are requested to complete and return (i) the reply slip dispatched on 13 October 2017 by the Company in accordance with the instructions printed thereon not later than Monday, 6 November 2017 and (ii) the enclosed form of proxy in accordance with the instructions printed thereon not less than 24 hours before the time fixed for holding the Extraordinary General Meeting or any adjournment thereof (as the case may be). Completion and return of the form of proxy will not preclude you from attending the Extraordinary General Meeting and voting in person if you so wish.

7 November 2017

* For identification purposes only

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DEFINITIONS

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

“Equity Transfer Agreements”	four equity transfer agreements entered into by the Company and its Parent Company on 26 September 2017, pursuant to which the Company shall transfer all of the 100% equity interest held by it in Qijiang Gear and 45% equity interest jointly held by it and its subsidiaries in Microcredit (of which Qijiang Gear holds 10% of the equity interest of Microcredit, and the Company and its subsidiaries jointly hold 35% of the equity interest of Microcredit) to the Parent Company, and the Parent Company shall transfer 100% equity interest held by it in Intelligent Manufacturing and Equipment Research Institute to the Company
“Equity Transfers”	pursuant to the Equity Transfer Agreements, the Company shall transfer all of the 100% equity interest held by it in Qijiang Gear and 45% equity interest jointly held by it and its subsidiaries in Microcredit (of which Qijiang Gear holds 10% of the equity interest of Microcredit, and the Company and its subsidiaries jointly hold 35% of the equity interest of Microcredit) to the Parent Company, and the Parent Company shall transfer 100% equity interest held by it in Intelligent Manufacturing and Equipment Research Institute to the Company
“Qijiang Gear”	Qijiang Gear Transmission Co., Ltd* (綦江齒輪傳動有限公司), a limited liability company established in the PRC on 28 December 2002, which is currently a wholly-owned subsidiary of the Company
“Microcredit”	Chongqing Liangjiang New Area Machinery and Electronic Microcredit Co., Ltd.* (重慶市兩江新區機電小額貸款有限公司), a limited liability company established in the PRC on 17 April 2013, in which 45% equity interest is jointly held by the Company and its subsidiaries, and 55% equity interest is jointly held by the Parent Company and its subsidiaries (excluding those of the Group)
“Chongqing General”	Chongqing General Industry (Group) Co., Ltd., a limited liability company established in the PRC on 15 April 1997, which is currently a wholly-owned subsidiary of the Company
“CHMTI”	Chongqing Machine Tools (Group) Co., Ltd., a limited liability company established in the PRC on 23 October 1989, which is currently a wholly-owned subsidiary of the Company

DEFINITIONS

“Pump Industry”	Chongqing Pump Industry Co., Ltd., a limited liability company established in the PRC on 1 September 2002, which is currently a wholly-owned subsidiary of the Company
“Water Turbine”	Chongqing Water Turbine Works Co., Ltd., a limited liability company established in the PRC on 1 December 1981, which is currently a wholly-owned subsidiary of the Company
“Intelligent Manufacturing”	Chongqing Machinery & Electronics Intelligent Manufacturing Co., Ltd.* (重慶機電智能製造有限公司), a limited liability company established in the PRC on 5 August 2015, in which 100% equity interest is held by the Parent Company
“Equipment Research Institute”	Chongqing Machinery & Electronic Equipment Technology Research Institute Co., Ltd.* (重慶機電裝備技術研究院有限公司), a limited liability company established in the PRC on 13 October 2011, in which 100% equity interest is held by the Parent Company
“announcement”	The announcement published by the Company dated 26 September 2017, in relation to the Equity Transfer Agreement entered into between the Company and the Parent Company
“Extraordinary General Meeting” or “EGM”	means the extraordinary 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 Monday, 27 November 2017 at 10:00 a.m., to consider and, if appropriate, to approve the resolutions contained in the notice of the extraordinary general meeting which are set out on pages 119 to 120 of this circular, or any adjournment thereof
“Articles of Association” or “Association”	The articles of association of the Company for the time being in force
“associates”	has the meaning ascribed to it under the Listing Rules
“Board”	means the board of Directors of the Company
“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
“Controlling shareholder(s)”	has the meaning ascribed to it under the Listing Rules
“Director(s)”	means the director(s) of the Company

DEFINITIONS

“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
“Group”	means the Company and its subsidiaries
“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
“Hong Kong”	means the Hong Kong Special Administrative Region of the PRC
“Huakang Valuation”	Chongqing Huakang Asset & Land & Real Estate Valuation Co., Ltd.* (重慶華康資產評估土地房地產估價有限責任公司), a limited liability company established under the laws 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 “Shinco Capital”	Shinco Capital limited, a licensed corporation to carry out type 6 (advising on corporate finance) regulated activity under the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) and has been appointed as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders in respect of the Equity Transfer Agreements
“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 November 2017, being the latest practicable date prior to the printing of this circular for ascertaining certain information in this circular
“Listing Rules”	means the Rules Governing the Listing of Securities on the Stock Exchange
“Parent Company”	means Chongqing Machinery and Electronic Holding (Group) Co., Ltd.* (重慶機電控股(集團)公司), a limited liability company established in the PRC on 25 August 2000 and owned by the Chongqing State-owned Assets Supervision and Administration Commission, being one of the Promoters of the Company

DEFINITIONS

“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
“SFO”	means the Securities and Futures Ordinance (Chapter 571 of the laws of Hong Kong)
“Shareholder(s)”	means the holder(s) of the Shares
“Stock Exchange”	means The Stock Exchange of Hong Kong Limited
“RMB”	means Renminbi, the lawful currency of the PRC
“ShineWing”	ShineWing Certified Public Accountants (Special General Partnership)* (信永中和會計師事務所(特殊普通合夥)), a special general partnership corporation established under the laws of the PRC
“Target Companies”	Qijiang Gear, Microcredit, Intelligent Manufacturing and Equipment Research Institute

LETTER FROM THE BOARD



CQME

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

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

(Stock Code: 2722)

Executive Directors:

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

Non-executive Directors:

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

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 1204-06,
12th Floor, The Chinese Bank Building,
61 Des Voeux Road Central, Central,
Hong Kong

7 November 2017

To the Shareholders

Dear Sir or Madam,

- (1) CONNECTED TRANSACTIONS AND DISCLOSEABLE TRANSACTIONS-
EQUITY TRANSFERS WITH THE PARENT COMPANY;
(2) CHANGE OF A NON-EXECUTIVE DIRECTOR; AND
(3) NOTICE OF EXTRAORDINARY GENERAL MEETING OF THE
COMPANY.**

1. INTRODUCTION

Reference is made by the Board to the announcement of the Company dated 26 September 2017, in relation to these Equity Transfer Agreements entered into between the Company and the Parent Company on 26 September 2017, pursuant to which, the Company shall transfer all of the 100% equity interest held by it

* *For identification purposes only*

LETTER FROM THE BOARD

in Qijiang Gear and 45% equity interest jointly held by it and its subsidiaries in Microcredit (of which Qijiang Gear holds 10% of the equity interest of Microcredit, and the Company and its subsidiaries jointly hold 35% of the equity interest of Microcredit) to the Parent Company. Meanwhile, the Parent Company shall transfer 100% equity interest held by it in Intelligent Manufacturing and Equipment Research Institute to the Company.

The purpose of this circular is to give you the notice of the EGM and to provide you with information regarding certain resolutions to be proposed at the EGM to enable you to make an informed decision on whether to vote for or against those resolutions at the EGM.

2. CONNECTED TRANSACTIONS AND DISCLOSEABLE TRANSACTIONS

Background

The Company entered into the Equity Transfer Agreements with the Parent Company, pursuant to which the Company shall transfer all of the 100% equity interest held by it in Qijiang Gear and 45% equity interest jointly held by it and its subsidiaries in Microcredit (of which Qijiang Gear holds 10% of the equity interest of Microcredit, and the Company and its subsidiaries jointly hold 35% of the equity interest of Microcredit) to the Parent Company. Meanwhile, the Parent Company shall transfer 100% equity interest held by it in Intelligent Manufacturing and Equipment Research Institute to the Company.

Equity Transfer Agreements

i. Equity Transfer Agreement in relation to Qijiang Gear

a. Date:

26 September 2017

b. Parties:

- (1) the Company, as transferor; and
- (2) the Parent Company, as transferee.

c. Subject

The Company shall transfer all of the 100% equity interest held by it in Qijiang Gear to the Parent Company. The said equity interest is not subject to any third party's claims or pledge, and not involved in any disputes or litigation.

Qijiang Gear will cease to be a subsidiary of the Company after the completion of the equity transfer.

LETTER FROM THE BOARD

d. Consideration and Basis of Pricing

The parties, after amicable negotiation, reached an agreement that the consideration for the transaction in relation to the transfer of 100% equity interest in Qijiang Gear is RMB255,465,400. The consideration for the transaction was determined by the parties hereof through fair consultation with reference to the following independent valuation:

- (1) According to the Audit Reports of Qijiang Gear Transmission Co., Ltd. for January to June 2017 and for the year of 2016, 2015 and 2014 (《綦江齒輪傳動有限公司2017年1 – 6月、2016年度、2015年度、2014年度審計報告》(XYZH/2017CQA10333)) issued by ShineWing, as at 30 June 2017, Qijiang Gear had a total assets, total liabilities and net assets of RMB1,209,938,900, RMB988,697,500 and RMB221,241,400, respectively.
- (2) The Report on Assets Valuation of 100% Equity Interest of Qijiang Gear Transmission Co., Ltd. involved in the Equity Transfer Between Chongqing Machinery and Electronic Holding (Group) Co., Ltd. and Chongqing Machinery & Electric Co., Ltd. [CKPBZ (2017) No. 210-1] (《重慶機電控股(集團)公司與重慶機電股份有限公司股權轉讓所涉及的綦江齒輪傳動有限公司股東全部權益的資產評估項目資產評估報告》(重康評報字(2017)第210-1號)) issued by Huakang Valuation has adopted 30 June 2017 as the reference date of valuation and the assets-based approach for conducting the valuation. According to the valuation report, Qijiang Gear had a total assets, total liabilities and net assets of RMB1,234,720,400, RMB979,255,000 and RMB255,465,400, respectively, representing a revaluation surplus of RMB34,224,000 or an appreciation rate of 15.47%.

Upon reviewing the relevant basis of pricing, the Directors (including independent non-executive Directors) consider that the consideration for the transaction is fair and reasonable and in the interests of the Company and its Shareholders as a whole.

e. Payment Terms

The payment terms will be otherwise specified on each separate contract to be entered by both parties on normal commercial terms after taking into consideration the difference between acquisition of equity interest from and disposal of equity interest to the Parent Company by the Company.

f. Condition Precedent

The Equity Transfer Agreement in relation to Qijiang Gear shall be effective after being approved at the EGM of the Company and by the authorised management organisation for state-owned assets.

LETTER FROM THE BOARD

ii. *Equity Transfer Agreement in relation to Microcredit*

a. *Date:*

26 September 2017

b. *Parties:*

- (1) the Company, as transferor;
- (2) Chongqing General, as transferor;
- (3) CHMTI, as transferor;
- (4) Pump Industry, as transferor;
- (5) Water Turbine, as transferor; and
- (6) the Parent Company, as transferee.

c. *Subject*

The Company shall transfer all of the 35% equity interest jointly held by it and its subsidiaries in Microcredit (excluding 10% equity interest in Microcredit held by Qijiang Gear) to the Parent Company. The said equity interest is not subject to any third party's claims or pledge, and not involved in any disputes or litigation.

The Company and its subsidiaries will cease to hold any equity interest in Microcredit after the completion of the equity transfer.

d. *Consideration and Basis of Pricing*

The parties, after amicable negotiation, reached an agreement that the consideration for the transaction in relation to the transfer of 35% equity interest in Microcredit is RMB61,015,700 (the consideration for 10% equity interest in Microcredit has been included in the consideration for 100% equity interest in Qijiang Gear). The consideration for the transaction was determined by the parties hereof through fair consultation with reference to the following independent valuation:

- (1) According to the Audit Reports of Chongqing New North Zone Machinery and Electronic Microcredit Co., Ltd. for January to June 2017 and for the year of 2016, 2015 and 2014 (《重慶兩江新區機電小額貸款有限公司2017年1-6月、2016年度、2015年度、2014年度審計報告》(XYZH/2017CQA10330)) issued by ShineWing, as at the reference date of valuation of 30 June 2017, Microcredit had an audited total assets, total liabilities and net assets of RMB222,024,600, RMB47,789,800 and RMB174,234,800, respectively.

LETTER FROM THE BOARD

- (2) The Report on Assets Valuation of 100% Equity Interest of Chongqing New North Zone Machinery and Electronic Microcredit Co., Ltd. involved in the Equity Transfer Between Chongqing Machinery and Electronic Holding (Group) Co., Ltd. and Chongqing Machinery & Electric Co., Ltd. [CKPBZ (2017) No. 210-2] (《重慶機電控股(集團)公司與重慶機電股份有限公司股權轉讓所涉及的重慶兩江新區機電小額貸款有限公司股東全部權益的資產評估項目資產評估報告》(重康評報字(2017)第210-2號)) issued by Huakang Valuation has adopted 30 June 2017 as the reference date of valuation and the assets-based approach for conducting the valuation. According to the valuation report, Microcredit had a total assets, total liabilities and net assets of RMB222,120,400, RMB47,789,800 and RMB174,330,600, respectively, representing a revaluation surplus of RMB95,800 or an appreciation rate of 0.05%.

Upon reviewing the relevant basis of pricing, the Directors (including independent non-executive Directors) consider that the consideration for the transaction is fair and reasonable and in the interests of the Company and its Shareholders as a whole.

e. Payment Terms

The payment terms will be otherwise specified on each separate contract to be entered by both parties on normal commercial terms after taking into consideration the difference between acquisition of equity interest from and disposal of equity interest to the Parent Company by the Company.

f. Condition Precedent

The Equity Transfer Agreement in relation to Microcredit shall be effective after being approved at the EGM of the Company and by the authorised management organisation for state-owned assets.

iii. Equity Transfer Agreement in relation to Intelligent Manufacturing

a. Date:

26 September 2017

b. Parties:

- (1) the Company, as transferee; and
- (2) the Parent Company, as transferor.

LETTER FROM THE BOARD

c. *Subject*

The Parent Company shall transfer 100% equity interest held by it in Intelligent Manufacturing to the Company. The said equity interest is not subject to any third party's claims or pledge, and not involved in any disputes or litigation.

Intelligent Manufacturing will become a subsidiary of the Company after the completion of the equity transfer.

d. *Consideration and Basis of Pricing*

The parties, after amicable negotiation, reached an agreement that the consideration for the transaction in relation to the transfer of 100% equity interest in Intelligent Manufacturing is RMB132,719,700. The consideration for the transaction was determined by the parties hereof through fair consultation with reference to the following independent valuation:

- (1) According to the Audit Reports of Chongqing Machinery & Electronics Intelligent Manufacturing Co., Ltd. for January to June 2017 and for the year of 2016 and 2015 (《重慶機電智能製造有限公司2017年1-6月、2016年度、2015年度審計報告》(XYZH/2017CQA10331)) issued by ShineWing, as at 30 June 2017, Intelligent Manufacturing had an audited total assets, total liabilities and net assets of RMB122,100,200, RMB23,502,600 and RMB98,597,600, respectively.
- (2) The Report on Assets Valuation of 100% Equity Interest of Chongqing Machinery & Electronics Intelligent Manufacturing Co., Ltd. involved in the Equity Transfer Between Chongqing Machinery and Electronic Holding (Group) Co., Ltd. and Chongqing Machinery & Electric Co., Ltd. [CKPBZ (2017) No. 210-3] (《重慶機電控股(集團)公司與重慶機電股份有限公司股權轉讓所涉及的重慶機電智能製造有限公司股東全部權益的資產評估項目資產評估報告》(重康評報字(2017)第201-3號)) issued by Huakang Valuation has adopted 30 June 2017 as the reference date of valuation and the assets-based approach for conducting the valuation. According to the evaluation report, Intelligent Manufacturing had a total assets, total liabilities and net assets of RMB156,222,300, RMB23,502,600 and RMB132,719,700, respectively, representing a revaluation surplus of RMB34,122,100 or an appreciation rate of 34.61%.

Upon reviewing the relevant basis of pricing, the Directors (including independent non-executive Directors) consider that the consideration for the transaction is fair and reasonable and in the interests of the Company and its Shareholders as a whole.

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e. Payment Terms

The payment terms will be otherwise specified on each separate contract to be entered by both parties on normal commercial terms after taking into consideration the difference between acquisition of equity interest from and disposal of equity interest to the Parent Company by the Company.

f. Condition Precedent

The Equity Transfer Agreement in relation to Intelligent Manufacturing shall be effective after being approved at the EGM of the Company and by the authorised management organisation for state-owned assets.

iv. Equity Transfer Agreement in relation to Equipment Research Institute

a. Date:

26 September 2017

b. Parties:

- (1) the Company, as transferee; and
- (2) the Parent Company, as transferor.

c. Subject

The Parent Company shall transfer 100% equity interest held by it in Equipment Research Institute to the Company. The said equity interest is not subject to any third party's claims or pledge, and not involved in any disputes or litigation.

Equipment Research Institute will become a subsidiary of the Company after the completion of the equity transfer.

d. Consideration and Basis of Pricing

The parties, after amicable negotiation, reached an agreement that the consideration for the transaction in relation to the transfer of 100% equity interest in Equipment Research Institute is RMB14,388,800. The consideration for the transaction was determined by the parties hereof through fair consultation with reference to the following independent valuation:

- (1) According to the Audit Reports of Chongqing Machinery & Electronic Equipment Technology Research Institute Co., Ltd. for January to June 2017 and for the year of 2016, 2015 and 2014 (《重慶機電裝備技術研究院有限公司 2017年1-6月、2016年度、2015年度、2014年度審計報告》(XYZH/2017CQA10332)) issued by ShineWing, as at 30 June 2017, being the valuation

LETTER FROM THE BOARD

reference date, Equipment Research Institute had an audited total assets, total liabilities and net assets of RMB25,825,700, RMB11,686,200 and RMB14,139,500, respectively.

- (2) The Report on Assets Valuation of 100% Equity Interest of Chongqing Machinery & Electronic Equipment Technology Research Institute Co., Ltd. involved in the Equity Transfer Between Chongqing Machinery and Electronic Holding (Group) Co., Ltd. and Chongqing Machinery & Electric Co., Ltd. [CKPBZ (2017) No. 210- 4] (《重慶機電控股(集團)公司與重慶機電股份有限公司股權轉讓所涉及的重慶機電裝備技術研究院有限公司股東全部權益的資產評估項目資產評估報告》(重康評報字(2017)第210-4號)) issued by Huakang Valuation has adopted 30 June 2017 as the reference date of valuation and the assets-based approach for conduction the valuation. According to the valuation report, Equipment Research Institute had a total assets, total liabilities and net assets of RMB26,075,000, RMB11,686,200 and RMB14,388,800, respectively, representing a revaluation surplus of RMB249,300 or an appreciation rate of 1.76%.

Upon reviewing the relevant basis of pricing, the Directors (including independent non-executive Directors) consider that the consideration for the transaction is fair and reasonable and in the interests of the Company and its Shareholders as a whole.

e. Payment Terms

The payment terms will be otherwise specified on each separate contract to be entered by both parties on normal commercial terms after taking into consideration the difference between acquisition of equity interest from and disposal of equity interest to the Parent Company by the Company.

f. Condition Precedent

The Equity Transfer Agreement in relation to Equipment Research Institute shall be effective after being approved at the EGM of the Company and by the authorised management organisation for state-owned assets.

General Information

Information on the Company

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

LETTER FROM THE BOARD

Information on the Parent Company

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

Information on the Target Companies

a. Qijiang Gear

Qijiang Gear, established in December 2002 with a registered capital of RMB200 million, is currently a wholly-owned subsidiary of the Company. Qijiang Gear is principally engaged in the manufacturing and sales of auto parts, transmission system, box assembly and their relevant components, bevel gears, cylindrical gears and other gears and shafts. The operation revenue, net profit before taxation and net profit after taxation of Qijiang Gear were RMB527,638,000, RMB-277,143,400 and RMB-248,552,200 respectively in 2015, and RMB389,170,500, RMB-73,460,600 and, RMB-64,952,000 respectively in 2016.

b. Microcredit

Microcredit, established in April 2013 with a registered capital of RMB200 million, is jointly held as to 55% by the Parent Company and its subsidiary which is Chongqing Jian'an Instruments Co., Ltd. and jointly held as to 45% by the Company and its subsidiaries (including CHMTI, Qijiang Gear, Chongqing General, Pump Industry and Water Turbine). Microcredit is principally engaged in the provision of loans, notes discounting, assets transfer in Chongqing and conducting equity investment with self-owned funds in China. The operation revenue, net profit before taxation and net profit after taxation of Microcredit were RMB21,799,200, RMB-7,635,600 and RMB-6,496,000 respectively in 2015, and RMB4,517,600, RMB-21,368,900 and RMB-18,171,900 respectively in 2016.

c. Intelligent Manufacturing

Intelligent Manufacturing, established in August 2015 with a registered capital of RMB101,610,400, is currently a wholly-owned subsidiary of the Parent Company. Intelligent Manufacturing is principally engaged in the design, manufacturing and sales of industrial robots, public service robots, automation equipment, intelligent equipment, ASRS and warehouse logistics equipment, as well as development, manufacturing, installation and maintenance of industrial automation, intellectualized system and production line. The operation revenue, net profit before taxation and net profit after taxation of Intelligent Manufacturing were RMB68,482,000, RMB7,082,200 and RMB6,539,700 respectively in 2015, and RMB59,794,900, RMB-666,400 and RMB-419,500 respectively in 2016.

LETTER FROM THE BOARD

d. Equipment Research Institute

Equipment Research Institute, established in October 2011 with a registered capital of RMB20 million, is currently a wholly-owned subsidiary of the Parent Company now. Equipment Research Institute is principally engaged in research and development of electrical and mechanical equipment technology, technical consultancy, promotion of technology, as well as designing, research and development, manufacturing and sales of electrical and mechanical equipment products. The operation revenue, net profit before taxation and net profit after taxation of Equipment Research Institute were RMB460,400, RMB-2,329,800 and RMB-2,329,800 respectively in 2015, and RMB5,459,000, RMB1,762,300 and RMB1,762,300 respectively in 2016.

Unit: RMB0'000

The Target Companies with equity interest to be transferred	Shareholding	Financial information as at 30 June 2017				Owners' equity based on shareholding
		Audited total assets	Audited net assets	Appraised value of net assets	Revaluation surplus	
Assets to be disposed by the Company						
Qijiang Gear	100%	120,993.89	22,124.14	25,546.54	3,422.40	25,546.54
Microcredit	35%*	22,202.46	17,423.48	17,433.06	9.58	6,101.57
Total assets to be transferred out		143,196.35	39,547.62	42,979.60	3,431.98	31,648.11
Assets to be acquired by the Company						
Equipment Research Institute	100%	2,582.57	1,413.95	1,438.88	24.93	1,438.88
Intelligent Manufacturing	100%	12,210.02	9,859.76	13,271.97	3,412.21	13,271.97
Total assets to be transferred in		14,792.59	11,273.71	14,710.85	3,437.14	14,710.85
Difference between total and assets to be transferred in and transferred out		128,403.76	28,273.91	28,268.75	-5.16	16,937.26

* *Aggregate shareholding held by the Company and its subsidiaries (excluding those held by Qijiang Gear)*

Based on the appraised value of the Target Companies as at 30 June 2017, the total appraised asset value of the equity to be transferred by the Parent Company to the Company amounted to RMB147,108,500; the total appraised asset value of the equity to be transferred by the Company to the Parent Company amounted to RMB316,481,100. Given that difference between total value of assets to be transferred under Equity Transfers amounted to RMB169,372,600, the Parent Company will pay RMB169,372,600 in cash to the Company within 20 working days after the Equity Transfer Agreements coming into force to make up the difference in consideration arising from the Equity Transfers.

LETTER FROM THE BOARD

Reasons for and Benefits of the Equity Transfer Agreements

(I) To improve the profitability and financing ability of the Company

A number of subsidiaries of the Company including Qijiang Qi-Chi Forging Co., Ltd. owned by Qijiang Gear and Chongqing Qi-Chi Automotive Part Co., Ltd. are undergoing liquidation process. The ownership of these subsidiaries by the Company will drag down the performance of the Company, while the disposition of subsidiaries with weaker profitability will further improve the profitability of the Company and contributes to the enhancing of its financing ability in the capital market.

(II) To avoid horizontal competition between the Company and the Parent Company

As the intelligent manufacturing business of the Company and the Parent Company are similar, the consolidation of the operation of intelligent manufacturing business by the Company will avoid horizontal competition between it and the Parent Company. Upon completion of the transfer of equity interest of Intelligent Manufacturing, none of the Parent Company or its associates (other than the Company) will carry out business which competes with the business of Intelligent Manufacturing.

(III) To strengthen synergistic effect and innovation-driven ability in the industry

As most of the products developed by Equipment Research Institute are entrusted by the subsidiaries of the Company and Intelligent Manufacturing, the consolidation of Equipment Research Institute into the Company will strengthen synergistic effect, and Equipment Research Institute as the innovation and development platform of the Company is more conducive to drive the innovative and development ability of the Company and its subsidiaries.

The Directors (including independent non-executive Directors) are of the opinion that the Equity Transfer Agreements and the transactions contemplated thereunder are entered into after arm's length negotiations and, although not entered in the ordinary and usual course of business of the Company, the terms of the Equity Transfer Agreements are fair and reasonable, on normal commercial terms and in the interests of the Company and shareholders as a whole.

Impact of the Disposals

In view of the fact that the Company shall dispose 100% and 35% equity interest in Qijiang Gear and Microcredit respectively, and the book value of 100% equity interest of Qijiang Gear in its management account as at 30 June 2017 amounted to RMB221,241,400, it is expected that the disposal of 100% equity interest in Qijiang Gear will generate a gain of RMB34,224,000 (being the difference between the consideration and the corresponding book value); the book value of 35% equity interest of Microcredit in its management account as at 30 June 2017 amounted to RMB60,982,200, it is expected that the disposal of 35% equity interest in Microcredit will generate a gain of RMB33,500 (being the difference between the consideration and the corresponding book value). It is expected that an aggregate gain of RMB34,257,500 will accrue from the above-mentioned disposals. The Company will allocate the proceeds from the disposals to supplement its working capital.

LETTER FROM THE BOARD

Implications under the Listing Rules

The Parent Company is the Controlling Shareholder of the Company and holds 52.54% equity interest of the Company, which is a connected person of the Company under the Listing Rules. Therefore, the Equity Transfers between the Company and the Parent Company under the Equity Transfer Agreements constitute connected transactions of the Company under the Listing Rules.

As the Equity Transfers involve both acquisitions and disposals of the Company, the Company will classify the Equity Transfers by reference to the higher of the relevant percentage ratios of the acquisitions and the disposals under Rule 14.24 of the Listing Rules in Hong Kong, and will, based on such classification, comply with the applicable requirements under the Listing Rules in Hong Kong. As certain applicable percentage ratios under the Equity Transfer Agreements are above 5% but less than 25% and the transaction considerations exceed HK\$10,000,000, the transactions under the Equity Transfer Agreements constitute connected transactions of the Company under Chapter 14A of the Listing Rules, and are subject to the reporting, annual review, announcement and Independent Shareholders' approval requirements under the Listing Rules. In addition, as certain applicable percentage ratios under the Equity Transfer Agreements are above 5% but less than 25%, these transactions under the Equity Transfer Agreements also constitute discloseable transactions based on Chapter 14 of the Listing Rules, and are subject to the reporting and announcement requirements.

Other Matters

Pursuant to the Listing Rules, an Independent Board Committee comprising all the independent non-executive Directors has been established by the Company to advise the Independent Shareholders on the terms of the transactions under the Equity Transfer Agreements. Shinco Capital has been appointed as the Independent Financial Adviser by the Company to advise the Independent Board Committee and Independent Shareholders as to whether the terms and conditions of the Equity Transfer Agreements and the transactions contemplated thereunder are fair and reasonable so far as the Independent Shareholders are concerned, are on normal commercial terms or better and in the ordinary and usual course of business of the Group, and are in the interests of the Company and Shareholders as a whole.

The EGM will be convened by the Company at which resolutions will be proposed to seek approval from the Independent Shareholders for the transactions contemplated under the Equity Transfer Agreements. The Parent Company and its associates hold 1,935,877,189 shares of the Company (representing 52.54% of the equity interest of the Company) and each of them will abstain from voting on the relevant resolutions to be proposed at the EGM.

Mr. Wang Yuxiang (chairman of the Parent Company), Mr. Huang Yong (president of the Parent Company) and Ms. Chen Ping (director 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 Equity Transfer Agreements and have abstained from voting on the relevant Board resolutions to approving the Equity Transfer Agreements.

LETTER FROM THE BOARD

3. CHANGE OF A NON-EXECUTIVE DIRECTOR

The Board announces that Mr. Wei Fusheng (“**Mr. Wei**”) shall resign as a non-executive Director of the Company due to adjustment of work, which shall become effective since Mr. Dou Bo (“**Mr. Dou**”) is appointed as the new non-executive director. Mr. Wei has confirmed that he has no disagreement with the Company and there is no matter in respect of his resignation which need to be brought to the attention of the Shareholders. The Board wishes to express the gratitude to Mr. Wei for his contribution to the Company during his tenure in the Company. In order to replace Mr. Wei after his resignation, the Company proposed to appoint Mr. Dou as a non-executive Director. The appointment of Mr. Dou is subject to the approval of the Shareholders at the EGM. Mr. Dou’s detailed biography is as follows:

Mr. Dou, aged 48, is a senior accountant with more than 20 years of financial management experience. Mr. Dou has served as secretary of the board and securities general manager of Chongqing Construction Engineering Group Co., Ltd. (重慶建工集團股份有限公司) from July 2017 to now. He has been the securities general manager of Chongqing Construction Engineering Group Co., Ltd. (重慶建工集團股份有限公司) from February 2011 to July 2017, and has been the general manager of financial assets department of Chongqing Construction Engineering Group Co., Ltd. (重慶建工集團股份有限公司) from March 2008 to February 2011 during which he received his Master’s degree in Business Administration in Chongqing University from March 2005 to December 2009. He was the chief financial officer of Chongqing Second Construction Co., Ltd. (重慶第二建設有限公司) from March 2007 to March 2008, was appointed as the chief accountant of Chongqing Second Construction Co., Ltd. (重慶第二建設有限公司) from March 2003 to March 2007, was appointed as deputy chief accountant of Chongqing Second Construction Co., Ltd. (重慶第二建設有限公司) from July 2002 to March 2003 and was appointed as deputy director of finance department of Chongqing Second Construction Engineering Company (重慶第二建築工程公司) from July 1996 to July 2002. In April 2000, he was the chief financial officer of Chongqing Tianyou Property Development Co., Ltd. (重慶天友物業發展有限公司) during which he graduated from accounting profession of Chongqing University December 2001 by self-learning. From October 1988 to July 1996, he was appointed as cashier, accountant and financial officer of finance section in the fourth branch of Chongqing Construction Engineering Company(重慶第二建築工程公司四分公司). He graduated from the major of infrastructure finance in Chongqing Radio and Television University(重慶廣播電視大學) in September 1986 to July 1988.

Mr. Dou has not been a director of any other listed company in the past three years. Mr. Dou does not hold any other position in the Company and other members of the Group and does not have any relationship with the directors, senior management, the Company’s substantial or controlling shareholder, nor does he hold any equity defined by Part XV of the Securities and Futures Ordinance in the securities of the Company. If Mr. Dou is appointed as a non-executive director at the EGM, for the appointment of Mr. Dou as a non-executive director, the Company enter into a service contract with him. The tenure of Mr. Dou will take effect from the date of the EGM until the expiration of the tenure of the Board.

Mr. Dou is entitled to receive remuneration from the Board, and the Board will determine Mr. Dou’s salary based on the remuneration standards for non-executive Directors as approved in the 2015 annual general meeting, but should subject to the approval of Mr. Wei’s resignation at the EGM.

LETTER FROM THE BOARD

Save as disclosed above, the Board is not aware of any matter in respect of the appointment of Mr. Dou that need to be brought to the attention of the Shareholders, nor is there any information that needs to be disclosed in accordance with Rule 13.51 (2) (h) to (v) of the Listing Rules.

4. EGM AND PROXY ARRANGEMENT

The notice of EGM is set out on pages 119 to 120 of this circular. At the EGM, resolutions will be proposed to approve, inter alia, (i) these Equity Transfer Agreements; (ii) change of a non-executive Director.

A form of proxy for use at the EGM has already been despatched to the Shareholders of the Company on 13 October 2017 and such form of proxy is also published on the websites of the Stock Exchange (www.hkex.com.hk) and the Company (www.chinacqme.com). Whether or not you intend to attend the EGM, you are requested to complete and return (i) the reply slip despatched by the Company on 13 October 2017 in accordance with the instructions printed thereon not later than Monday, 6 November 2017 and (ii) the form of proxy enclosed herein in accordance with the instructions printed thereon not less than 24 hours before the time fixed for holding the EGM or any adjournment thereof (as the case may be). Completion and return of the form of proxy will not preclude you from attending the EGM and voting in person if you so wish.

To the best of the Director's knowledge, information and belief and having made all reasonable enquires, other than the Parent Company and its associates who shall abstain from voting at the EGM in respect of the Equity Transfer Agreements, none of the Directors or Shareholders has a material interest on the resolutions proposed at the EGM, and no Shareholder is required to abstain from voting on any of the resolutions at the EGM.

5. PROCEDURES FOR VOTING AT THE EGM

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

6. RECOMMENDATION

The Directors consider that all resolutions proposed and approved by the Shareholders at the EGM are in the best interests of the Company and the Shareholders as a whole.

Accordingly, the Directors recommend that all shareholders vote in favor of all the resolutions proposed at the EGM in the notice of the EGM.

Yours faithfully,
By Order of the Board
Chongqing Machinery & Electric Co., Ltd.*
Wang YuXiang
Executive Director, 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)

7 November 2017

To the Independent Shareholders

Dear Sir or Madam,

Reference is made to the circular issued by the Company to the Shareholders dated 7 November 2017 (the “**Circular**”) of which this letter forms a part. Unless the context otherwise specified, capitalized 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 terms of the Equity Transfer Agreements. Shinco 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 20 to 38 of the Circular and the additional information is set out in the appendices thereto.

Having considered the terms of these Equity Transfer Agreements, and taking into account the independent advice of Shinco Capital, in particular the principal factors, reasons and recommendations set out in its letter on pages 20 to 38 of the Circular, we consider that the Equity Transfer Agreements are on normal commercial terms or better and fair and reasonable so far as the Independent Shareholders are concerned and the Equity Transfers, although not conducted in the ordinary and usual course of business of the Group, are in the interests of the Company and the Shareholders as a whole. Accordingly, we recommend you to vote in favor of the ordinary resolution to be proposed at the EGM to approve the Equity Transfer Agreements.

Yours faithfully,

the Independent Board Committee

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

* *For identification purposes only*

The following is the text of a letter of advice from Shinco Capital Limited, the independent financial adviser to the Independent Board Committee and Independent Shareholders, for the purpose of incorporation into this circular.



Room 1106, 11/F
Office Plus@Sheung Wan
No. 93 – 103 Wing Lok Street
Sheung Wan
Hong Kong

7 November 2017

*To the Independent Board Committee and the Independent Shareholders of
Chongqing Machinery & Electric Co., Ltd. (the “Company”)*

Dear Sir or Madam,

CONNECTED TRANSACTIONS AND DISCLOSEABLE TRANSACTIONS- EQUITY TRANSFERS WITH THE PARENT COMPANY

INTRODUCTION

We refer to our appointment as the independent financial adviser to the Independent Board Committee and the Independent Shareholders in respect of the Equity Transfers which constitute discloseable and connected transactions of the Company, details of which are set out in the circular of the Company dated 7 November 2017 (the “**Circular**”) of which this letter (the “**Letter**”) forms part. Capitalised terms used in this Letter shall have the same meanings as defined in the Circular, unless the context requires otherwise.

As set out in the announcement of the Company dated 26 September 2017, the Company entered into the Equity Transfer Agreements with the Parent Company, pursuant to which (i) the Company has conditionally agreed to transfer (a) 100% equity interest held by it in Qijiang Gear for a consideration of RMB255,465,400 and (b) 35% equity interest jointly held by it and its subsidiaries in Microcredit (other than the 10% equity interest of Microcredit held through Qijiang Gear which will be sold in (a) above) for a consideration of RMB61,015,700 to the Parent Company; and (ii) the Parent Company has conditionally agreed to transfer (a) 100% equity interest held by it in Intelligent Manufacturing for a consideration of RMB132,719,700 and (b) 100% equity interest held by it in Equipment Research Institute for a consideration of RMB14,388,800 to the Company. The Parent Company will pay RMB169,372,600 in cash to the Company to make up the net difference in considerations arising from the Equity Transfers. Upon completion of all the Equity Transfers, the Company will no longer hold any equity interest in Qijiang Gear and Microcredit, meanwhile the Company will hold 100% equity interest in Intelligent Manufacturing and Equipment Research Institute.

As the Parent Company is the Controlling Shareholder of the Company, in which the Parent Company and its associates hold 1,935,877,189 Shares of the Company (representing approximately 52.54% of the equity interest of the Company), the Parent Company is a connected person of the Company under the Listing Rules. Therefore, the transactions contemplated under the Equity Transfer Agreements constitute connected transactions for the Company under Rule 14A of the Listing Rules. Each of the Parent Company and its associates will abstain from voting on the relevant resolution to be proposed at the EGM. As certain applicable percentage ratios under the Equity Transfer Agreements are above 5% but less than 25% and the transaction considerations exceed HK\$10,000,000, the transactions contemplated under the Equity Transfer Agreements are subject to the reporting, announcement and Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

In addition, as certain applicable percentage ratios under the Equity Transfer Agreements are above 5% but less than 25%, the transactions contemplated under the Equity Transfer Agreements also constitute discloseable transactions based on Chapter 14 of the Listing Rules, and are subject to the reporting and announcement requirements.

As set out in the Letter from the Board, as Mr. Wang Yuxiang (chairman of the Parent Company), Mr. Huang Yong (president of the Parent Company) and Ms. Chen Ping (director of the Parent Company) hold management positions in the Parent Company and are also the Directors, they are deemed to have material interests in the Equity Transfer Agreements and the transactions contemplated thereunder and have abstained from voting on the relevant Board resolution approving the Equity Transfer Agreements and the transactions contemplated thereunder.

The Independent Board Committee, comprising all the independent non-executive Directors, namely Mr. Lo Wah Wai, Mr. Ren Xiaochang, Mr. Jin Jingyu and Mr. Liu Wei, has been established to give advice and recommendation to the Independent Shareholders in respect of the Equity Transfer Agreements and the transactions contemplated thereunder.

We, Shinco Capital, have been appointed as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders as to (i) whether the Equity Transfer Agreements and the transactions contemplated thereunder are on normal commercial terms or better and are fair and reasonable so far as the Independent Shareholders are concerned; (ii) whether the Equity Transfer Agreements and the transactions contemplated thereunder are in the interests of the Company and the Shareholders as a whole and are conducted in the ordinary and usual course of business of the Group; and (iii) how the Independent Shareholders should vote in respect of the resolution to approve the Equity Transfer Agreements and the transactions contemplated thereunder at the EGM.

BASIS OF OUR OPINION

In formulating our opinion to the Independent Board Committee and the Independent Shareholders, we have relied upon the information, facts and representations contained in the Circular, the opinions expressed by the management of the Company to us and our review of the relevant public information. We have assumed that all such information, facts and representations were true and accurate in all respects at the time they were supplied or made and continue to be true and accurate as at the Latest Practicable Date and can be relied upon. We have no reason to suspect that any material facts or information have been withheld

or to doubt the truth, accuracy and completeness of the information and facts contained in the Circular, or the reasonableness of the opinions expressed by the Company, its management and/or the Directors, which have been provided to us.

The Directors have collectively and individually accepted full responsibility for the accuracy of the information contained in the Circular and have confirmed, having made all reasonable enquiries, which to the best of their knowledge and belief, that the information contained in the 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 in the Circular misleading. We, as the independent financial adviser, take no responsibility for the contents of any part of the Circular, save and except for this Letter of advice.

We have taken all reasonable and necessary steps to comply with the requirements set out in Rule 13.80 of the Listing Rules. We consider that we have been provided with sufficient information to enable us to reach an informed view. We have not, however, conducted any independent verification of such information or any independent in-depth investigation into the business, affairs, financial position or prospects of the Group nor have we carried out any in-depth research on the Group, the Parent Company, the Target Companies and their respective associates.

We have not made any independent evaluation or appraisal of the assets and liabilities of the Target Companies, and we have not been furnished with any such evaluation or appraisal, save as and except for valuation reports for each of the Target Companies issued by Huakang Valuation. Since we are not expert in the valuation, we have relied upon the valuation reports for each of the Target Companies issued by Huakang Valuation.

As at the Latest Practicable Date, we are not connected with the directors, chief executive and substantial shareholders of the Company or the Parent Company or the Target Companies or any of their respective subsidiaries or their respective associates, and, as at the Latest Practicable Date, we did not have any shareholding, directly or indirectly, in any of the Company or the Parent Company or the Target Companies or their respective subsidiaries or their respective associates and, as at the Latest Practicable Date, we did not have any shareholding, directly or indirectly, in any member of the Group or any right, whether legally enforceable or not, to subscribe for or to nominate persons to subscribe for securities in any member of the Group and therefore is considered suitable as defined under Rule 13.84 of the Listing Rules to give independent advice to the Independent Board Committee and the Independent Shareholders.

Save for this appointment as the Independent Financial Adviser in respect of the Equity Transfers, there were no other engagements between Shinco Capital and the Company, the Parent Company or the Target Companies, in the last two years prior to the date of the Circular. Apart from normal professional fees payable to us in connection with this appointment as the Independent Financial Adviser, no arrangement exists whereby we will receive any fees or benefit from the Company or the Parent Company or the Target Companies or their respective subsidiaries or their respective associates or their respective substantial shareholders. Accordingly, pursuant to Rule 13.84 of the Listing Rules, we consider that we are eligible to give independent advice on the Equity Transfer Agreements and the transactions contemplated thereunder.

PRINCIPAL FACTORS AND REASONS CONSIDERED

In arriving our opinion and advice to the Independent Board Committee and the Independent Shareholders in respect of the Equity Transfer Agreements and the transactions contemplated thereunder, we have taken into consideration of the following principal factors and reasons.

1. Background and financial information of the Company

The Group is principally engaged in designing, manufacturing and sales of automobile parts and components, power equipment, general machinery, CNC machine tools and trade & finance business. As illustrated in Table 1 below, main operating segments of the Company included (i) materials sales; (ii) designing, manufacturing and sales of general machinery (for example, industrial pumps, gas compressors, separation machines, refrigeration machines, and industrial fans, etc.); and (iii) designing, manufacturing and sales of power equipment (i.e. electrical wires and cables, and hydroelectric generation equipment), which, in aggregate, accounted for approximately 70% of the Company's revenue on average over the past three financial years.

Set out below is a summary of the financial results of the Group for the three financial years ended 31 December 2014, 2015 and 2016 which are extracted from the 2015 and 2016 annual reports of the Company, and for the six months ended 30 June 2016 and 2017 which are extracted from the 2017 interim report of the Company:

Table 1:

	For the financial year ended			For the six months ended	
	31 December			30 June	
	2014	2015	2016	2016	2017
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
	(audited)	(audited)	(audited)	(unaudited)	(unaudited)
Revenue	9,485,570	9,010,422	9,129,302	4,793,500	3,510,048
<i>Materials sales</i>	2,565,603	2,556,771	3,716,627	2,107,457	785,096
<i>General machinery</i>	1,109,236	1,558,469	1,798,492	912,704	848,450
<i>Electrical wires and cables</i>	2,449,903	2,154,749	1,223,131	625,838	732,343
<i>Other operating segments (Note)</i>	3,360,828	2,740,433	2,391,052	1,147,501	1,144,159
Gross Profit	1,064,776	987,468	1,010,458	499,381	433,568
Profit before taxation	630,679	523,896	534,700	243,221	257,918
Net profit	563,773	466,585	506,199	214,363	227,496

Source: 2015 and 2016 Annual Reports of the Company, and 2017 Interim Report of the Company.

Note: Other operating segments of the Company include designing, manufacturing and sales of gear boxes/ transmission systems, hydroelectric generation equipment and machinery tools, provision of financial services and other segments.

For the financial year ended 31 December 2015

As illustrated in Table 1 above, the Group's revenue amounted to approximately RMB9.0 billion for the year ended 31 December 2015, representing a decrease of approximately 5.0% as compared to the previous financial year. Also, the Group recorded the profit before taxation and net profit of approximately RMB523.9 million and RMB466.6 million respectively for the financial year ended 31 December 2015, representing year-on-year decreases of approximately 16.9% and 17.2% as compared to the previous financial year.

With reference to the 2015 Annual Report of the Company, the Company faced a complex and ever-changing global economy, in particular the downward pressure on the PRC's economy. Also, the Company faced significant pressure and challenges as the equipment manufacturing industry was afflicted with structural overcapacity and cruel market competition. For example, the drop in revenue from the Company's gear boxes business (2014: approximately RMB733.8 million; 2015: approximately RMB527.1 million) which decreased by approximately 28.2% year-over-year for the financial year ended 31 December 2015 was mainly attributable to the decrease in demands, change in the products structure and the decline in selling prices in the vehicle market. In order to get rid of this backdrop, the Group took the general approach of "deepen reform for further development, refine management to enhance efficiency", and took a strategy to secure orders, strengthen management and control, push ahead with the transformation, accelerate transformation and upgrading, speed up reform and innovation and expansion of market.

For the financial year ended 31 December 2016

As illustrated in Table 1 above, the Group's revenue amounted to approximately RMB9.1 billion for the year ended 31 December 2016, representing a slight increase of approximately 1.3% as compared to the previous financial year. For the year ended 31 December 2016, the Group recorded profit before taxation and net profit of approximately RMB534.7 million and RMB506.2 million respectively, representing year-on-year increases of approximately 2.1% and 8.5% respectively as compared to the previous financial year.

With reference to the 2016 Annual Report of the Company, the Group deepened the adjustment of industrial structure and implemented the general idea of "deepening the reform in the supply side and stimulating the innovation vitality of the enterprise" to improve the operation quality, effectively control the cost management, promote the high-end product structure, and gain the new source of growth in the domestic and foreign markets. Therefore, despite the fact that the global economy remained uncertain and the recovery of major economies slowed down throughout the year 2016, the Group's revenue and profitability were improved in general.

For the six months ended 30 June 2017

As illustrated in Table 1 above, the Group recorded a year-on-year decrease in its revenue by approximately 26.8% as compared to the corresponding period in the previous financial year to approximately RMB3.5 billion for the six months ended 30 June 2017. Meanwhile, the Group

recorded profit before taxation and net profit of approximately RMB257.9 million and RMB227.5 million respectively for the six months ended 30 June 2017, representing increases of approximately 6.0% and 6.1% respectively as compared to the corresponding period in the previous financial year.

With reference to the 2017 Interim Report of the Company, although market demand was stabilized and its revenue increased in the power equipment segment and CNC machine tools segment during the first half financial year of 2017, the Group's revenue was declined which was mainly attributable to (i) the decrease in sales in its vehicle parts and components segment as a result of the decline in market demand; (ii) the decrease in sales in its general machinery segment (i.e. industrial pumps, gas compressors, refrigeration machines, industry blower and wind power blades, etc.) as a result of the exclusion of the centrifuge business in the scope of consolidation and the slowdown in wind power blade business; and (iii) the decrease in sales in the trade business segment as a result of the Group's intention to reduce its trade business with low gross profit margin. Despite the effects of downturn of individual industries on the business operation of the Group, the Group stably and steadily proceeded with its operation with the focus placed on the continuous innovation of principal businesses that the Group promoted reform and strengthened and optimised internal control measures.

2. Background of and reasons for entering into of the Equity Transfer Agreements

2.1. Information on the Parent Company

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

In accordance with the Equity Transfer Agreements, the Parent Company is (i) the transferee of (a) Qijiang Gear and (b) Microcredit; and (ii) the transferor of (a) Intelligent Manufacturing and (b) Equipment Research Institute.

2.2. Information on Qijiang Gear

Qijiang Gear, a limited liability company established in the PRC on 28 December 2002 with a registered capital of RMB200 million, is a wholly-owned subsidiary of the Company as at the Latest Practicable Date. Qijiang Gear is principally engaged in the manufacturing and sales of auto parts, transmission system, box assembly and their relevant components, bevel gears, cylindrical gears and other gears and shafts. As advised by management of the Company, manufacturing and sales of gear boxes/transmission systems business was a major source of Qijiang Gear's revenue.

As at the Latest Practicable Date, Qijiang Gear's wholly-owned subsidiaries included (i) Chongqing Qi-Chi Automotive Part Co., Ltd.* (重慶市綦齒汽車零部件有限責任公司); (ii) Qijiang Qi-Chi Forging Co., Ltd.* (綦江綦齒鍛造有限公司); and (iii) Qijiang Qi-Chi Xinxin Welfare Co., Ltd.* (綦江綦齒鑫欣福利有限責任公司). Apart from the aforesaid wholly-owned subsidiaries, as at the Latest Practicable Date, Qijiang Gear held investment of (i) 3% equity interest in Shandong Xin Hai Guarantee Co., Ltd.* (山東鑫海融資擔保有限公司); (ii) 10% equity interest in Microcredit; (iii)

approximately 40.83% equity interest in Qijiang Qi-Chi High-New Founding Co., Ltd.* (重慶市綦齒高新鑄造有限公司); and (iv) 35% equity interest in Chongqing QG Reintel Transmission Co., Ltd.* (重慶綦齒睿安特變速器有限責任公司). As set out in the Letter from the Board, two of the wholly-owned subsidiaries of Qijiang Gear, namely (i) Chongqing Qi-Chi Automotive Part Co., Ltd.* (重慶市綦齒汽車零部件有限責任公司); and (ii) Qijiang Qi-Chi Forging Co., Ltd.* (綦江綦齒鍛造有限公司), are undergoing liquidation process in accordance with the PRC laws.

Set out below is a summary of the consolidated financial results of the Qijiang Gear group for the financial years ended 31 December 2015 and 2016 and for the six months ended 30 June 2017 prepared in accordance with China Accounting Standards for Business Enterprises (“CAS”):

Table 2:

	For the financial year ended		For the six
	31 December		months ended
	2015	2016	30 June
	RMB'000	RMB'000	2017
	(audited)	(audited)	RMB'000
			(audited)
Revenue	527,638	389,170	118,880
Net profit/(loss) before taxation	(277,143)	(73,461)	(123,847)
Net profit/(loss) after taxation	(248,552)	(64,952)	(165,966)

As illustrated in Table 2 above, the Qijiang Gear group recorded revenue of approximately RMB389.2 million for the financial year ended 31 December 2016, representing a decrease of approximately 26.2% as compared to the previous financial year. In addition, the Qijiang Gear group continued to record net loss before taxation and net loss after taxation, which amounted to approximately RMB73.5 million and RMB65.0 million respectively for the financial year ended 31 December 2016. For the six months ended 30 June 2017, the Qijiang Gear group recorded net loss before taxation and net loss after taxation of approximately RMB123.8 million and RMB166.0 million respectively.

2.3. Information on Microcredit

Microcredit, a limited liability company established in the PRC on 17 April 2013 with a registered capital of RMB200 million, is held as to 55% by the Parent Company (and its subsidiary) and 45% by the Group (in which 10% is held through Qijiang Gear) as at the Latest Practicable Date. Microcredit is principally engaged in the provision of loans, notes discounting, assets transfer in Chongqing and conducting equity investment with self-owned funds in the PRC.

Set out below is a summary of the financial results of Microcredit for the financial years ended 31 December 2015 and 2016 and for the six months ended 30 June 2017 prepared in accordance with CAS:

Table 3:

	For the financial year ended		For the six
	31 December		months ended
	2015	2016	30 June
	RMB'000	RMB'000	2017
	(audited)	(audited)	RMB'000
			(audited)
Revenue	21,799	4,518	700
Net profit/(loss) before taxation	(7,636)	(21,369)	(17,360)
Net profit/(loss) after taxation	(6,496)	(18,172)	(14,761)

As illustrated in Table 3 above, Microcredit recorded revenue of approximately RMB4.5 million for the financial year ended 31 December 2016, substantially decreased by approximately 79.3% as compared to the previous financial year. In addition, Microcredit recorded net loss before taxation and net loss after taxation of approximately RMB21.4 million and RMB18.2 million respectively for the financial year ended 31 December 2016, representing increases in losses of approximately 1.8 times as compared to the previous financial year. The financial performance of Microcredit continued to be worsened for the six months ended 30 June 2017, for which Microcredit recorded net loss before taxation and net loss after taxation of approximately RMB17.4 million and RMB14.8 million respectively.

2.4. Information on Intelligent Manufacturing

Intelligent Manufacturing, a limited liability company established in the PRC on 5 August 2015 with a registered capital of RMB101,610,400, is a wholly-owned subsidiary of the Parent Company as at the Latest Practicable Date. Intelligent Manufacturing is principally engaged in the design, manufacturing and sales of industrial robots, public service robots, automation equipment, intelligent equipment, ASRS and warehouse logistics equipment, as well as development, manufacturing, installation and maintenance of industrial automation, intellectualized system and production line.

As at the Latest Practicable Date, Intelligent Manufacturing held approximately 66.26% equity interest in Chongqing Mengxun Electronic & Technology Co., Ltd.* (重慶盟訊電子科技有限公司).

Set out below is a summary of the consolidated financial results of the Intelligent Manufacturing group for the financial years ended 31 December 2015 and 2016 and for the six months ended 30 June 2017 prepared in accordance with CAS:

Table 4:

	For the financial year ended		For the six
	31 December		months ended
	2015	2016	30 June
	RMB'000	RMB'000	2017
	(audited)	(audited)	(audited)
Revenue	68,482	59,795	38,548
Net profit/(loss) before taxation	7,082	(666)	(934)
Net profit/(loss) after taxation	6,540	(420)	(1,542)

As illustrated in Table 4 above, the Intelligent Manufacturing group recorded revenue of approximately RMB59.8 million for the financial year ended 31 December 2016, representing a decrease of approximately 12.7% as compared to the previous financial year. Also, the Intelligent Manufacturing group recorded net loss before taxation and net loss after taxation of approximately RMB0.7 million and RMB0.4 million respectively for the financial year ended 31 December 2016, compared to net profit before taxation and net profit after taxation of approximately RMB7.1 million and RMB6.5 million respectively for the financial year ended 31 December 2015. The Intelligent Manufacturing group continued to record losses for the six months ended 30 June 2017, for which the net loss before taxation and net loss after taxation amounted to approximately RMB0.9 million and RMB1.5 million respectively. We discussed and confirmed with the management of the Company that (i) the net loss for the year ended 31 December 2016 was mainly due to the increase in operating costs and the decrease in government grants; and (ii) further losses for the six months ended 30 June 2017 were mainly due to the recognition of impairment on inventory.

2.5. Information on Equipment Research Institute

Equipment Research Institute, a limited liability company established in the PRC on 13 October 2011 with a registered capital of RMB20 million, is a wholly-owned subsidiary of the Parent Company as at the Latest Practicable Date. Equipment Research Institute is principally engaged in research and development of electrical and mechanical equipment technology, technical consultancy, promotion of technology, as well as designing, research and development, manufacturing and sales of electrical and mechanical equipment products.

As at the Latest Practicable Date, Equipment Research Institute held investment of (i) approximately 26.67% equity interest in Chongqing Chongtong Turbine Technology Company Limited* (重慶重通透平技術股份有限公司); and (ii) approximately 20% equity interest in Chongqing RSDA Power Technology Co., Ltd.* (重慶瑞時達動力技術有限公司).

Set out below is a summary of the financial results of Equipment Research Institute for the financial years ended 31 December 2015 and 2016 and for the six months ended 30 June 2017 prepared in accordance with CAS:

Table 5:

	For the financial year ended		For the six
	31 December		months ended
	2015	2016	30 June
	RMB'000	RMB'000	2017
	(audited)	(audited)	(audited)
Revenue	460	5,459	463
Net profit/(loss) before taxation	(2,330)	1,762	(3,958)
Net profit/(loss) after taxation	(2,330)	1,762	(3,958)

As illustrated in Table 5 above, Equipment Research Institute recorded revenue of approximately RMB5.5 million for the financial year ended 31 December 2016, representing an increase of approximately 10.9 times as compared to the previous financial year. In addition, Equipment Research Institute recorded net profit before taxation and net profit after taxation of approximately RMB1.8 million and RMB1.8 million respectively for the financial year ended 31 December 2016 after experiencing net losses in the financial year 2015. We discussed and confirmed with the management of the Company that (i) the revenue of Equipment Research Institute are mainly on a project basis; (ii) the substantial increase in revenue for the financial year ended 31 December 2016 was mainly due to the increase in revenue from the Parent Company's group in the total of approximately RMB5.1 million (2015: approximately RMB0.46 million), which were project based only and would not be recurring at the same level every year; and (iii) the significant reduction of revenue recognised for the six months ended 30 June 2017 as compared to that for the year ended 31 December 2016 was mainly due to project delays which resulted in lower revenue being recognised, and the recognition of the related costs also resulted in greater net loss being recognised in the first half of 2017.

Furthermore, as at the Latest Practicable Date, the Company held (i) approximately 40% equity interest in Chongqing Chongtong Turbine Technology Company Limited* through its wholly-owned subsidiary (i.e. Chongqing General Industry (Group) Co., Ltd.*); and (ii) approximately 51% equity interest in Chongqing RSDA Power Technology Co., Ltd.*. Upon completion of the equity transfer of Equipment Research Institute, the Company's equity interest in (i) Chongqing Chongtong Turbine Technology Company Limited* would be increased to approximately 66.67%, which would then become a subsidiary of the Company; and (ii) Chongqing RSDA Power Technology Co., Ltd.* would be increased to approximately 71%, which would continue to be a subsidiary of the Company.

2.6. *Reasons for and benefits of the Equity Transfers*

2.6.1. *To improve the profitability and financing ability of the Company*

As set out in the Letter from the Board, the Board is of the view that the disposition of subsidiaries with weaker profitability pursuant to the Equity Transfer Agreements could improve the Company's profitability and financing ability in the capital market.

In regard to the disposal of Qijiang Gear, we understand from the management of the Company that the disposal of Qijiang Gear with weaker profitability as described in the section headed “2.2. Information on Qijiang Gear” in this Letter could be considered as a way of stimulating enterprise’s operation vitality. Also, two wholly-owned subsidiaries of Qijiang Gear, namely Qijiang Qi-Chi Forging Co., Ltd.* and Chongqing Qi-Chi Automotive Part Co., Ltd.*, are undergoing liquidation in accordance with the PRC laws, therefore (i) they are considered as ineffective assets which do not have long term development prospects to the Group; and (ii) the ownership of these ineffective assets by the Company would result in deteriorating operating performance, profitability and financing ability of the Group. Therefore, the Directors consider that the disposal of Qijiang Gear by the Company enables the Group to improve its assets structure and strengthen the overall financial position of the Group as a whole.

In regard to the disposal of Microcredit, we have discussed and understand from the management of the Company that Microcredit has been facing fierce competition in the PRC’s microfinance industry, which may further deteriorate its profitability. Given the recent financial performance of Microcredit as disclosed in the section headed “2.3. Information on Microcredit”, the Directors consider that the realisation of its investment in Microcredit, which is booked as an investment in associates by the Company in its financial statements, is consistent with the Group’s development strategy and strengthen the overall financial position of the Group as a whole.

2.6.2. To avoid horizontal competition between the Company and the Parent Company

As set out in the Letter from the Board, as intelligent manufacturing business of the Company and the Parent Company are similar, the Directors are of the view that the consolidation of the operation of intelligent manufacturing business by the Company (through transferring all of the 100% equity interest held by the Parent Company in Intelligent Manufacturing to the Company pursuant to the equity transfer agreement in relation to Intelligent Manufacturing) will avoid horizontal competition between the Company and the Parent Company. As confirmed by the management of the Company, upon completion of the transfer of equity interest of Intelligent Manufacturing, none of the Parent Company or its associates (other than the Company) will carry out business which directly competes with the business of Intelligent Manufacturing.

2.6.3. To strengthen synergistic effect and innovation-driven ability in the industry

As set out in the Letter from the Board, given most of the products developed by Equipment Research Institute are entrusted by the subsidiaries of the Company and Intelligent Manufacturing, the Directors are of the view that the consolidation of Equipment Research Institute into the Company as the innovation and development platform of the Company would bring synergistic effect and strengthen the Company’s innovative and development ability.

In this regard, we have considered current national policies of the relevant PRC government authorities, and we noted that the innovation is a key focus area in the PRC’s national economic development, with the core goal of improving the quality and efficiency of

growth. According to *the Made in China 2025* plan published by the State Council of the PRC in May 2015, the PRC government strives to upgrade manufacturing in line with the rapid advances in science and technology and to strategically transform the PRC into a leading manufacturing power by, including but not limited to, improving manufacturing innovation, strengthening the industrial base and advancing restructuring of the manufacturing sector. In addition, with reference to *the 13th Five-Year Plan for the National Economic and Social Development of the People's Republic of China* published by the National People's Congress of the PRC in March 2016 (the "**13th Five-Year Plan**"), the PRC government fosters the promotion of innovation as the primary driving force for the national economic development from 2016 to 2020. The 13th Five-Year Plan stated that the PRC government supported the nation in developing top-quality and internationally influential centers of scientific and technological innovation, in which the PRC government attempted to strengthen the position of enterprises as principal entities for innovation as well as the leading role of enterprises in innovation, and to encourage them to conduct basic and frontier research.

It is believed that manufacturers in the PRC could be benefited from the aforesaid national policies by (i) transforming and upgrading major manufacturing technologies; and (ii) strengthening the fundamental capacity of industry, including but not limited to manufacturing of key basic materials and core parts and components, accelerate the development of intelligent and other new types of manufacturing, and strengthen quality and brand building. Given directions of the innovation development in the PRC, it is expected that implementations of the above-mentioned national policies are favourable to the development of intelligent manufacturing business, which could, in turn, provide opportunities and advantages to the Company by expanding its intelligent manufacturing business and enhancing its business competitiveness through technological transformation and upgrading. Accordingly, we are of the view that the consolidation of intelligent manufacturing business by transferring equity interest of Intelligent Manufacturing and Equipment Research Institute to the Company pursuant to the Equity Transfer Agreements in relation to Intelligent Manufacturing and Equipment Research Institute respectively is fair and reasonable and is in the interests of the Company and its Shareholders as a whole.

Having considered (i) the Equity Transfer Agreements and the transactions contemplated thereunder are entered into after arm's length negotiations; (ii) the disposal of Qijiang Gear and Microcredit with unsatisfactory financial performance pursuant to the Equity Transfer Agreements would improve the Company's profitability; and (iii) the consolidation of intelligent manufacturing business through the Equity Transfers could avoid certain horizontal competition with the Parent Company and would strengthen the Company's innovation and development ability in the relevant industry in the future, the Directors are of the view and we concur that the Equity Transfers, although are not conducted in the ordinary and usual course of business of the Group, are fair and reasonable and are in the interests of the Company and its Shareholders as a whole.

3. Principal terms of the Equity Transfer Agreements

3.1. Descriptions of the principal terms of the Equity Transfer Agreements

Set out below are principal terms of the Equity Transfer Agreements in relation to each of the Target Companies:

	1.	2.	3.	4.
Date:	26 September 2017	26 September 2017	26 September 2017	26 September 2017
Parties:	(i) the Company, as transferor; and (ii) the Parent Company, as transferee.	(i) the Company, as transferor; (ii) Chongqing General, as transferor; (iii) CHMTI, as transferor; (iv) Pump Industry, as transferor; (v) Water Turbine, as transferor; and (vi) the Parent Company, as transferee	(i) the Company, as transferee; and (ii) the Parent Company, as transferor.	(i) the Company, as transferee; and (ii) the Parent Company, as transferor.
Subject:	The Company shall transfer all of the 100% equity interest held by it in Qijiang Gear to the Parent Company.	The Company shall transfer all 35% equity interest* jointly held by it and its subsidiaries in Microcredit to the Parent Company. <i>*excluding the 10% equity interest in Microcredit held by Qijiang Gear which is to be disposed through the disposal of Qijiang Gear.</i>	The Parent Company shall transfer all of the 100% equity interest held by it in Intelligent Manufacturing to the Company.	The Parent Company shall transfer all of the 100% equity interest held by it in Equipment Research Institute to the Company.
Consideration:	RMB255,465,400.	RMB61,015,700.	RMB132,719,700.	RMB14,388,800.

	1.	2.	3.	4.
Basis in determining the consideration:	<p>The consideration was determined through fair consultation with reference to the following:</p> <p>(i) According to the Audit Reports of Qijiang Gear for January to June 2017 and for the year of 2016, 2015 and 2014 issued by ShineWing; and</p> <p>(ii) The Report on Assets Valuation of 100% Equity Interest of Qijiang Gear issued by Huakang Valuation which has adopted 30 June 2017 as the reference date of valuation and the assets-based approach for conducting the valuation.</p>	<p>The consideration was determined through fair consultation with reference to the following:</p> <p>(i) According to the Audit Reports of Microcredit for January to June 2017 and for the year of 2016, 2015 and 2014 issued by ShineWing;</p> <p>(ii) The Report on Assets Valuation of 100% Equity Interest of Microcredit issued by Huakang Valuation which has adopted 30 June 2017 as the reference date of valuation and the assets-based approach for conducting the valuation; and</p> <p>(iii) The 35% equity interest to be transferred under the equity transfer agreement in relation to Microcredit.</p>	<p>The consideration was determined through fair consultation with reference to the following:</p> <p>(i) According to the Audit Reports of Intelligent Manufacturing for January to June 2017 and for the year of 2016 and 2015 issued by ShineWing; and</p> <p>(ii) The Report on Assets Valuation of 100% Equity Interest of Intelligent Manufacturing issued by Huakang Valuation which has adopted 30 June 2017 as the reference date of valuation and the assets-based approach for conducting the valuation.</p>	<p>The consideration was determined through fair consultation with reference to the following:</p> <p>(i) According to the Audit Reports of Equipment Research Institute for January to June 2017 and for the year of 2016, 2015 and 2014 issued by ShineWing; and</p> <p>(ii) The Report on Assets Valuation of 100% Equity Interest of Equipment Research Institute issued by Huakang Valuation which has adopted 30 June 2017 as the reference date of valuation and the assets-based approach for conducting the valuation.</p>
Payment terms:	<p>The payment terms will be otherwise specified on each separate contract to be entered by both parties on normal commercial terms after taking into consideration the difference between acquisition of equity interest from and disposal of equity interest to the Parent Company by the Company.</p>	<p>The payment terms will be otherwise specified on each separate contract to be entered by both parties on normal commercial terms after taking into consideration the difference between acquisition of equity interest from and disposal of equity interest to the Parent Company by the Company.</p>	<p>The payment terms will be otherwise specified on each separate contract to be entered by both parties on normal commercial terms after taking into consideration the difference between acquisition of equity interest from and disposal of equity interest to the Parent Company by the Company.</p>	<p>The payment terms will be otherwise specified on each separate contract to be entered by both parties on normal commercial terms after taking into consideration the difference between acquisition of equity interest from and disposal of equity interest to the Parent Company by the Company.</p>

	1.	2.	3.	4.
Condition	The equity transfer	The equity transfer	The equity transfer	The equity transfer
Precedent:	agreement in relation to Qijiang Gear shall be effective after being approved at the EGM of the Company and by the authorised management organization for state-owned assets.	agreement in relation to Microcredit shall be effective after being approved at the EGM of the Company and by the authorised management organization for state-owned assets.	agreement in relation to Intelligent Manufacturing shall be effective after being approved at the EGM of the Company and by the authorised management organization for state-owned assets.	agreement in relation to Equipment Research Institute shall be effective after being approved at the EGM of the Company and by the authorised management organization for state-owned assets.

As set out in the Letter from the Board, the considerations for each of the Equity Transfers (i) were agreed by the Company and the Parent Company after amicable negotiation; and (ii) were determined by the Company and the Parent Company through fair consultation with reference to the aforesaid audited reports prepared by ShineWing and the independent valuations prepared by Huakang Valuation.

Based on the appraised value of each of the Target Companies as at 30 June 2017, (i) the total consideration of the equity to be transferred by the Parent Company to the Company amounted to RMB147,108,500; and (ii) the total consideration of the equity to be transferred by the Company to the Parent Company amounted to RMB316,481,100. Given that the net difference between consideration to be transferred under the Equity Transfer Agreements amounted to RMB169,372,600, the Parent Company will pay RMB169,372,600 in cash to the Company within 20 working days after the Equity Transfer Agreements coming into force to make up the net difference in considerations arising from the Equity Transfers.

In addition, the aforesaid equity interest is not subject to any third party's claims or pledge, and not involved in any disputes or litigation. Upon completion of each of the Equity Transfers, (i) Qijiang Gear will cease to be a subsidiary of the Company; (ii) the Company and its subsidiaries will cease to hold any equity interest in Microcredit; and (iii) Intelligent Manufacturing and Equipment Research Institute will become wholly-owned subsidiaries of the Company.

3.2. Analysis on principal terms of the Equity Transfer Agreements

In regard to the considerations for each of the Equity Transfers, we discussed and understand from the management of the Company that such considerations were determined by the Company and the Parent Company with reference to independent valuation on each of the Target Companies, in particular (i) independent auditing and the relevant audited reports prepared in accordance with CAS by ShineWing; and (ii) independent valuation and the relevant valuation reports prepared under the assets-based approach in compliance with the required valuation procedures by Huakang Valuation with 30 June 2017 as the valuation date. As set out in the Letter from the Board, as at 30 June 2017, the appraised value of the net assets of (i) Qijiang Gear was RMB255,465,500; (ii) Microcredit was RMB174,330,600 (with the attributable 35% equity interest to be disposed equal to RMB61,015,700);

(iii) Intelligent Manufacturing was RMB132,719,700; and (iv) Equipment Research Institute was RMB14,388,800. Accordingly, the considerations for each of the Equity Transfers was materially the same as each of the Target Companies' appraised value of net assets.

To assess the fairness and reasonableness of the aforesaid consideration, we have reviewed reports on valuation of equity interest of each of the Target Companies and discussed with Huakang Valuation regarding the steps and due diligence measures taken by Huakang Valuation for conducting the valuation, the reasons and basis for adopting assets-based approach in each of the valuation reports in order to understand the valuation for each of the Target Companies. We were given to understand that Huakang Valuation conducted its due diligence during August 2017 and September 2017 and that in the course of preparing the valuation reports, Huakang Valuation (i) had conducted management interview to understand the businesses of each of the Target Companies; (ii) had reviewed the relevant records to check and understand the nature of each of the assets and liabilities items as shown in the audited reports for each of the Target Companies; and (iii) conducted site visits and physical inspections on the plants, machineries and inventories for each of the Target Companies and their respective subsidiaries. As to the valuation methodology, as set out in Appendix III of the Circular and as advised by Huakang Valuation, (i) market approach was unsuitable or inappropriate as it was difficult for Huakang Valuation to identify comparable transactions in the PRC and/or in Hong Kong for conducting valuation and assessing equity interest of each of the Target Companies; (ii) income approach was unsuitable or inappropriate as it was difficult to fairly and reasonably predict the Target Companies' future profits in a reasonable and objective manner given the loss position in recent years and their unstable historical financial performance limited the prediction of their future income and profitability, which would be affected by a number of assumptions and uncertain factors; and (iii) lists of assets of each of the Target Companies as entrusted are easier to access and the replacement value of the relevant assets can be obtained through the market survey method, therefore Huakang Valuation has adopted the assets-based approach in determining the value of each of the Target Companies.

In addition to Huakang Valuation's work done as abovementioned, we have conducted a further due diligence to assess whether there are any alternative ways of determining the value of each of the Target Companies. We noted that (i) the market approach; (ii) the income approach; and (iii) the assets-based approach are the commonly used valuation methodologies, which have already assessed by Huakang Valuation as aforesaid. As per our due diligence, our opinions are as follows:

(i) The market approach

Under the market approach, there are two commonly adopted valuation methods in the market, namely price-to-earnings ratio and the price-to-book ratio based on market comparable companies. In this regard, we have (i) conducted an independent research and analysis on the listed companies in the PRC and/or in Hong Kong principally engaged in similar businesses with those of the Target Companies; and (ii) discussed with Huakang Valuation its findings. Having considered that (i) there are none or very limited number of listed companies in the PRC and/or in Hong Kong with similar businesses with those of the Target Companies and the comparable characteristics are further impaired by the larger in operating scale and profit making of those listed companies which reduce the fairness and reasonableness of using market approach valuation; (ii) the Target Companies are not publicly listed companies; and

(iii) the interest to be disposed of for Microcredit are of non-controlling stake, we are of the view, and we concur with Huakang Valuation's view, that the adoption of market approach in valuing the Target Companies may not be appropriate;

(ii) *The income approach*

We considered that it was difficult to fairly and reasonably predict the Target Companies' future profits in a reasonable and objective manner given the loss position in recent years and their unstable historical financial performance limited the prediction of their future income and profitability, which would be affected by a number of assumptions and uncertain factors. Therefore, the income approach would not produce the best valuation for determining the value of each of the Target Companies; and

(iii) *The assets-based approach*

Given lists of assets of each of the Target Companies as entrusted are easier to access and the replacement value of the relevant assets can be obtained through the market survey method, we are of the view that the adoption of the assets-based approach in determining the value of each of the Target Companies is fair and reasonable.

Based upon the above, we considered we have performed our due diligence in cross-checking the valuation through our best effort using other valuation methodologies and only the assets-based approach is applicable and is fair and reasonable for our analysis.

As further confirmed by Huakang Valuation, the assets-based approach is commonly adopted for valuation of assets in the industry and is also consistent with normal market practice. Based on the above, Huakang Valuation is of the view, and we concur, that it is considered appropriate to adopt the assets-based approach in determining the value of each of the Target Companies. Furthermore, we also note from the valuation reports prepared by Huakang Valuation that the valuation assumptions used are generally and commonly used in other valuation, such as the reliance on true and accurate information obtained, no material change in the laws, regulations and policy, social and economic environment, the presence of an open and fair market with voluntary purchasers and sellers, the continuous use of assets. Details of valuation assumptions are set out in Appendix III of the Circular.

For our due diligence purpose, apart from the review of the steps and due diligence measures taken by Huakang Valuation for conducting the valuation, and the review of valuation reports as stated above, we have discussed with the relevant staff of Huakang Valuation with particular attention to (i) the terms of engagement of Huakang Valuation with the Company; (ii) Huakang Valuation's qualifications and experience in relation to the preparation of the valuation; and (iii) the independency of Huakang Valuation. With respect to the review of the engagement letter between the Company and Huakang Valuation, we have reviewed the scope of service and we are satisfied that the terms of engagement between the Company and Huakang Valuation are appropriate to the opinion required to be given and we are not aware of any limitation on the scope of work which might have an adverse impact on the degree of assurance given by Huakang Valuation. With respect to Huakang Valuation's qualification and experience, we have obtained and reviewed the relevant certificates of Huakang Valuation and the persons-in-charge. We understand and confirmed with Huakang Valuation that

Huakang Valuation is certified with the relevant professional qualifications required to perform the valuation of equity interest of each of the Target Companies. We also understand from Huakang Valuation that the persons-in-charge have over 9 to 15 years' experience and possess the qualifications in providing valuation services to different clients, including but not limited to the PRC state-owned listed companies. With respect to Huakang Valuation's independency, we have confirmed with Huakang Valuation that it is independent from the Group, the Parent Company and each of the Target Companies. Based on the information provided by the management of the Company and Huakang Valuation and our interview with them, we are satisfied with the terms of engagement of Huakang Valuation, the qualifications and experience and the independency of Huakang Valuation for preparation of the valuation reports.

During our discussion with Huakang Valuation and as part of our due diligence in respect of the valuation as discussed above, we have not identified any major factors which cause us to doubt the fairness and reasonableness of the work done by Huakang Valuation and the basis of valuation adopted for or the information used in the valuations of each of the Target Companies.

On top of the basis in determining the considerations, we have also reviewed the other major principal terms of the Equity Transfer Agreements in relation to each of the Target Companies, and are not aware of any terms which are unusual. Therefore, we are of the view that principal terms of the Equity Transfer Agreements in relation to each of the Target Companies are on normal commercial terms and are fair and reasonable so far as the Independent Shareholders are concerned.

4. Financial effects of the Equity Transfers

The Company shall dispose of 100% and 35% equity interest in Qijiang Gear and Microcredit respectively. As set out in the Letter from the Board, (i) based on the book value of 100% equity interest of Qijiang Gear in its management account as at 30 June 2017 amounted to RMB221,241,400, it is expected that the disposal of 100% equity interest in Qijiang Gear will generate a gain of RMB34,224,000 (being the difference between the consideration and the corresponding book value); and (ii) based on the book value of 35% equity interest of Microcredit in its management account as at 30 June 2017 amounted to RMB60,982,200, it is expected that the disposal of 35% equity interest in Microcredit will generate a gain of RMB33,500 (being the difference between the consideration and the corresponding book value).

Therefore, it is expected that an aggregate gain of RMB34,257,500 will accrue from the above-mentioned disposals. The actual gain to be recorded by the Group is subject to audit after the completion of the Equity Transfers.

The Company will allocate the net proceeds from the Equity Transfers to supplement its working capital.

RECOMMENDATIONS

Having considered the principal factors and reasons as mentioned above, we are of the view that the Equity Transfer Agreements are on normal commercial terms and fair and reasonable so far as the Independent Shareholders are concerned and the Equity Transfers, although are not conducted in the ordinary and usual course of business of the Group, are in the interests of the Company and the Shareholders as a whole. Accordingly, we advise the Independent Board Committee to recommend the Independent Shareholders to vote in favour of the ordinary resolution to be proposed at the EGM to approve the Equity Transfer Agreements and the transactions contemplated thereunder.

Yours faithfully,

For and on behalf of

Shinco Capital Limited

Bobby Chow

Teresa Tsang

Managing Director

Director

Mr. Bobby Chow is a licensed person registered with the Securities and Futures Commission to carry out Type 6 (advising on corporate finance) regulated activity under the Securities and Futures Ordinance and has over 10 years of experience in corporate finance industry.

Ms. Teresa Tsang is a licensed person registered with the Securities and Futures Commission to carry out Type 6 (advising on corporate finance) regulated activity under the Securities and Futures Ordinance and has over 10 years of experience in corporate finance industry.

APPENDIX III ASSET VALUATION REPORTS ON THE TARGET COMPANIES

The following is the asset valuation reports received from Chongqing Huakang Asset & Land & Real Estate Valuation Co.,Ltd in relation to the valuation of the Target Companies as at 30 June 2017. Such reports are prepared in Chinese and should there be any inconsistency between the Chinese and the English version, the Chinese version shall prevail.

1. ASSET VALUATION REPORT OF QIJIANG GEAR

**Asset Valuation Project of the Entire Equity Interest of
Qijiang Gear Transmission Co., Ltd
Involved in the Equity Transfer between
Chongqing Machinery and Electronic Holding (Group) Co., Ltd. and
Chongqing Machinery & Electric Co., Ltd.**

Asset Valuation Report

Chong Kang Ping Bao Zi(2017)No.210-1

**To: Chongqing Machinery and Electronic Holding (Group) Co., Ltd. and
Chongqing Machinery & Electric Co., Ltd.**

As engaged by you, Huakang Asset & Land & Real Estate Valuation Co., Ltd. has, pursuant to relevant laws and regulations as well as standards and principles of asset valuation and by adopting the assets-based approach in compliance with the required valuation procedures, conducted a valuation on the market value of the entire equity interest of Qijiang Gear Transmission Co., Ltd. (綦江齒輪傳動有限公司) as at 30 June 2017 involved in the equity transfer between Chongqing Machinery and Electronic Holdings (Group) Co., Ltd. and Chongqing Machinery & Electric Co., Ltd.

It is the responsibility of the valuer to analyze and estimate the value of the valuation target as at the valuation reference date for a specific purpose and express its professional opinions, in compliance with the relevant laws, regulations and principles of assets valuation. It is the responsibility of the principal and the related parties to provide the necessary information and to ensure its truthfulness, legitimacy and completeness, and to apply the valuation report in a proper manner.

We have completed the relevant valuation and hereby report on the details and results of the assets valuation as follows:

I. APPRAISED COMPANY

- (1) Company name: Qijiang Gear Transmission Co., Ltd. (hereinafter referred to as “**Qijiang Gear (綦齒傳動)**”).
- (2) Address: No.666, Jiefang Road, Qiaohu, Gunan Subdistrict, Qijiang District, Chongqing
- (3) Legal representative: Lan Yingzhao
- (4) Type of company: limited liability company (solely invested by corporation)

APPENDIX III ASSET VALUATION REPORTS ON THE TARGET COMPANIES

- (5) Business scope: manufacturing and sales of automotive components, export of mechanical products such as self manufactured automobiles and motorcycles, transmission systems, transmission assemblies and their relevant parts and components, various gears such as bevel gears, cylindrical gears, and shafts, import of raw materials required for productions and research of the Company, mechanical facilities, machinery equipment, instrumentation, tools and tooling and accessories; sales of steels and lubricants; technical advisory of automotive parts and components manufacturing (above mentioned business scope shall not be operated if they are prohibited by laws and rules and if the examination and approval is not obtained under the regulation of laws and rules)
- (6) Registered capital: RMB200,000,000
- (7) Date of establishment: 28 December 2002
- (8) History and proportion of shares held by the shareholders:

Qijiang Gear is a limited liability company established on 28 December 2002 by joint investment of Qijiang Gear Factory (綦江齒輪廠) and Torch Automobile Group Co., Ltd.(湘火炬汽車集團股份有限公司) (formerly known as Torch Investment Co., Ltd.(湘火炬投資股份有限公司)) with registered capital of RMB150,000,000.

On 18 May 2005, according to the resolution passed at the fifth meeting of the first term of shareholder's general meeting and the eighth meeting of the first term of the Board of Qijiang Gear, the undistributed profit of RMB50,000,000 was transferred as capital, and the registered capital of Qijiang Gear increased to RMB200,000,000 upon capital increase. On 19 May 2005, Torch Automobile Group Co., Ltd.(湘火炬汽車集團股份有限公司) and Shanghai Electric (Group) Corporation(上海電氣(集團)總公司) entered into Equity Transfer Agreement to transfer the entire 51% equity interest held by it in Qijiang Gear to Shanghai Electric (Group) Corporation(上海電氣(集團)總公司).

On 30 July 2007, Qijiang Gear Factory (綦江齒輪廠) and Machinery and Electronic entered into the Equity Transfer Agreement to transfer the entire of 49% equity interest held by it in Qijiang Gear to Machinery and Electronic, and the procedure of examination and approval and transfer for equity transfer has been completed in the beginning of August 2007.

On 5 February 2009, Shanghai Electric (Group) Corporation (上海電氣(集團)總公司) and Machinery and Electronic entered into the Equity Transfer Agreement to transfer entire 51% equity interest held by it in Qijiang Gear to Machinery and Electronic, and as such Machinery and Electronic held entire equity interest of Qijiang Gear.

As at the valuation reference date, proportion of shares held by the shareholders of Qijiang Gear are as follows:

Shareholder	Registered capital (RMB0'000)	Proportion (%)
Chongqing Machinery & Electric Co., Ltd.	20,000.00	100.00

APPENDIX III ASSET VALUATION REPORTS ON THE TARGET COMPANIES

(9) Operation governance structure:

Qijiang Gear adopted the general manager responsibility system under the leadership of the chairman, and has functional departments such as offices, human resource department, sales and marketing department, quality control department, purchasing department, finance department, planning department, comprehensive management department, environmental protection department for technical security, and productive units such as general assembly sub-factory, gear sub-factory, shell miscellaneous sub-factory, heat treatment sub-factory and bevel gear sub-factory.

(10) The external investment of Qijiang Gear:

As at the valuation reference date, the external investment of Qijiang Gear is as follows:

Unit: RMB0'000

No.	Name of enterprise to be invested	Short name of enterprise	Date of investment	Carrying amount of the investment (RMB0'000)	Proportion of shareholding
1	Shandong Xin Hai Guarantee Co., Ltd. (山東鑫海擔保有限公司)	Xin Hai Guarantee (鑫海擔保)	November 2005	300.00	3.00%
2	Chongqing New North Zone Machinery and Electronic Microcredit Co., Ltd. (重慶兩江新區機電小額貸款有限公司)	Machinery and Electronic Microcredit (機電小貸)	April 2013	2,000.00	10.00%
3	Qijiang Qi-Chi Xinxin Welfare Co., Ltd. (綦江綦齒鑫欣福利有限責任公司)	Xinxin Welfare (鑫欣公司)	September 2011	3,307.28	100.00%
4	Qijiang Qi-Chi Forging Co., Ltd. (綦江綦齒鍛造有限公司)	Qi-Chi Forging (綦齒鍛造)	October 2011	6,291.36	100.00%
5	Chongqing Qi-Chi Automotive Part Co., Ltd. (重慶市綦齒汽車零部件有限責任公司)	Qi-Chi Automotive Part (綦齒零部件)	November 2011	-	100.00%
6	Chongqing Qi-Chi High-New Founding Co., Ltd. (重慶市綦齒高新鑄造有限責任公司)	Qi-Chi Founding (綦齒鑄造)	April 2015	144.58	40.83%
7	Chongqing QG Reintel Transmission Company Limited (重慶綦齒睿安特變速器有限公司)	Reintel Transmission Company (睿安特公司)	March 2016	-	35.00%

- ① Shandong Xin Hai Guarantee Co., Ltd.(山東鑫海擔保有限公司)(hereinafter referred to as “**Xin Hai Guarantee (鑫海擔保)**”) was established on 3 November 2005 with registered capital of RMB100,000,000, business scope of which covered performance guarantee business such as loan guarantee, promissory notes guarantee, trade finance guarantee, project financing guarantee, letter of credit guarantee; procedural preservative guarantee, tender guarantee, prepayment guarantee, project performance guarantee, final payment guarantee, etc., and other financing guarantee related advising and intermediary

APPENDIX III ASSET VALUATION REPORTS ON THE TARGET COMPANIES

services; as per regulatory requirements, to invest use self-owned fund (validity period based on the permission). (The special project that shall be approved under laws can be operated upon obtaining the approval from relevant authorities).

- ② Chongqing Liangjiang New Area Machinery and Electronic Microcredit Co., Ltd. (hereinafter referred to as “**Machinery and Electronic Microcredit**”) was established on 17 April 2013 with registered capital of RMB200,000,000, business scope of which covered provision of loans, notes discounting, assets transfer in Chongqing and conducting equity investment with self-owned funds in China. The special project that shall be approved under laws can be operated upon obtaining the approval from relevant authorities.
- ③ Qijiang Qi-Chi Xinxin Welfare Co., Ltd. (hereinafter referred to as “**Xinxin Welfare**”) was established on 8 October 1991 with registered capital of RMB18,366,500, the business scope of which covered production and sale of automobile accessories, motorcycle accessories, machinery and electric products, packaging supplies; machining; machinery and electric maintenance; sale of (non-hazardous) chemical products, lubricating grease and supplementary materials; print of other printed products (operating according to the verified term by the printing business license).

Note: As of the date of the valuation report, Xinxin Welfare has submitted an application for an open offer to Chongqing United Assets and Equity Exchange to dispose of equity interest.

- ④ Qijiang Qi-Chi Forging Co., Ltd. (hereinafter referred to as “**Qi-Chi Forging**”) was established on 7 November 2003, with registered capital of RMB78,210,000, the business scope of which covered production and sale of forging blank required in production of machinery and electric products; process and sale of machinery and electric products.

Note: As of the valuation reference date, Qi-chi Forging has ceased production and operation, and is in the process of staff settlement and asset and equity disposal.

- ⑤ Chongqing Qi-Chi Automotive Part Co., Ltd. (hereinafter referred to as “**Qi-Chi Automotive Part**”) was established on 27 June 2000 with registered capital of RMB64,565,166.55, the business scope of which covered production and sale of motorcycle, automobile accessories, transmission assembly, process of common machinery, crane; machinery and electric maintenance; sale of (non-hazardous) chemical materials, lubricating grease, steels, construction materials (excluding hazardous chemical products), metal hardware, alternating current and general merchandise.
- ⑥ Chongqing Qi-Chi High-New Founding Co., Ltd. (hereinafter referred to as “**Qi-Chi Founding**”) was established on 13 July 2000 with registered capital of RMB1,200,000, the business scope of which covered production, founding and sale of automobile parts and other common machinery accessories; advisory service on founding techniques.

APPENDIX III ASSET VALUATION REPORTS ON THE TARGET COMPANIES

Note: As of the valuation reference date, Qi-Chi Founding has submitted an open offer to Chongqing United Assets and Equity Exchange to dispose of equity interest.

- ⑦ Chongqing QG Reintel Transmission Company Limited (hereinafter referred to as “**Reintel Company**”) was established on 29 March 2016 with registered capital of RMB200,000,000, the business scope of which covered production and sale of transmission system of vehicles and engineering machinery, transmission assembly and accessories; export of transmission, machinery products and parts; import of raw and supplemental materials required by the production and science and research of the Company, machinery equipment, instrumentation, tools and tooling and accessories; advisory service on production techniques of automobile parts above projects with business scope subject to permission by law can be operated under the permission of relevant authorities

Note: Reintel Company is currently under liquidation.

(III) The assets, finance, operation conditions and accounting policies of the appraised company for the recent three years and six months

1. The assets, finance and operation conditions

A. Combined accounting statements

Unit: RMB0'000

Item	31 December 2014	31 December 2015	31 December 2016	30 June 2017
Total assets	140,947.60	135,885.89	132,037.19	123,125.78
Total liabilities	72,771.37	92,381.32	94,637.68	102,248.69
Equity of owner	68,176.23	43,504.57	37,399.51	20,877.09
Item	2014	2015	2016	From January to June 2017
Main operation income	70,956.44	50,812.93	36,649.42	11,036.60
Main operation cost	58,585.77	43,910.30	33,740.33	11,256.17
Operation profit	-873.55	-28,416.09	-8,135.76	-12,435.61
Net profit	-277.32	-24,855.22	-6,495.20	-16,596.62

APPENDIX III ASSET VALUATION REPORTS ON THE TARGET COMPANIES

B. Accounting statement of parent company – Qijiang Gear

Unit: RMB0'000

Item	31 December 2014	31 December 2015	31 December 2016	30 June 2017
Total assets	147,283.38	145,704.95	146,507.07	120,993.90
Total liabilities	70,964.37	84,471.59	87,678.92	98,869.75
Equity of owner	76,319.01	61,233.36	58,828.15	22,124.15
Item	2014	2015	2016	From January to June 2017
Main operation income	70,853.06	50,781.40	36,615.24	11,041.99
Main operation cost	58,563.36	42,959.06	33,773.46	11,194.12
Operation profit	710.79	-18,232.33	-4,100.15	-32,796.68
Net profit	1,015.36	-15,085.65	-2,786.03	-36,762.38

2. Conditions of the main assets

Qijiang Gear is principally engaged in the production and sale of transmission of truck and coach, the main assets of which includes relevant production, office equipment, land use rights and storage, accounts receivables and other current accounts from business operation. Project amounts of main assets are monetary capital of RMB6,188,500, bills receivables of RMB41,757,200, amount receivables of RMB183,117,600, prepayments of RMB1,324,000, interest receivables of RMB932,300, other receivables of RMB13,978,700, inventory of RMB209,858,600, other current assets of RMB25,499,200, available-for-sale financial assets of RMB23,000,000, long-term equity investment of RMB15,553,500, fixed assets of RMB598,163,600, projects under construction of RMB43,447,300, intangible assets of RMB26,402,800, long-term prepaid expenses of RMB2,618,900 and other non-current assets of RMB18,096,700 respectively.

II. VALUATION PURPOSE

This valuation aims to provide reference in respect of the market value of entire equity interest of shareholders of Qijiang Gear as at the valuation reference date for the equity transfer between Machinery & Electric Group and Machinery and Electronic.

III. VALUATION TARGET AND SCOPE

The valuation target is the value of the entire interest of shareholders of Qijiang Gear.

The scope of this valuation includes the overall assets and liabilities declared by Qijiang Gear. In accordance with the financial statements of Qijiang Gear as audited by certified public accountants, the total assets of Qijiang Gear amounted to RMB1,209,939,000, the total liabilities amounted to RMB988,697,500 and equity interest of owners amounted to RMB221,241,500 as of 30 June 2017.

APPENDIX III ASSET VALUATION REPORTS ON THE TARGET COMPANIES

Details of main assets and liabilities are as follows:

(1) Monetary capital

Qijiang Gear's monetary capital with a carrying amount of RMB6,188,500 in the valuation scope is cash and bank deposits.

(2) Bills receivable

Qijiang Gear's bills receivable with a carrying amount of RMB41,757,200 in the valuation scope is the received banker's acceptance bill and commercial acceptance bill.

(3) Accounts receivable

Qijiang Gear's accounts receivable with a carrying amount of RMB183,117,600 in the valuation scope is sales proceeds receivable.

(4) Prepayments

Qijiang Gear's prepayments with a carrying amount of RMB1,324,000 in the valuation scope is prepayments for goods.

(5) Dividend receivable

Qijiang Gear's dividend receivable with a carrying amount of RMB932,300 in the valuation scope is the dividend of Chongqing Qi-Chi High-New Founding Co., Ltd.(重慶市綦齒高新鑄造有限公司).

(6) Other receivables

Qijiang Gear's other receivables with a carrying amount of RMB13,978,700 in the valuation scope is the trade receivable, internal staff borrowing reserve and so on.

APPENDIX III ASSET VALUATION REPORTS ON THE TARGET COMPANIES

(7) Inventories

The carrying amount of Qijiang Gear's inventories in the valuation scope is RMB209,858,600, the details of which are as follows:

Unit: RMB0'000

No.	Item	Carrying amount
1	Raw material	3,063.87
2	Consigned processing materials	112.31
3	Finished goods (merchandise inventory)	5,192.31
4	Goods in process (semi-finished goods)	9,310.40
5	Goods in transit	3,306.97
Total		20,985.86

(8) Other current assets

Qijiang Gear's other current assets with a carrying amount of RMB25,499,200 in the valuation scope is the prepayments of social insurance contributions, the input tax to be deducted and so on.

(9) Available-for-sale financial assets

Qijiang Gear's available-for-sale financial assets with a carrying amount of RMB23,000,000 in the valuation scope is the equity investment to Xin Hai Guarantee (鑫海擔保) and Machinery and Electronic Microcredit (機電小貸), respectively.

(10) Long-term equity investments

Qijiang Gear's Transmission's long-term equity investments with a carrying amount of RMB15,553,500 in the valuation scope is the holding shares and equity investment to Xinxin Welfare (鑫欣公司), Qi-Chi Forging (綦齒鍛造), Qi-Chi Founding (綦齒鑄造), Qi-Chi Automotive Part (綦齒零部件), Reintel Company (睿安特公司), respectively.

(11) Buildings

Qijiang Gear's Transmission's buildings with the original carrying amount of RMB215,473,500 and the net carrying amount of RMB213,599,300 in the valuation scope is the account of buildings in the new production base such as headquarters building, combined workshop and the old production base's waste water treatment improvement and buildings such as pipe network and roads.

(12) Equipment

Qijiang Gear's equipment with original carrying amount of RMB663,796,100 and net carrying amount of RMB384,564,300 in the valuation of scope is in total of 2,470 sets of machinery equipment for production at the old and new production base, office electronic equipment and transport vehicles.

APPENDIX III ASSET VALUATION REPORTS ON THE TARGET COMPANIES

(13) Projects under construction




Qijiang Gear's projects under construction with a carrying amount of RMB43,447,300 in the valuation scope is part of the equipment involved in production base project for annual production of 400,000 medium and heavy vehicle transmissions (first phase of 200,000 sets) , and equipment modification debt incurred at the old production base.

(14) Intangible assets



Qijiang Gear's intangible assets with a carrying amount of RMB26,402,800 in the valuation scope are three parcels of granted land for industrial purposes, software and trademarks, off-book patents with land area of 244,614.00 square metres in the industrial park on Gunan street of Qijiang District.

The specific list of off-book trademarks and patents involved are as follows :

Trademark:

No.	Trademark logo	International classification No.	Registration No.	Approved service project	Period of Validity	Applicant
1		12	4612322	Motor vehicle chassis; vehicle chassis; land vehicle brake; linked parts for land vehicles; one-way clutch for land vehicles; gearbox for land vehicles; torque converter for land vehicles; hydraulic system for vehicles; connecting rod for land vehicles (non-engine parts); drive shaft for land vehicles	14 February 2008-13 February 2018	Qijiang Gear Transmission Co., Ltd.
2		12	4612321	Motor vehicle chassis; vehicle chassis; land vehicle brake; linked parts for land vehicles; one-way clutch for land vehicles; gearbox for land vehicles; torque converter for land vehicles; hydraulic system for vehicles; connecting rod for land vehicles (non-engine parts); drive shaft for land vehicles	14 February 2008-13 February 2018	Qijiang Gear Co. Ltd.
3		12	4612320	Motor vehicle chassis; vehicle chassis; land vehicle brake; linked parts for land vehicles; one-way clutch for land vehicles; gearbox for land vehicles; torque converter for land vehicles; hydraulic system for vehicles; connecting rod for land vehicles (non-engine parts); drive shaft for land vehicles	14 February 2008-13 February 2018	Qijiang Gear Co. Ltd.

APPENDIX III ASSET VALUATION REPORTS ON THE TARGET COMPANIES

No.	Trademark logo	International classification No.	Registration No.	Approved service project	Period of Validity	Applicant
4		12	4612319	Motor vehicle chassis; vehicle chassis; land vehicle brake; linked parts for land vehicles; one-way clutch for land vehicles; gearbox for land vehicles; torque converter for land vehicles; hydraulic system for vehicles; connecting rod for land vehicles (non-engine parts); drive shaft for land vehicles	14 February 2008-13 February 2018	Qijiang Gear Co. Ltd.
5		12	1369639	Motor vehicle or truck parts; gearbox; hydraulic system for vehicles; motor vehicle chassis; vehicle chassis; one-way clutch for land vehicles; torque converter; linked parts for land vehicles; torsion converter for land vehicles; reduction gear for land vehicles; gearbox for land vehicles; vehicle brake	28 February 2010-27 February 2020	Qijiang Gear Transmission Co., Ltd.

Patents:

No.	Name of Patent	Patent No.	Type of Patent	Application Date of Patent	Patentee
1	Power assisting device of vehicle shift	201010108874.0	Invention	11 February 2010	Qijiang Gear Transmission Co., Ltd.
2	Hydraulic boring jig of process positioning of automobile transmission planetary frame	201110426837.9	Invention	19 December 2011	Qijiang Gear Transmission Co., Ltd.
3	Cylindrical gear pitching fixture	201110426838.3	Invention	19 December 2011	Qijiang Gear Transmission Co., Ltd.
4	Test equipment of automobile transmission synchronizer	201210557853.6	Invention	20 December 2012	Qijiang Gear Transmission Co., Ltd.
5	Angle transmission fifth-speed transmission of medium-sized bus	201210528319.2	Invention	11 December 2012	Qijiang Gear Transmission Co., Ltd.
6	An automobile transmission	201611235852.4	Invention	28 December 2016	Qijiang Gear Transmission Co., Ltd.
7	Pure-electric transmission of dual power import	201611260110.7	Invention	30 December 2016	Qijiang Gear Transmission Co., Ltd.
8	Hybrid transmission	201220648667.9	Utility model	30 November 2012	Qijiang Gear Transmission Co., Ltd.
9	Automatic transmission portable diagnosis equipment	201220639188.0	Utility model	28 November 2012	Qijiang Gear Transmission Co., Ltd.
10	Rear power take off (PTO) build in cylinder	201220648666.4	Utility model	30 November 2012	Qijiang Gear Transmission Co., Ltd.
11	Dynamic switching equipment of rear engine car	201220663218.1	Utility model	6 December 2012	Qijiang Gear Transmission Co., Ltd.

APPENDIX III ASSET VALUATION REPORTS ON THE TARGET COMPANIES

No.	Name of Patent	Patent No.	Type of Patent	Application Date of Patent	Patentee
12	Angle transmission fifth-speed transmission of medium-sized bus	201220676984.1	Utility model	11 December 2012	Qijiang Gear Transmission Co., Ltd.
13	Bearing lubrication structure of transmission	201220662982.7	Utility model	6 December 2012	Qijiang Gear Transmission Co., Ltd.
14	Twelfth-speed transmission	201220640470.0	Utility model	29 November 2012	Qijiang Gear Transmission Co., Ltd.
15	Second-speed AMT transmission used by hybrid electric vehicle	201320719830.0	Utility model	15 November 2013	Qijiang Gear Transmission Co., Ltd.
16	Transmission structure of pure-electric vehicle	201320826607.6	Utility model	16 December 2013	Qijiang Gear Transmission Co., Ltd.
17	Involute spline and low tooth combination broach	201320851075.1	Utility model	23 December 2013	Qijiang Gear Transmission Co., Ltd.
18	Rotary brush motor servo control device for bus transmission	201320805789.9	Utility model	10 December 2013	Qijiang Gear Transmission Co., Ltd.
19	Eighth-speed transmission of integration rear power take off (PTO)	201320854810.4	Utility model	24 December 2013	Qijiang Gear Transmission Co., Ltd.
20	Light fifth-speed transmission	201320844118.3	Utility model	20 December 2013	Qijiang Gear Transmission Co., Ltd.
21	Sixth-speed transmission for bus	201320826703.0	Utility model	16 December 2013	Qijiang Gear Transmission Co., Ltd.
22	Lubricating oil external cooling device of transmission	201320698560.X	Utility model	7 November 2013	Qijiang Gear Transmission Co., Ltd.
23	Shift executor of automobile	201320806247.3	Utility model	10 December 2013	Qijiang Gear Transmission Co., Ltd.
24	Signaling gear of transmission first-gear starting	201320826197.5	Utility model	16 December 2013	Qijiang Gear Transmission Co., Ltd.
25	Deputy box latching mechanism of twin countershaft transmission	201320846285.1	Utility model	20 December 2013	Qijiang Gear Transmission Co., Ltd.
26	A sub-biased angle transfer transmission	201420702188.X	Utility model	21 November 2014	Qijiang Gear Transmission Co., Ltd.
27	Hybrid planetary gears for hybrid vehicles	201420775807.8	Utility model	11 December 2014	Qijiang Gear Transmission Co., Ltd.
28	A large torque splitter	201420798772.X	Utility model	17 December 2014	Qijiang Gear Transmission Co., Ltd.
29	Integrated servo shift mechanism	201420798771.5	Utility model	17 December 2014	Qijiang Gear Transmission Co., Ltd.
30	Electric four – speed transmission	201521119098.9	Utility model	30 December 2015	Qijiang Gear Transmission Co., Ltd.
31	Single – planetary mechanism for hybrid vehicles	201521050505.5	Utility model	16 December 2015	Qijiang Gear Transmission Co., Ltd.

APPENDIX III ASSET VALUATION REPORTS ON THE TARGET COMPANIES

No.	Name of Patent	Patent No.	Type of Patent	Application Date of Patent	Patentee
32	Two – planetary transmission of hybrid vehicles	201521051061.7	Utility model	16 December 2015	Qijiang Gear Transmission Co., Ltd.
33	Electric Vehicle Energy – saving Transmission	201521051055.1	Utility model	16 December 2015	Qijiang Gear Transmission Co., Ltd.
34	Integrated hydraulic retarder for transmissions	201521051082.9	Utility model	16 December 2015	Qijiang Gear Transmission Co., Ltd.
35	Integrated option, shift control mechanism	201521094172.6	Utility model	26 December 2015	Qijiang Gear Transmission Co., Ltd.
36	Separate block, shift control mechanism	201521094163.7	Utility model	26 December 2015	Qijiang Gear Transmission Co., Ltd.
37	Universal space angle hole machining locator	201521117130.X	Utility model	29 December 2015	Qijiang Gear Transmission Co., Ltd.
38	Hydraulic loader for mechanical closure test stand	201521110468.2	Utility model	29 December 2015	Qijiang Gear Transmission Co., Ltd.
39	Four – speed transmission shift parallel cylinder	201521051103.7	Utility model	16 December 2015	Qijiang Gear Transmission Co., Ltd.
40	Axial flexible positioning fixture for gear machining	201521050785.X	Utility model	16 December 2015	Qijiang Gear Transmission Co., Ltd.
41	Transmission device for variable speed gear shift test	201521081858.1	Utility model	23 December 2015	Qijiang Gear Transmission Co., Ltd.
42	Large diameter water pipe gate valve quick switch device	201521051043.9	Utility model	16 December 2015	Qijiang Gear Transmission Co., Ltd.
43	Start gear control system	201521059788.X	Utility model	19 December 2015	Qijiang Gear Transmission Co., Ltd.
44	Compact two-speed transmission	201521093383.8	Utility model	25 December 2015	Qijiang Gear Transmission Co., Ltd.
45	Single – planetary mechanism for pure electric vehicles	201521076507.1	Utility model	22 December 2015	Qijiang Gear Transmission Co., Ltd.
46	A fully assembled transmission with fast gearshift function	201521058909.9	Utility model	18 December 2015	Qijiang Gear Transmission Co., Ltd.
47	Transmission for training vehicles	201520979935.9	Utility model	1 December 2015	Qijiang Gear Transmission Co., Ltd.
48	Six – speed transmission	201520980033.7	Utility model	1 December 2015	Qijiang Gear Transmission Co., Ltd.
49	220VRefrigeration compressor actuators	201521032568.8	Utility model	14 December 2015	Qijiang Gear Transmission Co., Ltd.
50	Speed Signal Processing circuit	201120509769.8	Utility model	9 December 2011	Qijiang Gear Transmission Co., Ltd.
51	Automotive CAN bus matching circuit	201120509598.9	Utility model	9 December 2011	Qijiang Gear Transmission Co., Ltd.

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No.	Name of Patent	Patent No.	Type of Patent	Application Date of Patent	Patentee
52	A heavy-duty eight-speed transmission	201120531093.2	Utility model	19 December 2011	Qijiang Gear Transmission Co., Ltd.
53	Transmission heat dissipation structure	201120531095.1	Utility model	19 December 2011	Qijiang Gear Transmission Co., Ltd.
54	Gear selector for bus's automatic transmission	201120509729.3	Utility model	9 December 2011	Qijiang Gear Transmission Co., Ltd.
55	Hybrid mechanical transmissions	201120533128.6	Utility model	19 December 2011	Qijiang Gear Transmission Co., Ltd.
56	Five-speed transmission for medium-sized bus	201120531094.7	Utility model	19 December 2011	Qijiang Gear Transmission Co., Ltd.
57	Splitter integrated heavy – duty transmission	201120531101.3	Utility model	19 December 2011	Qijiang Gear Transmission Co., Ltd.
58	Power control circuit of the electronic control unit	201120509719.X	Utility model	9 December 2011	Qijiang Gear Transmission Co., Ltd.
59	Eight-speed transmission for heavy bus	201130481595.4	Exterior	15 December 2011	Qijiang Gear Transmission Co., Ltd.
60	Five-speed transmission for heavy bus	201130481602.0	Exterior	15 December 2011	Qijiang Gear Transmission Co., Ltd.
61	Five-speed transmission for medium-sized bus	201130481615.8	Exterior	15 December 2011	Qijiang Gear Transmission Co., Ltd.
62	Six-speed bus transmission	201330637416.0	Exterior	20 December 2013	Qijiang Gear Transmission Co., Ltd.
63	Fifth-speed transmission	201330637485.1	Exterior	20 December 2013	Qijiang Gear Transmission Co., Ltd.
64	Hybrid bus transmission	201330637690.8	Exterior	20 December 2013	Qijiang Gear Transmission Co., Ltd.
65	Fixtures for processing bore in camshaft spline	201621448402.9	Utility model	27 December 2016	Qijiang Gear Transmission Co., Ltd.
66	Three-jaw chuck for clamping the output flange	201621422536.3	Utility model	23 December 2016	Qijiang Gear Transmission Co., Ltd.
67	Water cooler controller	201621422547.1	Utility model	23 December 2016	Qijiang Gear Transmission Co., Ltd.
68	Rotary planetary gearbox for pure electric system	201621449093.7	Utility model	27 December 2016	Qijiang Gear Transmission Co., Ltd.
69	Vehicle speed transmission	201621455196.4	Utility model	28 December 2016	Qijiang Gear Transmission Co., Ltd.
70	Dual power output pure electric transmission	201621480139.1	Utility model	30 December 2016	Qijiang Gear Transmission Co., Ltd.
71	Two – row planetary gearbox for pure electric vehicles	201621480168.8	Utility model	30 December 2016	Qijiang Gear Transmission Co., Ltd.

APPENDIX III ASSET VALUATION REPORTS ON THE TARGET COMPANIES

No.	Name of Patent	Patent No.	Type of Patent	Application Date of Patent	Patentee
72	Fixtures for processing the bore of planetary frame	201621481739.X	Utility model	30 December 2016	Qijiang Gear Transmission Co., Ltd.
73	Fixtures for checking the balance of the spares	201621479954.6	Utility model	30 December 2016	Qijiang Gear Transmission Co., Ltd.
74	Axis transmission for bus	200920127674.2	Utility model	16 June 2009	Qijiang Gear Transmission Co., Ltd.

(15) Long-term deferred expenses

Qijiang Gear's long-term deferred expenses with a carrying amount of RMB2,618,900 in the valuation scope is the exterior wall beautification, floor renovation and equipment maintenance and other payments of the amount of amortization.

(16) Other non-current assets

Qijiang Gear's other non-current assets with a carrying amount of RMB18,096,700 in the valuation scope is the state subsidiary of flexible shell processing lines to be received.

(17) Short-term loans

Qijiang Gear's short-term loans with a carrying amount of RMB158,000,000 in the valuation scope is the short-term loans lent from Bank of China Qijiang Branch and Chongqing Machinery and Electronic Finance Co., Ltd.

(18) Notes payable

Qijiang Gear's notes payable with a carrying amount of RMB65,030,100 in the valuation scope is banker's acceptances.

(19) Accounts payable

Qijiang Gear's accounts payable with a carrying amount of RMB144,550,700 in the valuation scope is the material accounts and equipment accounts to be paid.

(20) Advance payment

Qijiang Gear's advance payment with a carrying amount of RMB698,800 in the valuation scope is receivables in advance.

(21) Salaries payable to staff

Qijiang Gear's salaries payable to staff with a carrying amount of RMB83,882,300 in the valuation scope is dismissed benefits, housing fund and labor union expenditure.

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(22) Tax payables

Qijiang Gear's tax payables with a carrying amount of RMB28,600 in the valuation scope is the stamp duty to be paid and the individual income tax.

(23) Other payables

Qijiang Gear's other payables with a carrying amount of RMB378,179,300 in the valuation scope are the exchanges, borrowings, temporary security payables, service fee payables, retention and temporary estimated payment.

(24) Other current liabilities

Qijiang Gear's current liabilities with a carrying amount of RMB1,000,000 in the valuation scope are warranty expenses that has already been accrued.

(25) Long-term loans

Qijiang Gear's long-term loans with a carrying amount of RMB19,500,000 in the valuation scope is lending of new-energy commercial AMT transmission key technology and the industrialization project from China Agricultural Key Construction Fund Co., Ltd (中國農業重點建設基金有限公司).

(26) Long-term payables

Qijiang Gear's other payables with a carrying amount of RMB49,000,000 in the valuation scope are borrowings of Qijiang Gear from Machinery & Electric Company.

(27) Special payables

Qijiang Gear's liabilities on obligation with a carrying amount of RMB79,385,200 in the valuation scope are the retirement wages accounted in accordance with the Actuarial Valuation Report of Machinery and Electronic Company to be paid.

(28) Other non-current liabilities

Qijiang Gear's other non-current liabilities with a carrying amount of RMB9,442,500 in the valuation scope is government subsidiary received or to be received on imported equipment discount, flexible shell processing lines to be paid.

The valuation target and its scope are exactly the target and scope as entrusted by the entrusted parties.

Details of the valuation target and scope are set out in the breakdown of Asset Valuation.

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IV. VALUATION TYPES AND THEIR DEFINITIONS

The types of asset valuation include the market value and the types of valuation other than market value.

V. VALUATION REFERENCE DATE

The valuation reference date is 30 June 2017.

The valuation reference date is determined by the principal, with the possible proximity towards the realization date of the valuation aim as the major consideration factor, in order to derive a valuation result which effectively satisfies the valuation aim and minimize the impact of events occurred subsequent to the valuation reference date on the valuation result.

VI. VALUATION APPROACHES

(A) Selection of valuation approach

Qijiang Gear is a vehicle transmission manufacturing enterprise and it is difficult to find comparable transactions cases in the current market, therefore, valuers cannot use the market approach to conduct the valuation; as Qijiang Gear recently recorded loss, the future income and profitability cannot be reasonably predicted, therefore, it is not appropriate to use the income approach to conduct the valuation. As the list of assets of Qijiang Gear as entrusted is easier to access and the replacement value of the relevant assets can be obtained through the market survey method, it is appropriate to use the asset-based approach to conduct the valuation.

The specific model of the asset-based approach is as follows:

The appraised value of all the shareholders' interests = Σ appraised value of the various assets – Σ evaluation value of the various liabilities

In the valuation process, the valuer used different assessment methods based on specific circumstances of the assets and liabilities, details are as follows:

1. *Buildings and structures*

The valuer used the replacement cost method to evaluate according to the actual use of Qijiang Gear Transmission's buildings and collected data.

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The replacement cost method is to calculate the full cost (total replacement cost) of the assets to be re-purchased or constructed under the present conditions or constructed under a new condition, and determine the residue ratio by combining the period of usage and the maintenance status, and come up with the appraised value by multiplying the aforementioned figures. The basic formula is as follows:

Appraised value = total replacement cost × residue ratio

Total replacement cost = replacement unit price × building area

The building replacement unit price formula is as follows:

replacement unit price = (early construction costs + construction and installation work costs + other construction costs) × (1 + capital cost rate)

(A) *Early construction costs*

Mainly refers to the surveying and design fees, the base fee for preparation of the project and bidding business fees. The valuer would make the choice according to the actual situation of the buildings and structures.

(B) *Construction and installation work cost*

Mainly refers to the direct and indirect costs incurred from various materials, salaries and etc., which normally include direct costs (direct construction fees, measures fees), indirect fees (regulation fees, business management fees), profits, taxes, and various fees which are allowed to be calculated in real terms.

(C) *Other construction costs*

Includes the management fees of construction unit, project supervision fees, costs on urban construction and facilities, costs on prevention of white ants. The valuer would make the choice according to the actual situation of buildings.

(D) *Capital cost*

Mainly refers to the accrued interests of the funds used during the construction period under normal construction conditions. When estimating the capital cost, the valuer assumed that the funds required for the project are gradually and evenly invested during the construction period.

The choice of residue ratio:

For the buildings, pursuant to the “Rating standard for the condition of houses “(《房屋完損等級評定標準》) promulgated by the original urban and rural construction and environmental protection department (原城鄉建設環境保護部) and the national standard “industrial plant reliability appraisal standards” (《工業廠房可靠性鑒定標準》) (GBJ144-90), the valuer used the observation approach and rate different parts to determine the residue ratio, and finally combined with the age limit method to determine the residue ratio.

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As such: residue ratio = residue ratio by using the age limit method × weight + residue ratio by using observation method × weight

For general structures and pipelines, the valuers used the following formula to determine the residue ratio:

$$\text{residue ratio} = \text{available years} / (\text{used years} + \text{available years}) \times 100\%$$

2. *Equipment*

The valuer used the replacement cost method to carry out the valuation, that is, according to the purchase price of equipment, transportation costs, installation fees and other reasonable purchase and construction costs to calculate the full price, combined with the age of the equipment and maintenance status to determine the residue ratio, and come up with the appraised value by multiplying the above figures.

$$\text{Equipment evaluation value} = \text{equipment total replacement cost} \times \text{residue ratio}$$

(1) *For machinery and equipment*

$$\text{Equipment replacement cost} = \text{equipment purchase price} + \text{equipment transportation charges} + \text{equipment installation costs} + \text{equipment base costs} + \text{capital costs} + \text{other costs}$$

(2) *For electronic office equipment*

The valuer considered that the price of such equipment in the market generally includes installation fees, while the transportation fee is so low that it is negligible. Hence, equipment total replacement cost = equipment purchase price.

(3) *For transport vehicles*

$$\text{Total replacement cost} = \text{vehicle purchase price} + \text{purchase surcharge} + \text{license handling fee} + \text{other fees}$$

3. *Financial assets available for sale, long-term equity investment*

Financial assets available for sale and long-term equity investment are Qijiang Gear Transmission's external (wholly-owned) equity investment and equity investment.

For the (wholly-owned) equity investment, the valuer first assessed the total assets of the invested party as of the valuation reference date and then determine the equity investment appraised value by multiplying the net assets of the invested party by the shareholding held on the valuation reference date.

In the case of equity investment, the assessors shall determine the appraised value by multiplying the net assets (or the appraised net assets) of the invested unit on the valuation reference date.

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4. *Intangible assets*

(1) *Land use right for state-owned land*

There are five kinds of land assets valuation methods namely income approach, market approach, cost approach, hypothetical development approach and land datum value approach.

The valuer collected, analyzed and collated information such as the characteristics of the valuation object, the purpose of the valuation and the influencing factors of the area in which the valuated target is located, combined with the actual situation of the valuation object, the purpose of the valuation and the applicability of the various valuation methods and operability and other factors, used the benchmark land price correction method and the market method to assess the land use rights. In accordance with the two valuation methods, the price of the land use rights is determined.

① Land datum value approach

The land datum value approach is based on the land category of the parcel, the land use condition and the degree of development, under which, according to the principle of substitution, the influence of the regional factors and individual factors affecting the area to be estimated is compared to the area in the reference land price correction coefficient factors and individual factors indicators to determine the extent to which these factors affect the price of land, and with reference to the correction coefficient table corresponding to the degree of impact to determine the impact of each factor affecting the premium factor, according to the benchmark land price correction. At the same time, according to the benchmark land price assessment date, the useful life, the land maturity, the floor area ratio, the land use right type, respectively, there shall be day correction, year correction, correction of the land maturity and floor volume correction in respect of the land to be valued, to seek the land price to be valued on the assessment period. The basic formula is:

Price of the parcel to be estimated = applicable base price × land use correction coefficient × date correction coefficient × year correction coefficient × floor area correction factor × area and individual factors correction factor ± land development degree correction value

② Market approach

Market approach means that under the same market conditions, according to the principle of substitution, the valuated target is compared with real examples of land transactions with similar characteristics. The difference in trading situation, transaction date, regional and individual factors of the two is corrected. In order to obtain price of the valuation target on the valuation date, the formula is as follows:

Price of the parcel to be estimated = comparative example transaction price × condition correction coefficient × period correction coefficient × area rate correction coefficient × individual factor correction coefficient × volume ratio correction coefficient × year of use correction coefficient

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(2) *Patents and registered trademarks*

For the patents and registered trademarks in use but not in the accounts, the valuer used the income generated by the products manufactured with the patents and registered trademarks to determine the value of Qijiang Gear Transmission's patents and registered trademarks, meaning to calculate the future possible gains from the patents and registered trademarks under a certain scale of operation, and to confirm that the valuation target will bring profit to the owner of the assets; it is then multiplied by a certain profit share rate, to obtain the fair value of the valuation target under a certain scale of operation on the reference date.

Patent, registered trademark and intangible asset value calculation formula:

The value of intangible assets $\sum_{t=1}^N \text{profit} * \text{sharing rate} * (1+i)^{-t}$

Where:

N- Profitability period of intangible assets

i- the discount rate

For unused trademarks and patents, the valuer used the cost approach to value.

(3) *Software*

For the software intangible assets bought by the enterprise, valuer used the amortized amount as the appraised value by referring to the original purchase price and the amortization policy.

5. *Inventory*

Inventories include raw materials, commissioned processing materials, finished products, delivered goods and unfinished products.

For the ordinary raw materials, the valuer used the present purchase price and the appropriate transportation and miscellaneous charges, insurance fee and reasonable loss to determine the appraised value.

In the case of ordinary saleable finished products and delivered goods, the valuer determined the appraised value after deducting the selling expenses, the total tax and the appropriate amount of after-tax net profit from the pre-tax price.

For the commissioned processing of materials and unfinished products, the valuer determined the appraised value after verifying the book value.

6. *Construction in progress*

According to the characteristics of construction in progress, the replacement cost method is adopted. As for the construction in progress that has not been put into use, the construction period is shorter, the change of the purchase and construction prices are minimal, the enterprise pays the construction fees

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according to the progress of the project and the provisions of the contract. Upon the investigation and verification of the project progress and under the prerequisite of confirming the rationality of the construction budget, the valuer determined the appraised value with the verified book value.

7. *Other assets, claims and liabilities*

The valuer mainly examined the other assets and claims, the authenticity and legality of the liabilities, and determined the appraised value after investigation and verification. Among them:

For the account receivables, the valuer first examined the account with the larger amount and longer age, and took the substitute procedure to confirm the authenticity of the balance. Then, the aging of the account was analyzed, the ability of debtor's solvency was understood by different methods and its recyclability was estimated. Based on the above understanding, the possibility of risk of loss was determined, and ultimately determining the appraised value.

For the account payables, the valuer investigated the economic nature, inspected the relevant contracts or agreements, identified the specific creditors, and determined the valuation by verifying the liabilities.

(B) The method of determining conclusion of the assessment

According to the method of assessment, the necessary valuation procedures are adopted to form the preliminary conclusion of the valuation. Based on the analysis of the rationality of the preliminary conclusion of the valuation and the quality and quantity of the data used, the valuation conclusion of the valuation report is determined.

VII. VALUATION ASSUMPTIONS

The analysis and conclusion in the valuation report are only true based on the following assumptions:

(I) General assumptions

1. The information provided by Qijiang Gear and based on which the valuation conclusion made is credible and accurate.
2. There is no violation on the rights of continuous operation, and of legal possession, use and disposal of assets and enjoying profit from such assets by Qijiang Gear; unless otherwise stated, the Company is assumed to be in full compliance with all relevant laws and regulations.

(II) Assumptions of valuation environment

1. There is no material change in the laws, regulations and policy environment of the region where the valuation target is located as compared with the situation on the valuation reference date;

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2. There is no material change in the social and economic environment, international politics and economic environment of the place where the valuation target is located as compared with the situation on the valuation reference date;
3. There is no material change in the interest rate, exchange rate and price level in relation to the valuation target as compared with the situation on the valuation reference date.

(III) Assumptions of open trading conditions

The buyers and sellers with voluntary trading intentions have a reasonable knowledge background of the assets entrusted for valuation, market, and relevant factors which could affect the value of assets entrusted for valuation. Relevant parties will autonomously and independently decide their transaction behaviors without any external pressure or intimidation.

1. Public bidding, auction and listing for trading are implemented for the valuation target in the principle of fairness. The interested buyers make rational offers and participate in bidding in an equal and independent manner.
2. None of the obligee, principal and other interested parties and their connected persons in relation to the transaction corresponding to the valuation purpose enjoys the priority for valuation target, nor interferes with the transaction price of valuation target.

The valuers believe that the above valuation assumptions on the valuation reference date is reasonable and necessary and serves as a basis for the formation of the valuation conclusions. In the case that the above assumptions cannot be established on the valuation reference date or experience significant change in the future, it may lead to unachievable valuation conclusion. According to the requirements of the asset valuation, it is assumed that these assumptions are established on the valuation reference date. When the future economic environment changes significantly, no responsibility will be assumed for different valuation conclusions arising from the change of the assumption conditions.

VIII. VALUATION CONCLUSION

As at 30 June 2017, being the valuation reference date, the total audited assets of Qijiang Gear amounted to RMB1,209,939,000, the total liability is RMB988,697,500 and the net assets is RMB221,241,500.

After the valuation, the total assets is RMB1,234,720,500, the total liability is RMB979,255,000 and the net assets is RMB255,465,500, the appraised value increased RMB34,224,000, and with an appreciation rate of 15.47%.

The valuation results are summarized in the following table:

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Table of Summary of Asset Valuation Results

Valuation reference date: 30 June 2017

The appraised company: Qijiang Gear Transmission Co., Ltd

Unit: RMB0'000

Item		Carrying value	Appraised value	Increase/decrease	Appreciation rate %
		A	B	C=B-A	D=C/A×100%
1	Current assets	48,265.62	48,323.87	58.25	0.12
2	Non-current assets	72,728.28	75,148.18	2,419.90	3.33
3	Including: available-for-sale financial assets	2,300.00	2,176.84	-123.16	-5.35
4	Held-to-maturity investments	-	-	-	-
5	Long-term receivables	-	-	-	-
6	Long-term equity investment	1,555.35	1,656.47	101.12	6.50
7	Investment properties	-	-	-	-
8	Fixed assets	59,816.36	60,432.47	616.11	1.03
9	Construction in progress	4,344.73	4,344.73	-	-
10	Construction materials	-	-	-	-
11	Fixed assets pending for disposal	-	-	-	-
12	Productive biological assets	-	-	-	-
13	Oil and gas assets	-	-	-	-
14	Intangible assets	2,640.28	4,466.11	1,825.83	69.15
15	Development expenditures	-	-	-	-
16	Goodwill	-	-	-	-
17	Long-term deferred expenses	261.89	261.89	-	-
18	Deferred income tax assets	-	-	-	-
19	Other non-current assets	1,809.67	1,809.67	-	-
20	Total assets	120,993.90	123,472.05	2,478.15	2.05
21	Current liabilities	83,136.98	83,136.98	-	-
22	Non-current liabilities	15,732.77	14,788.52	-944.25	-6.00
23	Total liabilities	98,869.75	97,925.50	-944.25	-0.96
24	Total interest of shareholders (owner's equity)	22,124.15	25,546.55	3,422.40	15.47

Please refer to the breakdown of Assets Valuation for details of the valuation conclusion.

After the valuation, the appraised value increased RMB34,224,000, and with an appreciation rate of 15.47%. The main reasons of the appraised value increased are as follows:

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(1) Fixed Assets

The carrying value of fixed assets of Qijiang Gear is RMB598,163,600, with an appraised value of RMB604,324,700, the appraised value increased RMB6,161,100, and with an appreciation rate of 1.03%. The main reason for the increase in appraised value is that the depreciable life of Qijiang Gear equipment is shorter than the economic life determined by the valuer, so that the valuer has to multiply the residue ratio of equipment at total replacement cost, which will be higher than the net carrying value, leading to the increase of the equipment appraisal.

(2) Intangible assets

The carrying value of intangible assets of Qijiang Gear is RMB26,402,800, the appraised value is RMB44,661,100, the appraised value increased RMB18,258,300, the increase in appraised value is due to the increase of value in land and trademark registration and the patent appraisal.

The reasons for the increase of value in land appraisal are, on the one hand, the demand of landing is increasing with the development of the market economy, while the supply of the land is limited causing the increase in land price; On the other hand, the cost of land and the benchmark land price in Qijiang district in Chongqing have experienced significant adjustments in recent years and the cost of obtaining the land increased significantly, leading to the increase in land use right appraisal.

The increase of value in appraisal value of registered trademark and patent can still bring certain value to the earnings of the corporate, despite the absence of carrying value, and all of which caused the increase in appraisal.

As comprehensively valued and estimated by the valuers, the market value of the total interests of shareholders of Qijiang Gear on 30 June 2017, being the valuation reference date is RMB255,465,500 (In word: RMB Two hundred fifty five million four hundred sixty five thousand five hundred).

IX. EXPLANATORY NOTES ON SPECIAL MATTERS

- (I) The valuation is made under the principle of independence, objectivity and fairness. None of the persons involved in the asset valuation are interested in the principal and the valuated enterprise. Valuers conducted the valuation in strict compliance with relevant systems and standards, and observed professional ethics and standards during the valuation.
- (II) This valuation report is made based on the basic documents, data and information provided by the principal and relevant parties concerned. It is the responsibility of the principal and relevant parties concerned to provide all necessary information and ensure the truthfulness, legitimacy and integrity of such information provided, whereas the asset valuers are responsible for analyzing, estimating the value of the valuation target as at the valuation reference date for specific purposes and giving professional opinions thereon.

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- (III) The valuation conclusion provides a reference on the market value of the 100% equity interest of the shareholders in the appraised enterprise as at the valuation reference date for the purpose of valuation as stated in this report, under the valuation assumptions and restrictions specified in the report, without consideration to the effect on the value of valuation target by shareholding premium, minority equity discount and the equity liquidity discount. Users of the report should understand that the value of the shareholders' partial equity is not certainly equal to the value of the shareholders' total equity multiplied by the equity ratio.
- (IV) This valuation conclusion is to reflect the prevailing market value of the valuation target determined by the open market principle for the valuation purpose, without considering the impact on such conclusion due to the assessment of the rapid realization of assets or possible pledge, guarantee to be undertaken, nor taking into account the impact on asset price due to change of national macroeconomic policies, or the occurrence of natural forces and other force majeure. In case of any change to the aforesaid conditions and the ongoing use principle adopted in the valuation, the valuation conclusion shall normally become invalid. The valuation agency is not accountable for the related legal liabilities for the invalidity of the valuation conclusion arising from changes to such conditions.
- (V) In appraising the assets within the valuation scope, we have not considered the possible expenses and taxes to be assumed for the use of such assets, nor appreciation or depreciation of certain assets for tax purposes.
- (VI) Title defects
1. The principal, the property right owner and the parties concerned shall assume liability for the truthfulness, legitimacy and integrity of the legal ownership information on the valuation target thus provided. The asset valuers execute asset valuation for the purpose of estimating the value of the valuation target, giving professional opinions thereon, and paying attention to the legal ownership of such target, other than providing guarantee to such legal ownership.

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2. The building of the Qijiang Gear with gross floor area of 66,745.67 square meter in the valuation scope has no certificate of title, the details are as follows:

No.	Name of the building	Structure	Completion time	Units	Gross floor area	The original carrying amount (RMB0'000)	The net carrying amount (RMB0'000)
1	101 Company's headquarter office	Steel-concrete	April 2015	m ²	17,261.13	21,178.85	21,178.85
2	102 Wings	Steel-concrete	April 2015	m ²	3,776.16		
3	103 Pilot plant	Steel-concrete	April 2015	m ²	4,207.82		
4	104 Water pump house	Steel-concrete	April 2015	m ²	99.35		
5	105 Main guard	Steel-concrete	April 2015	m ²	51.42		
6	106 Sub-gate guard	Steel-concrete	April 2015	m ²	10.50		
7	201 Joint plant	Steel structure	April 2015	m ²	39,837.64		
8	202 Power centre	Steel-concrete	April 2015	m ²	976.91		
9	203 10kVTotal power distribution room	Steel-concrete	April 2015	m ²	396.95		
10	204 Water pump house and generator house	Steel-concrete	April 2015	m ²	87.35		
11	205 Main guard	Steel-concrete	April 2015	m ²	20.22		
12	206 Sub-gate guard	Steel-concrete	April 2015	m ²	20.22		

The valuer and the asset management personnel of Qijiang Gear have come to the site to survey, and visually estimated its declaration of housing construction area, and there is no difference as compared with the reported area, but did not conduct professional measurement; if the housing construction area adopted by the valuer is inconsistent with the area measured by the real estate management department, the area measured by the real estate administrative departments should prevail, and adjust the assessment value accordingly.

For this valuation, the valuer did not take into account the effect of property rights disputes or related costs that may happen when perfecting the procedure of the property rights on the conclusion.

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3. As of the valuation reference date, Qijiang Gear has 4 vehicles to be scrapped in total, the Company did not provide the latest annual inspected vehicle driving permits of the vehicles. The details are as follows:

No.	Vehicle registered No.	Vehicle name and model	Units	Number	Date of purchase	The original carrying amount (RMB)	The net carrying amount (RMB)	Remarks
1		Jiefang truck CA1040K11L2RE3	Unit	1	2010/09	43,500.00	8,631.27	To be scrapped
2	渝A67118	LINCOLN	Unit	1	2003/02	443,200.00	13,296.00	To be scrapped
3	渝B42489	Fengshen car(bluebird) 渝B42489EQ7200—III	Unit	1	2004/09	297,651.17	8,929.54	To be scrapped
4	渝B2Z917	Passat SVW7183AGi	Unit	1	2001/10	50,000.00	2,500.00	To be scrapped

This appraisal is under the assumptions that the Qijiang Gear has the ownership of the vehicles, without consideration to the effect of property rights disputes or related costs that may happen when perfecting the procedure of the property rights on the conclusion.

4. Qi-Chi Forging has six vehicles in total, which are transferred as investment by shareholders of the Company when the Company was incorporated, Qi-Chi Forging did not conduct annual inspection for transferred vehicles, and because of the time, it also did not provide relevant information of the vehicle registration certificate and vehicle driving license. As of valuation reference date, these six vehicles have been scrapped and cannot be used. This appraisal is under the assumptions that the Qi-Chi Forging have the ownership of the vehicle, without consideration to the effect of property rights disputes or related costs that may happen when perfecting the procedure of the property rights on the conclusion.

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5. Qi-Chi Automotive Part has 13 vehicles in total, as of valuation reference date, five of which are to be scrapped, and the remaining eight have been rented out, the Company did not provide the recent annual inspected vehicle driving permits of the vehicles. The details are as follows:

No.	Vehicle registered No.	Vehicle name and model	Units	Number	Date of purchase	The original carrying amount (RMB)	The net carrying amount (RMB)	Remarks
1		Huaqiang trucks	Unit	1	2003-06	28,500.00	2,656.05	To be scrapped
2		Trucks	Unit	1	1998-01	37,885.01	1,136.55	To be scrapped
3		Bus	Unit	1	2007-01	42,294.50	1,268.84	To be scrapped
4		Jinbei truck	Unit	1	2003-03	58,820.00	3,536.59	To be scrapped
5	渝BG9195	Greatwall truck	Unit	1	2008-12	70,000.00	2,100.00	Rented out
6		Jiefang truck	Unit	1	2003-07	72,945.90	3,110.61	No driving permit, internal transferred, Rented out
7	渝BE6077	Double seat car	Unit	1	2007-10	76,183.50	2,285.51	Rented out
8	渝BE6069	Double seat car	Unit	1	2007-10	76,183.50	2,285.51	Rented out
9	渝A19937	Yuejin	Unit	1	2003-06	98,946.72	2,968.40	To be scrapped
10	渝BJ7381	Dongfeng motor	Unit	1	2011-01	100,000.00	23,262.76	Rented out
11	渝BC5108	Shitong	Unit	1	2008-01	161,271.50	4,838.15	Rented out
12	渝AY5839	Passat	Unit	1	2008-12	230,000.00	6,900.00	Rented out
13	渝AQJ507	Buick	Unit	1	2010-08	297,809.69	54,672.80	Rented out
Total						1,350,840.32	111,021.77	

This appraisal is under the assumptions that the Qi-Chi Automotive Part have the ownership of the vehicle, without consideration to the effect of property rights disputes or related costs that may happen when perfecting the procedure of the property rights on the conclusion.

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(VII) Litigations

Litigant	Defendant	Litigations
Qijiang Gear Transmission Co., Ltd.	Chongqing Ankai Coach Co., Ltd. (重慶安凱客車有限責任公司)	Chongqing Ankai Coach Co., Ltd started to purchase products from Qijiang Gear since 2003 and has certain payment outstanding. The court judged that Ankai Coach to settle the payment of RMB409,790 within 10 days from the effective date. However, the company did not execute the judgment due to the revoking of its business license on 1 September 2010.
Qijiang Gear Transmission Co., Ltd.	Wuhu Ruipeng Coach Co., Ltd (蕪湖市瑞鵬客車有限公司)	Wuhu Ruipeng Coach Co., Ltd purchased products from Qijiang Gear and did not settle the payment. The court demanded that Ruipeng Coach to pay RMB1,306,980 to the plaintiff and compensate for its interest losses within 10 days from the effective date. Ruipeng executed part of the judgment by returning all 84 transmissions amounted to RMB726,000 to Qijiang Gear to pay the debt in kind.
Chongqing (Qijiang) Xingnong Financing Guarantee Group Co., Ltd. (綦江區興農融資擔保有限公司)	Chen Hong (陳虹), Dai Zhiqiao (代志橋), Dai Shiping (代世平), Xi Fenfang (奚芬芳), Chongqing Hongping Auto Parts Co., Ltd. (重慶市宏平汽車配件有限公司), Qijiang Gear Transmission Co., Ltd.	Chongqing Hongping Auto Parts Co., Ltd. borrowed money from the third party- Bank of Chongqing Co., Ltd Qijiang Branch, Chongqing(Qijiang) Xingnong Financing Guarantee Group Co., Ltd., the plaintiff, provided guarantee to it, after that, Hongping Auto Parts has no ability to repay the loan to Bank of Chongqing, so that Xingnong Guarantee have to pay the loan to Bank of Chongqing instead, now Xingnong Guarantee is claiming debts from Hongping company and its guarantor. The court judged that Qijiang Gear bears the joint responsibility.
Qijiang Gear Transmission Co., Ltd.	Shaanxi Eurostar Auto Co., Ltd. (陝西歐舒特汽車股份有限公司)	Shaanxi Eurostar Auto Co., Ltd. purchased products from Qijiang Gear and did not settle the payment. Arbitration Committee of Xi'an judged that Shaanxi Eurostar Auto Co., Ltd. to pay RMB554,490 to Qijiang Gear within 10 days from the date of the verdict. Shaanxi Eurostar paid RMB30,000 in cash on 25 July 2016, and the amount of RMB524,490 remain unpaid.
Du Gang (杜剛)	Wuhan Auto Industrial Accessory Co., Ltd. (武漢市汽車工業配件有限責任公司), Qijiang Gear Transmission Co., Ltd.	Wuhan Auto Industrial Accessory Co., Ltd. transferred its debt receivable rights of Qijiang Gear to Du Gang, and Qijiang Gear did not pay the debt according to the Debt Transfer Agreement. The court judged that Qijiang Gear to repay all the debt of RMB106,000 to Du Gang.

In this valuation, the valuer did not take into account the influences of the aforesaid litigations on the valuation conclusions.

APPENDIX III ASSET VALUATION REPORTS ON THE TARGET COMPANIES

(VIII) Mortgages and Guarantees

The borrowings amounting to of RMB28,000,000 borrowed by Qijiang Gear from Chongqing Machinery and Electric Holding (Group) Finance Co., Ltd.(重慶機電控股集團財務有限公司) is guaranteed by Machinery and Electric with irrevocably unlimited joint liability.

(IX) Valuation Subject to the Lack of Integrity of the Information

The other intangible assets of Qijiang Gear included in the valuation scope, namely the trademark with a carrying amount of RMB20,000 maintained its carrying value in the valuation results, because the valuer was unable to verify the specific content of the project due to the early formation of the asset and relevant accounting documents were destroyed.

- (X) During the validity period of this valuation report, in the event of any changes in the quantity of assets and the basis of consideration included in the scope of valuation, the principal shall make corresponding adjustments to the actual consideration of assets; in the event of any changes in the quantity of assets, the principal shall make adjustments to the asset amount in accordance with the original valuation method; and in the event of any changes in the pricing basis of assets which will have a material impact on the appraised value of assets, the principal shall promptly engage an appraisal firm to re-confirm the appraised value.

The aforesaid matters may have impact on the appraised value. The principal and the relevant report users are advised to make independent judgment on the potential risks in using the conclusions of the report.

X. RESTRICTION ON THE USE OF THE REPORT

- (I) The valuation report is issued only for the valuation purposes and uses as specified;
- (II) The valuation report is issued to be used by the users of the valuation report as specified only;
- (III) Any extract, quotation or disclosure of the content of the valuation report in public media, either in whole or in part, shall be subject to prior review of the Company. Unless otherwise required by laws and regulations or agreed among relevant parties, the content of the valuation report shall not be extracted, quoted or disclosed in any public media without prior written content of the Company;

APPENDIX III ASSET VALUATION REPORTS ON THE TARGET COMPANIES

(IV) Validity Period for Use of the Valuation Report

The valuation results of this report will be effective for a year commencing from the valuation reference date upon filing with the state-owned assets supervision and administration authorities or obtaining relevant approval, namely from 30 June 2017 to 29 June 2018. If the purpose of valuation is fulfilled within a year commencing from the valuation reference date, the valuation results can be deemed as a basis of consideration; if it has been more than a year since the valuation reference date, another assets appraisal shall be arranged in this regard.

XI. DATE OF THE VALUATION REPORT

The valuation report is finalised as at 11 September 2017, being the date of forming professional opinion by the asset valuer.

2. ASSET VALUATION REPORT OF MICROCREDIT

**Asset Valuation Project of the Entire Equity Interest of
Chongqing Liangjiang New Area Machinery and Electronic Microcredit Co., Ltd. involved in the
Equity Transfer Between
Chongqing Machinery and Electronic Holding (Group) Co., Ltd. and
Chongqing Machinery & Electric Co., Ltd.**

Asset Valuation Report

Chong Kang Ping Bao Zi (2017) No.210-2

**To: Chongqing Machinery and Electronic Holding (Group) Co., Ltd.
and Chongqing Machinery & Electric Co., Ltd.**

As engaged by you, Huakang Asset & Land & Real Estate Valuation Co., Ltd. has, pursuant to relevant laws and regulations as well as standards and principles of asset valuation and by adopting the assets-based approach in compliance with the required valuation procedures, conducted a valuation on the market value of the entire equity interest of Chongqing Liangjiang New Area Machinery and Electronic Microcredit Co., Ltd.(重慶兩江新區機電小額貸款有限公司) as at 30 June 2017 involved in the equity transfer between Chongqing Machinery and Electronic Holdings (Group) Co., Ltd. and Chongqing Machinery & Electric Co., Ltd.

It is the responsibility of the valuer to analyze and estimate the value of the valuation target as at the valuation reference date for a specific purpose and express its professional opinions, in compliance with the relevant laws, regulations and principles of assets valuation. It is the responsibility of the principal and the related parties to provide the necessary information and to ensure its truthfulness, legitimacy and completeness, and to apply the valuation report in a proper manner.

We have completed the relevant valuation and hereby report on the details and results of the assets valuation as follows:

I. APPRAISED COMPANY

The appraised company of the valuation is Chongqing Liangjiang New Area Machinery and Electronic Microcredit Co., Ltd.

(I) Basic Information

- (1) Company name: Chongqing Liangjiang New Area Machinery and Electronic Microcredit Co., Ltd. (hereinafter referred to as “Machinery and Electronic Microcredit (機電小貸”).
- (2) Address: No. 60, Middle Section of Huangshan Avenue, Liangjiang New Area, Chongqing City
- (3) Legal Representative: Chen Gang (陳剛)

APPENDIX III ASSET VALUATION REPORTS ON THE TARGET COMPANIES

- (4) Type of Company: limited liability company
- (5) Registered Capital: RMB200,000,000
- (6) Paid-in Capital: RMB200,000,000
- (7) Date of Establishment: 17 April 2013
- (8) Business Term: Permanent from 17 April 2013
- (9) Scope of Business: provision of loans, notes discounting, assets transfer in Chongqing and conducting equity investment with self-owned funds in China. (Projects subject to approval by law can be operated with approval of relevant authority)
- (10) History and Proportion of Shares Held by the Shareholders:

Chongqing Liangjiang New Area Machinery and Electronic Microcredit Co., Ltd formerly known as Chongqing New North Zone Machinery and Electronic Microcredit Co., Ltd. (重慶北部新區機電小額貸款有限公司) (hereinafter referred to as “the Company”), which changed its name to the present one on 27 June 2017, was jointly established by Machinery and Electronic Group and nine of its state-owned subsidiaries, and approved by Financial Affairs Office of Chongqing People’s Government (重慶市人民政府金融工作辦公室) as non-bank financial enterprise.

APPENDIX III ASSET VALUATION REPORTS ON THE TARGET COMPANIES

The Company completed industry and commerce registration on 17 April 2013 and commenced business on 8 May, of which the registered capital amounted to RMB200,000,000. The shareholding structure is illustrated in the table below:

Number	Shareholders	Contribution proportion	Contribution amount (RMB0'000)
1	Chongqing Machinery and Electronic Holding (Group) Co., Ltd.	30%	6,000.00
2	Chongqing Puhui Electromechanical Industrial Development Company Limited	10%	2,000.00
3	Chongqing Machinery & Electric Co., Ltd.	10%	2,000.00
4	Chongqing Machine Tools (Group) Co., Ltd.	10%	2,000.00
5	Qijiang Gear Transmission Co., Ltd	10%	2,000.00
6	Chongqing Pump Industry Co., Ltd.	5%	1,000.00
7	Chongqing General Industry (Group) Co., Ltd.	5%	1,000.00
8	Chongqing Water Turbine Works Co., Ltd.	5%	1,000.00
9	Chongqing Jian'an Instruments Co., Ltd.	5%	1,000.00
10	Chongqing Crane Works, Co., Ltd.	10%	2,000.00
Total		100%	20,000.00

On 4 January 2016, Chongqing Crane Works, Co., Ltd. transferred its 10% equity interest in the Company or RMB20,000,000 to Machinery & Electric Group, as a result of which, shareholders turned from original ten to nine, and shareholding of Machinery & Electric Group became 40%.

On 5 April 2017, Chongqing Puhui Electromechanical Industrial Development Company Limited transferred its 10% equity interest in the Company or RMB20,000,000 to Machinery & Electric Group, as a result of which, shareholders turned from nine to eight, and shareholding of Machinery & Electric Group became 50% and it became the major shareholder.

APPENDIX III ASSET VALUATION REPORTS ON THE TARGET COMPANIES

As at the valuation reference date, the shareholding structure of Machinery and Electronic Microcredit is as follows (unit: RMB0'000):

Number	Shareholders	Contribution proportion	Contribution amount
1	Chongqing Machinery and Electronic Holding (Group) Co., Ltd.	50%	10,000.00
2	Chongqing Machinery & Electric Co., Ltd.	10%	2,000.00
3	Chongqing Machine Tools (Group) Co., Ltd.	10%	2,000.00
4	Qijiang Gear Transmission Co., Ltd	10%	2,000.00
5	Chongqing Pump Industry Co., Ltd.	5%	1,000.00
6	Chongqing General Industry (Group) Co., Ltd.	5%	1,000.00
7	Chongqing Water Turbine Works Co., Ltd.	5%	1,000.00
8	Chongqing Jian'an Instruments Co., Ltd.	5%	1,000.00
	Total	100%	20,000.00

(11) Operation governance structure:

Machinery and Electronic Microcredit established shareholders' general meeting, board of supervisors and board of directors. The shareholders' general meeting is the highest authority of the Company, and the board of supervisors is the supervising authority of the operation activity of the Company. The Company adopted the general manager responsibility system under the leadership of the board of directors, and has established three departments including business development department, risk management department and comprehensive management department in accordance with the requirement of business development and supervision restriction.

APPENDIX III ASSET VALUATION REPORTS ON THE TARGET COMPANIES

(II) The assets, finance, operation conditions and accounting policies of the appraised company for the recent three years and six months**(1) The assets, finance and operation conditions**

Projects	31 December 2014	31 December 2015	31 December 2016	30 June 2017
Total assets	33,792.78	25,834.34	24,031.86	22,202.46
Total liabilities	11,226.38	5,117.54	5,132.26	4,778.98
Equity of owner	22,566.40	20,716.79	18,899.60	17,423.48
Projects	2014	2015	2016	From January to June 2017
Operation income	5,838.29	2,179.92	451.76	70.02
Operation expenditure	3,401.56	3,059.88	2,641.87	1,806.71
Operation profit	2,436.73	-879.95	-2,190.11	-1,736.69
Non-operation income	18.70	116.40	53.22	0.69
Net profit	2,084.81	-649.60	-1,817.19	-1,476.12

(2) Conditions of the main assets

Machinery and Electronic Microcredit is mainly engaged in various loans, note discounting, asset transferring within the area of Chongqing and equity investment nationwide by its own funds, and its main assets include related electronic office equipment, transportation vehicles as well as receivables and payables generated from financial business. The amount of main assets project is as follows: cash and deposits in central banks of RMB100, deposits with banks and non-bank financial institutions of RMB4,525,600, interest receivables of RMB62,200, loans and advances to customers of RMB200,337,300, fixed assets of RMB440,200, intangible assets of RMB119,400, deferred income tax assets of RMB8,119,100, other assets of RMB8,420,500, respectively.

II. VALUATION PURPOSE

This valuation aims to provide reference in respect of the market value of entire equity interest of shareholders of Machinery and Electronic Microcredit for the equity transfer between Machinery & Electric Group and Machinery and Electronic.

III. VALUATION TARGET AND SCOPE

The valuation target is the value of the entire equity interest of shareholders of Machinery and Electronic Microcredit.

APPENDIX III ASSET VALUATION REPORTS ON THE TARGET COMPANIES

The scope of this valuation includes the overall assets and liabilities declared by Machinery and Electronic Microcredit. In accordance with the financial statements of Machinery and Electronic Microcredit as audited by certified public accountants, the total assets of Machinery and Electronic Microcredit amounted to RMB222,024,600, the total liabilities amounted to RMB47,789,800 and equity interest of owners amounted to RMB174,234,800 as of 30 June 2017.

Details of main assets and liabilities are as follows:

(1) Cash and deposits in central banks

Machinery and Electronic Microcredit's cash and deposit in central banks with a carrying amount of RMB100 in the valuation scope is cash.

(2) Deposits with banks and non-bank financial institutions

Machinery and Electronic Microcredit's deposits with banks and non-bank financial institutions with a carrying amount of RMB4,525,600 in the valuation scope is demand deposit in Industrial Bank Ltd. Chongqing Branch, China Merchants Bank Chongqing branch, China Merchants Bank Chongqing branch Shangqingsi sub-branch and Chongqing Machinery and Electric Holding (Group) Finance Co., Ltd.

(3) Interest receivables

Machinery and Electronic Microcredit's interest receivables with a carrying amount of RMB62,200 in the valuation scope is recognized interest of loans due from customers.

(4) Loans and advances to customers

Machinery and Electronic Microcredit's loans and advances to customers with a carrying amount of RMB200,337,300 in the valuation scope is recognized loans and advances to enterprise and individual customers.

(5) Fixed assets

Machinery and Electronic Microcredit's all fixed assets in the valuation scope are 36 sets of equipment in total, with an original carrying amount of RMB1,075,000 and the net carrying amount of RMB440,200, including office electronic equipment and transportation vehicles.

(6) Intangible assets

Machinery and Electronic Microcredit's intangible assets with a carrying amount of RMB119,400 in the valuation scope is the amortized amount of office software and financial software.

APPENDIX III ASSET VALUATION REPORTS ON THE TARGET COMPANIES

(7) Deferred income tax assets

Machinery and Electronic Microcredit's deferred income tax assets with a carrying amount of RMB8,119,100 in the valuation scope is the temporary differences of income tax deductible arising from bad debts provision of loans.

(8) Other assets

Machinery and Electronic Microcredit's other assets with a carrying amount of RMB8,420,500 in the valuation scope including advance of the legal fees, staff reserve, and the deferred expenses of office renovation, notes receivables, other current assets and other items.

(9) Tax payables

Machinery and Electronic Microcredit's tax payables with a carrying amount of RMB10,100 in the valuation scope is appreciation tax, urban construction tax, personal income tax and enterprise income tax to be paid.

(10) Other liabilities

Machinery and Electronic Microcredit's other liabilities with a carrying amount of RMB47,779,800 in the valuation scope is borrowings and interest from Machinery & Electric Group, decoration and audit fees to be paid.

The valuation target and its scope are exactly the target and scope as entrusted.

Details of the valuation target and scope are set out in the breakdown of Asset Valuation.

IV. VALUATION TYPES AND THEIR DEFINITIONS

The types of asset valuation include the market value and the types of valuation other than market value.

V. VALUATION REFERENCE DATE

The valuation reference date is 30 June 2017.

The valuation reference date is determined by the principal, with the possible proximity towards the realization date of the valuation aim as the major consideration factor, in order to derive a valuation result which effectively satisfies the valuation aim and minimize the impact of events occurred subsequent to the valuation reference date on the valuation result.

VI. VALUATION APPROACHES**(A) Selection of valuation approach**

Machinery and Electronic Microcredit is a small loan company, and it is difficult to find comparable transactions cases in the current market, therefore, valuers cannot use the market approach to conduct the valuation. The main source of funds for Machinery and Electronic Microcredit are the investment of shareholders, and the loans from Machinery & Electronic Group, which is limited. At the same time, with the effect by the market environment changes and other factors, the Company's operation profit continued to decline from the date of the establishment of the Company to the valuation reference date. The risk of the loan is expected to be material and the income, cost, expense and operation cash flows from normal continuing operations cannot be reasonably predicted in the future. Therefore, it is not appropriate to use the income approach to conduct the valuation. As the list of asset of Machinery and Electronic Microcredit as entrusted is easier to access and the replacement value of the relevant assets can be obtained through the market survey method, it is appropriate to use the asset-based approach to conduct the valuation.

The specific model of the asset-based approach is as follows:

The appraised value of the shareholders' interests = Σ valuation value of the various assets – Σ valuation value of the various liabilities

In the valuation process, the valuer used different assessment methods based on the specific circumstances of the assets and liabilities, the details are as follows:

1. Cash and deposits with the Central Bank

For cash, the valuer reviewed the cash journal between the valuation reference date and the inventory date through counting the cash in hand and calculated the actual amount of cash on the valuation reference date on the basis of the cash receipts and payments from the valuation reference date to the counting date.

2. Money deposited in other banks

For the money deposited in other banks, the valuer confirmed the appraised value by verifying the statements and the balance adjustment form, and send correspondences to confirm the authenticity of deposits with the banks.

3. Interest receivables

The valuer determined the appraised value based on its recoverability by understanding the main business content and the principal amount, the time of occurrence and the possible bad debts.

APPENDIX III ASSET VALUATION REPORTS ON THE TARGET COMPANIES

4. *Loans and advances*

The valuer referred to the guide of “classification of loan risk” of the People’s Bank of China, verified and classified the loans and advances of the appraised units into normal, attention, subordinate, suspicious and loss. The rationality of the provision for loan loss is analyzed by using the verified classifications aforementioned combined with the provisions of prudential supervision of the banking supervision department.

The amount of loss is assessed according to the actual situation in this valuation, that is, by verifying the amount of loans and the collateral assets corresponding to the loans or guarantees and other measures to determine the amount of recoverable loans, so as to verify the loan after deducting the expected loss. The loan loss provision is assessed to be zero.

5. *Equipment*

The valuer used the replacement cost method to carry out the valuation, that is, according to the purchase price of equipment, transportation costs, installation fees and other reasonable purchase and construction costs to calculate the total replacement cost, combined with the age of the equipment and maintenance status to determine the residue ratio, and come up with the appraised value by multiplying the aforesaid figures.

Equipment appraised value = equipment total replacement cost × residue ratio

(1) *For electronic office equipment*

The valuer considered that the price of such equipment in the market generally includes the installation fees, while the transportation cost is so low that it can be negligible. Hence, full replacement cost of the equipment = purchase price of the equipment

(2) *For transport vehicles*

Total replacement cost = vehicle purchase price (excluding tax) + purchase surcharge + license fee + other cost

6. *Intangible assets*

Intangible assets include financial, office software and other amortized amount of debts.

The valuer determined the appraised value after confirming the book value on the basis of collecting contracts, checking the basis of the account and analyzing the utility period.

7. *Other assets*

For other assets, the valuer determined the appraised value through the collection of contracts, checking the basis of the account and reviewing the authenticity and legality of other assets after investigation and verification.

8. Liabilities

Liabilities include tax payable other liabilities and etc., The valuer determined the actual amount of liabilities and the appraised according to the accounts declared by the enterprise, and by checking the accounts and tables one by one, as well as the relevant basis for the record.

(B) The method of determining the conclusions of the assessment

The purpose of the valuation is to provide reference of market value of the entire equity interests of shareholders of Machinery and Electronic Microcredit as at the valuation reference date for the share transfer between Machinery & Electronic Group and Machinery & Electric Company. The valuer formulated the preliminary conclusion of the valuation after implementing the necessary valuation procedures according to the determined valuation method. Based on the analysis of the reasonableness of the preliminary conclusion of the valuation and the quality and quantity of the data used, the conclusion of the valuation report is finalized after comprehensive analysis.

VII. VALUATION ASSUMPTIONS

The analysis and conclusion in the valuation report are only true based on the following assumptions:

(I) General assumptions

1. The information provided by Machinery and Electronic Microcredit and based on which the valuation conclusion made is credible and accurate.
2. There is no violation on the rights of continuous operation, and of legal possession, use and disposal of assets and enjoying profit from such assets by Machinery and Electronic Microcredit; unless otherwise stated, the Company is assumed to be in full compliance with all relevant laws and regulations.

(II) Assumptions of valuation environment

1. There is no material change in the laws, regulations and policy environment of the region where the valuation target is located as compared with the situation on the valuation reference date;
2. There is no material change in the social and economic environment, international politics and economic environment of the place where the valuation target is located as compared with the situation on the valuation reference date;
3. There is no material change in the interest rate, exchange rate and price level in relation to the valuation target as compared with the situation on the valuation reference date.

APPENDIX III ASSET VALUATION REPORTS ON THE TARGET COMPANIES

(III) Assumptions of open trading conditions

The buyers and sellers with voluntary trading intentions have a reasonable knowledge background of the assets entrusted for valuation, market, and relevant factors which could affect the value of assets entrusted for valuation. Relevant parties will autonomously and independently decide their transaction behaviors without any external pressure or intimidation.

1. Public bidding, auction and listing for trading are implemented for the valuation target in the principle of fairness. The interested buyers make rational offers and participate in bidding in an equal and independent manner.
2. None of the obligee, principal and other interested parties and their connected persons in relation to the transaction corresponding to the valuation purpose enjoys the priority for valuation target, nor interferes with the transaction price of valuation target.

Assets valuation assumptions are closely related to the valuation conclusions, due to the difference in premise, assumption, the condition of the assets to be valued and operation condition of the enterprise, the current value of their assets, liabilities, replacement costs, income levels that could be generated from the earning period, the cost to be paid, various taxes, the selected interest rate, discount rate and risk factors will be different, and therefore comes to different assessment conclusions. The valuers believe that the above valuation assumptions on the valuation reference date are reasonable and necessary and serve as a basis for the formation of the valuation conclusions. In the case that the above assumptions cannot be established on the valuation reference date or experience significant change in the future, it may lead to unachievable valuation conclusion. According to the requirements of the asset valuation, and assumed that these assumptions are established on the valuation reference date and that when the future economic environment changes significantly, no responsibility will be assumed for different valuation conclusions arising from the change of the assumption conditions.

VIII. VALUATION CONCLUSION

As at 30 June 2017, being the valuation reference date, the total audited assets of Machinery and Electronic Microcredit amounted to RMB222,024,600, the total liability amounted to RMB47,789,800 and the net assets amounted to RMB174,234,800.

After the valuation, the total assets amounted to RMB222,120,400, the total liability amounted to RMB47,789,800 and the net assets amounted to RMB174,330,600, the appraised value increased RMB95,800, and with an appreciation rate of 0.05%.

APPENDIX III ASSET VALUATION REPORTS ON THE TARGET COMPANIES

The valuation results are summarized in the following table:

Table of Summary of Asset Valuation Results

Valuation reference date: 30 June 2017

The appraised company: Chongqing Liangjiang New Area Machinery and Electronic Microcredit Co., Ltd
Unit: RMB0'000

Item	Carrying value	Appraised value	Increase/decrease	Appreciation rate %
	A	B	C=B-A	D=C/A×100%
Assets				
Cash and deposits in central banks	0.01	0.01	0.00	0.00
Deposits with banks and non-bank financial institutions	452.56	452.56	0.00	0.00
Precious metals	0.00	0.00	0.00	0.00
Placements with banks	0.00	0.00	0.00	0.00
Transactional financial assets	0.00	0.00	0.00	0.00
Derivative financial assets	0.00	0.00	0.00	0.00
Financial assets purchased under agreements to resell	0.00	0.00	0.00	0.00
Interest receivables	6.22	6.22	0.00	0.00
Loans and advances to customers	20,033.73	20,033.73	0.00	0.00
Available-for-sale financial assets	0.00	0.00	0.00	0.00
Held-to-maturity investments	0.00	0.00	0.00	0.00
Long-term equity investment	0.00	0.00	0.00	0.00
Investment properties	0.00	0.00	0.00	0.00
Fixed assets	44.02	53.60	9.58	21.76
Intangible assets	11.94	11.94	0.00	0.00
Deferred income tax assets	811.91	811.91	0.00	0.00
Other assets	842.05	842.05	0.00	0.00
Total assets	22,202.46	22,212.04	9.58	0.04
Total liabilities	4,778.98	4,778.98	0.00	0.00
Net assets (owner's equity)	17,423.48	17,433.06	9.58	0.05

Please refer to the Breakdown of Asset Valuation for details of the valuation conclusion.

As comprehensively valued and estimated by the valuers, the market value of the total interest of shareholders of Machinery and Electronic Microcredit on 30 June 2017, being the valuation reference date is RMB174,330,600 (In word: RMB One hundred seventy four million three hundred thirty thousand six hundred).

APPENDIX III ASSET VALUATION REPORTS ON THE TARGET COMPANIES

IX. EXPLANATORY NOTES ON SPECIAL MATTERS

- (I) The valuation is made under the principle of independence, objectivity and fairness. None of the persons involved in the asset valuation are interested in the principal and the valuated enterprise. Valuers conducted the valuation in strict compliance with relevant systems and standards, and observed professional ethics and standards during the valuation.
- (II) This valuation report is made based on the basic documents, data and information provided by the principal and relevant parties concerned. It is the responsibility of the principal and relevant parties concerned to provide all necessary information and ensure the truthfulness, legitimacy and integrity of such information provided, whereas the asset valuers are responsible for analyzing, estimating the value of the valuation target as at the valuation reference date for specific purposes and giving professional opinions thereon.
- (III) The valuation conclusion provides a reference on the market value of the entire equity interest of the shareholders in the appraised enterprise as at the valuation reference date for the purpose of valuation as stated in this report, under the valuation assumptions and restrictions specified in the report, without consideration to the effect on the value of valuation target by shareholding premium, minority equity discount and the equity liquidity discount. Users of the report should understand that the value of the shareholders' partial equity is not certainly equal to the value of the shareholders' total equity multiple by the equity ratio.
- (IV) This valuation conclusion is to reflect the prevailing market value of the valuation target determined by the open market principle for the valuation purpose, without considering the impact on such conclusion due to the assessment of the rapid realization of assets or possible pledge, guarantee to be undertaken, nor taking into account the impact on asset price due to change of national macroeconomic policies, or the occurrence of natural forces and other force majeure. In case of any change to the aforesaid conditions and the ongoing use principle adopted in the valuation, the valuation conclusion shall normally become invalid. The valuation agency is not accountable for the related legal liabilities for the invalidity of the valuation conclusion arising from changes to such conditions.
- (V) In appraising the assets within the valuation scope, we have not considered the possible expenses and taxes to be assumed for the use of such assets in the valuation, nor appreciation or depreciation of certain assets for tax purposes.
- (VI) Title defects

The principal, the property right owner and the parties concerned shall assume liability for the truthfulness, legitimacy and integrity of the legal ownership information on the valuation target thus provided. The asset valuers execute asset valuation for the purpose of estimating the value of the valuation target, giving professional opinions thereon, and paying attention to the legal ownership of such target, other than providing guarantee to such legal ownership.

APPENDIX III ASSET VALUATION REPORTS ON THE TARGET COMPANIES

(VII) Litigations

As of 30 June 2017, the total number of remaining loans of Machinery and Electronic Microcredit is 37 concerning 36 parties, the balance is RMB291,449,100, with provision for loan losses of RMB92,106,700, net value of RMB199,342,500. Litigations have been initiated for a total of 18 loans with an amount of RMB250,250,000, among which: Machinery and Electronic Microcredit has won 14 litigations with an amount of RMB192,250,000 and reached settlement agreement for 4 litigations with an amount of RMB58,000,000.

(VIII) During the validity period of this valuation report, in the event of any changes in the quantity of assets and the basis of consideration included in the scope of valuation, the principal shall make corresponding adjustments to the actual consideration of assets; in the event of any changes in the quantity of assets, the principal shall make adjustments to the asset amount in accordance with the original valuation method; and in the event of any changes in the pricing basis of assets which will have a material impact on the appraised value of assets, the principal shall promptly engage an appraisal firm to re-confirm the appraised value.

The aforesaid matters may have impact on the appraised value. The principal and the relevant report users are advised to make independent judgment on the potential risks in using the conclusions of the report.

X. RESTRICTION ON THE USE OF THE REPORT

- (I) The valuation report is issued only for the valuation purposes and uses as specified;
- (II) The valuation report could be used by the users as specified in the valuation report only;
- (III) Any extract, quotation or disclosure of the content of the valuation report in public media, either in whole or in part, shall be subject to prior review of the Company. Unless otherwise required by laws and regulations or agreed among relevant parties, the content of the valuation report shall not be extracted, quoted or disclosed in any public media without prior written content of the Company;
- (IV) Validity period for use of the valuation report

The valuation results of this report will be effective for a year commencing from the valuation reference date upon filing with the State – owned Assets Supervision and Administration or obtaining relevant approval, namely from 30 June 2017 to 29 June 2018. If the purpose of valuation is fulfilled within a year commencing from the valuation reference date, the valuation results can be deemed as a basis of consideration; if it has been more than a year since the valuation reference date, another assets appraisal shall be arranged in this regard.

XI. DATE OF THE VALUATION REPORT

The valuation report is finalized as at 11 September 2017, being the date of forming professional opinion by the asset valuer.

3. ASSET VALUATION REPORT OF INTELLIGENT MANUFACTURING

**The Report on Assets Valuation of the Entire Equity Interest of
Chongqing Machinery & Electronics Intelligent Manufacturing Co., Ltd. involved in**

**the Equity Transfer between
Chongqing Machinery & Electronic Holding (Group) Co., Ltd. and
Chongqing Machinery & Electric Co., Ltd.**

Asset Valuation Report

Chong Kang Ping Bao Zi (2017) No.210-3

**To: Chongqing Machinery and Electronic Holding (Group) Co., Ltd. and
Chongqing Machinery & Electric Co., Ltd.**

As engaged by you, Chongqing Huakang Asset & Land & Real Estate Valuation Co., Ltd. has, pursuant to relevant laws and regulations as well as standards and principles of asset valuation and by adopting the assets-based approach in compliance with the required valuation procedures, conducted a valuation on the market value of the entire equity interest of Chongqing Machinery & Electronic Intelligent Manufacturing Co., Ltd (重庆机电智能制造有限公司) as at 30 June 2017 involved in the equity transfer between Chongqing Machinery and Electronic Holdings (Group) Co., Ltd. and Chongqing Machinery & Electric Co., Ltd.

It is the responsibility of the valuer to analyze and estimate the value of the valuation target as at the valuation reference date for a specific purpose and express its professional opinions, in compliance with the relevant laws, regulations and principles of assets valuation. It is the responsibility of the principal and the related parties to provide the necessary information and to ensure its truthfulness, legitimacy and completeness, and to apply the valuation report in a proper manner.

We have completed the relevant valuation and hereby report on the details and results of the assets valuation as follows:

I. APPRAISED COMPANY

The appraised company of this valuation is Chongqing Machinery & Electronics Intelligent Manufacturing Co., Ltd.

(I) The Basic Information of the Appraised Company

- (1) Company name: Chongqing Machinery & Electronics Intelligent Manufacturing Co., Ltd. (hereinafter referred to as “**Intelligent Manufacturing (智能制造)**”)
- (2) Address: No. 60, Middle Section of Huangshan Avenue, Liangjiang New Area, Chongqing
- (3) Legal Representative: Zhang Yongnan (張永南)

APPENDIX III ASSET VALUATION REPORTS ON THE TARGET COMPANIES

- (4) Type of Company: limited liability company (solely invested by corporation)
- (5) Scope of Business: The design, manufacture and sale of industrial robots, public service robots, automation equipment, intelligent equipment, automated warehouses and warehousing logistics equipment, machinery and electronic equipment, oilfield automation equipment, industrial laser equipment; the development, manufacture, installment and maintenance of industrial automated and intelligent systems and production line; the sale of computer equipment and accessories; the development and sale of computer software and the related advisory services of technology; importing and exporting goods and technologies; the design, installment and maintenance of intelligent mechanical and electrical engineering. (Projects subject to approval by law can be operated with approval of relevant authority)
- (6) Registered Capital: RMB101,610,400
- (7) Date of Establishment: 5 August 2015
- (8) Business Term: Permanent
- (9) History and Proportion of Shares Held by the Shareholders:

Chongqing Machinery & Electronics Intelligent Manufacturing Co., Ltd. was established in August 2015, pursuant to the resolutions of Board and articles of association, the registered capital is RMB50,000,000, which was paid in monetary and two times by Machinery & Electronic Group, with first payment of RMB10,000,000 and the second payment of RMB40,000,000.

In July 2016, pursuant to the document Yu Ji Dian Kong Fa [2016] No. 158 issued by Machinery & Electronic Group, Machinery Electronic Group made capital contribution basing on its 47.7547% equity interest in Chongqing Mengxun Electronic & Technology Co., Ltd. (重慶盟訊電子科技有限公司), which is worth RMB51,610,400. After the injection of capital, the registered capital of Intelligent Manufacturing is RMB101,610,400.

As of the valuation reference date, the shareholding structure of Intelligent manufacturing is as follows:

No.	Name of Shareholder	Contribution amount (RMB0'000)	Proportion of contribution (%)
1	Chongqing Machinery and Electronic Holding (Group) Co., Ltd. (重慶機電控股(集團)公司)	10,161.04	100.00
Total		10,161.04	100.00

APPENDIX III ASSET VALUATION REPORTS ON THE TARGET COMPANIES

- (10) Existing patent technologies and computer software copyrights of the Company

Intelligent Manufacturing has 4 utility model patents and 6 computer software copyrights at present.

- (11) External investment of the Company

As of the valuation reference date, the external investment of Intelligent Manufacturing is as follows:

No.	Name of the invested company	Date of investment	Proportion of Shareholding (%)	Book value (RMB0'000)
1	Chongqing Mengxun Electronic & Technology Co., Ltd. (重慶盟訊電子科技有限公司)	October 2016	66.26	7,313.23

(III) Assets, Finance, Operation Situation and Accounting Policy of the Appraised Companies on the Valuation Reference Date

1. Assets, Finance and Operation Situation of the Appraised Companies in Recent Three Years and Six Months.

(1) Intelligent Manufacturing (parent company)

Unit: RMB0'000

Item	31 December 2015	31 December 2016	30 June 2017
Total assets	1,079.76	11,105.25	12,210.02
Total liabilities	93.49	866.25	2,350.26
Equity of owners	986.27	10,238.99	9,859.76
Item	2015	2016	January to June 2017
Operation revenue	5.56	275.42	0.20
Operation cost	-	43.06	-
Net profit	-13.73	-60.51	-379.23

APPENDIX III ASSET VALUATION REPORTS ON THE TARGET COMPANIES

(2) *Mengxun Technology (盟訊科技) (holding subsidiary)*

Unit: RMB0'000

Item	31 December 2014	31 December 2015	31 December 2016	30 June 2017
Total assets	13,312.71	15,985.17	19,580.29	28,095.48
Total liabilities	7,355.16	7,622.40	9,199.52	17,496.41
Equity of owners	5,957.55	8,362.77	10,380.77	10,599.07
Item	2014	2015	2016	January to June 2017
Operation revenue	13,529.18	6,842.65	5,704.07	3,854.61
Operation cost	12,835.69	6,401.90	5,866.09	3,633.80
Net profit	747.57	667.69	18.56	225.04

2. Major Assets and Liabilities

Intelligent Manufacturing is a hi-tech enterprise taking robot, automation and information technology as the core, and committing to the integration service of manufacture of high-end digital equipment and intelligent factory system, and has competitive advantages in industrial robot, intelligent logistics, automation equipment, automated production line and information management system. Depending on the support of advanced technology, Intelligent Manufacturing covers the entire services of advisory and management, entire design and technical schedule of intelligent factory, project implement, design and development of intelligent equipment and production line, design and development of intelligent management system.

The main assets and liabilities of Intelligent Manufacturing include: RMB12,605,000 of monetary capital, RMB2,829,400 of note receivables, RMB45,000 of receivables, RMB9,566,900 of prepayments, RMB9,802,900 of other receivables, RMB12,814,400 of inventories, RMB1,129,500 of other current assets, RMB73,132,300 of long-term equity investments, RMB174,900 of fixed assets; RMB5,718,400 of payables, RMB8,337,400 of receivables in advance, RMB10,400 of payables to staff, RMB343,500 of tax payable and RMB9,093,000 of other payables.

II. VALUATION PURPOSE

This valuation aims to provide reference in respect of the market value of the entire equity interest of shareholders of Intelligent Manufacturing on the valuation reference date for the equity transfer between Machinery & Electric Group and Machinery and Electronic.

APPENDIX III ASSET VALUATION REPORTS ON THE TARGET COMPANIES

III. VALUATION TARGET AND SCOPE

The valuation target is the value of the entire equity interest of shareholders of Intelligent Manufacturing.

The scope of this valuation includes the overall assets and liabilities declared by Intelligent Manufacturing. In accordance with the financial statements of Intelligent Manufacturing as audited by certified public accountants, the total assets amounted to RMB122,100,200, the total liabilities amounted to RMB23,502,600 and equity interest of owners amounted to RMB98,597,600 as of 30 June 2017.

Details are as follows:

RMB122,100,200 of total assets, which includes RMB48,793,000 of current assets, RMB73,132,300 of long-term equity investments and RMB174,900 of fixed assets; RMB23,502,600 of total liabilities, which includes RMB23,502,600 of current liabilities.

- (1) Current assets mainly included RMB12,605,000 of monetary capital, RMB2,829,400 of note receivables, RMB45,000 of receivables, RMB9,566,900 of prepayments, RMB9,802,900 of other receivables, RMB12,814,400 of inventories, RMB1,129,500 of other current assets.
- (2) Long-term equity investments

As of the valuation reference date, the details of long-term equity investments of Intelligent Manufacturing are as follows:

No.	Name of the invested company	Date of investment	Proportion of shareholding (%)	Book value (RMB0'000)
1	Chongqing Mengxun Electronic & Technology Co., Ltd. (重慶盟訊電子科技有限公司)	October 2016	66.26	7,313.23

Mengxun Technology was established in November 2001, with the registered capital of RMB54,312,400, and Intelligent Manufacturing holds its 66.26% equity interest. Scope of Business: the production, sale, development and after sale service of mobile communication products, electronic information products, video network products and environmental monitoring products; the developing integration, sale and technical service of system engineering; the development, production, sale and after sale service of software; houses tenancy; the transportation of ordinary cargo on roads (to engage in the scope of permission after obtaining the related administrative permission). (The mentioned scope of business that refer to the administrative permission should operate within the permissive scope and period and cannot operate in impermissible or beyond the permissive scope and period.)

APPENDIX III ASSET VALUATION REPORTS ON THE TARGET COMPANIES

- (3) Fixed assets: the original book value of fixed assets of Intelligent Manufacturing was RMB242,600, the net book value was RMB174,900, and details are as follows:

Unit: RMB0'000

Types of Fixed Assets	Electronic Equipment	Total
Carrying amount (set)	52	52
Original carrying amount	24.26	24.26
Net carrying amount	17.49	17.49

Electronic equipment is mainly included computers, printers and furniture for office.

- (4) Intangible assets: intangible assets of Intelligent Manufacturing included in valuation scope are the patent technology and computer software copyright. Details are as follows:

1) Patent technology

No.	Name of Patent	Type of Patent	Patent No.	Application Date of Patent	Date of Authorization	Status	Registered Patentee
1	A conveyor for hot forging pier	Utility Model	2016212745541	25 November 2016	13 June 2017	Authorization	Chongqing Machinery & Electronics Intelligent Manufacturing Co., Ltd.
2	A single bushing press dibbling machine	Utility Model	2016212739697	25 November 2016	6 June 2017	Authorization	Chongqing Machinery & Electronics Intelligent Manufacturing Co., Ltd.
3	A pneumatic claw hand	Utility Model	2016212745556	25 November 2016	6 June 2017	Authorization	Chongqing Machinery & Electronics Intelligent Manufacturing Co., Ltd.
4	A multistation auto prober	Utility Model	2016212739678	25 November 2016	6 June 2017	Authorization	Chongqing Machinery & Electronics Intelligent Manufacturing Co., Ltd.

APPENDIX III ASSET VALUATION REPORTS ON THE TARGET COMPANIES

2) Computer software copyright

No.	Certificate No.	Name	Copyright Owner	Date of Development Completion	Registered No.	Registration Agency	Date of Registration
1	Ruan Zhu Deng Zi No.1924786	MES System Software V1.0	Chongqing Machinery & Electronics Intelligent Manufacturing Co., Ltd.	22 September 2016	2017SR339502	National Copyright Administration	4 July 2017
2	Ruan Zhu Deng Zi No.1864618	Project Management Information System V1.0	Chongqing Machinery & Electronics Intelligent Manufacturing Co., Ltd.	15 September 2016	2017SR279334	National Copyright Administration	17 June 2017
3	Ruan Zhu Deng Zi No.1866404	Asset Management Information System V1.0	Chongqing Machinery & Electronics Intelligent Manufacturing Co., Ltd.	29 September 2016	2017SR281120	National Copyright Administration	18 June 2017
4	Ruan Zhu Deng Zi No.1864662	Human Resource System V1.0	Chongqing Machinery & Electronics Intelligent Manufacturing Co., Ltd.	30 September 2016	2017SR279378	National Copyright Administration	17 June 2017
5	Ruan Zhu Deng Zi No.1864612	Warehousing System V1.0	Chongqing Machinery & Electronics Intelligent Manufacturing Co., Ltd.	16 September 2016	2017SR279328	National Copyright Administration	17 June 2017
6	Ruan Zhu Deng Zi No.1864668	Purchasing Management System V1.0	Chongqing Machinery & Electronics Intelligent Manufacturing Co., Ltd.	21 September 2016	2017SR279384	National Copyright Administration	17 June 2017

- (5) The total liabilities of Intelligent Manufacturing was RMB23,502,600, which mainly includes RMB5,718,400 of payables, RMB8,337,400 of receivables in advance, RMB10,400 of payables to staff, RMB343,500 of tax payables.

The objects and scopes of the valuation are exactly the same as those entrusted by entrusted parties.

For details of the appraised objects and scopes, please refer to the Breakdown of Asset Valuation.

IV. VALUATION TYPES AND THEIR DEFINITIONS

The types of asset valuation include the market value and the types of valuation other than market value.

V. VALUATION REFERENCE DATE

The valuation reference date is 30 June 2017.

APPENDIX III ASSET VALUATION REPORTS ON THE TARGET COMPANIES

The valuation reference date is determined by the principal, with the possible proximity towards the realization date of the valuation aim as the major consideration factor, in order to derive a valuation result which effectively satisfies the valuation aim and minimize the impact of events occurred subsequent to the valuation reference date on the valuation result.

VI. VALUATION APPROACHES

(A) Selection of valuation approach

Restricted by objective conditions, we cannot obtain sufficient, referential company transaction case information that is similar to the Intelligent Manufacturing, without the comparative condition of the Markets Act, we cannot adopt the market approach for conducting the valuation in determining the total interest value of the shareholders of Intelligent Manufacturing.

For the specific purpose of this valuation, the condition of the valuation target, the characteristics of the specific appraised assets, the market conditions, the influential factors of the value, the type of the appraised value, and the information collected, and under the existing condition on the valuation reference date, we are of the view that Intelligent Manufacturing's earnings in the future cannot be reasonably appraised, and the risk we undertook in acquiring the expected revenue cannot be forecasted and quantified as well, it is not appropriate to use income approach to conduct the valuation.

As the list of the assets appraised by Intelligent Manufacturing is easier to access, the replacement values of the relevant assets can be obtained by market survey, it is appropriate to use assets-based approach to conduct the valuation.

The specific model of the asset-based approach is as follows:

The appraised value of all the shareholders' interests = Σ appraised value of the various assets – Σ appraised value of the various liabilities

In the valuation process, the valuer used different valuation methods based on the specific circumstances of the assets and liabilities, details are as follows:

1, Equipment

The valuer used the replacement cost method to carry out the valuation, that is, according to the purchase price of equipment, transportation costs, installation fees and other reasonable purchase and construction costs to calculate the full cost of replacement, combined with the age of the equipment and maintenance status to determine residue ratio, and come up with the appraised value by multiplying the aforesaid figures.

Equipment appraised value = equipment total replacement cost \times residue ratio

For electronic office equipment, the valuer considered that the installation fee and transportation costs of such equipment are so low that it could be negligible. Hence, the full replacement cost of the equipment = purchase price of equipment.

APPENDIX III ASSET VALUATION REPORTS ON THE TARGET COMPANIES

2, *Intangible assets*

Intangible assets are Intelligent Manufacturing's patented technology and calculator software copyright.

Intelligent Manufacturing currently has 4 utility model patents and 6 calculator software copyright.

For intangible assets such as the utility model patents and calculator software copyright, since they are developed for specific projects, their specificities are stronger, with a weak correlation with the future earnings of the enterprise. Therefore, the cost approach is used in the valuation.

The specific formula of the cost approach is as follows:

Patent or copyright appraised value = (application, licensing fee + agency registration fee + R & D + appropriate profit) × residue ratio

3, *Long-term equity investment*

The long-term equity investment of Intelligent Manufacturing that is included in the scope of the valuation is as follows:

No.	Name of the invested party	Date of investment	Shareholding ratio (%)	Book value (RMB0'000)
1	Chongqing Mengxun Electronic Technology Co., Ltd.	2016-10	66.26	7,313.23

For Mengxun Technology, the valuer first evaluated the total assets of the invested enterprises, and then determined the appraised value by multiplying the appraised value of the net assets of the invested party as at the reference date by the shareholding held by Intelligent Manufacturing.

4, *Inventory*

Intelligent Manufacturing's stock items are the inventory within the scope of the valuation.

For stock items that can be ordinarily sold, the valuer determined the appraised value after deducting sales expenses, the total amount of tax and the appropriate amount of the after-tax net profit according to the pre-tax price. As the stock items are comprised of items that the enterprise will use in installing a system, since the work is incomplete, the assessment of the book value is preserved in the conclusion of the valuation.

5, *Creditors' right, liabilities and other assets*

The valuer examined the financial treatment and accounting of the relevant accounting subjects of Intelligent Manufacturing and carry out the necessary adjustments according to the actual situation. The following methods are used for verification:

APPENDIX III ASSET VALUATION REPORTS ON THE TARGET COMPANIES

(1) *Cash*

The valuer counted the cash in hand of Intelligent Manufacturing and worked out the cash balance on the valuation reference date based on the cash receipts and payments from the valuation reference date to the recording date and checked the cash assessment table declared by Intelligent Manufacturing.

(2) *Bank deposits*

The valuer checked the bank statements and reviewed the adjustment of the bank deposit balance and the letter of inquiry from the bank to Intelligent Manufacturing.

(3) *Accounts receivable and payable*

The valuer understood the internal control system of Intelligent Manufacturing's operations in various aspects; checked the financial and related departments; examined the relevant contracts, agreements, invoices and checked account records.

(4) *Tax payable*

The valuer understood the tax policy applicable to Intelligent Manufacturing, read the tax return and the tax payment form on the valuation reference date, selectively checked the vouchers and records, and carried out recording and reviews and so as to confirm the authenticity and accuracy of the book balance.

(B) The method of determining conclusion of the assessment

The purpose of the valuation is to provide reference of market value of the entire equity interests of shareholders of Intelligent Manufacturing as at the valuation reference date for the share transfer between Machinery & Electronic Group and Machinery & Electric Company. The valuer shall formulate the preliminary conclusion of the valuation after implementing the necessary valuation procedures according to the determined valuation approach. Based on the analysis of the reasonableness of the preliminary conclusion of the valuation and the quality and quantity of the data used, conclusion of the valuation report is finalized after comprehensive analysis.

VII. VALUATION ASSUMPTIONS

The analysis and conclusion in the valuation report are only true based on the following assumptions:

(I) General assumptions

1. The information provided by Intelligent Manufacturing and based on which the valuation conclusion made is credible and accurate.
2. There is no violation on the rights of continuous operation, and of legal possession, use and disposal of assets and enjoying profit from such assets by Intelligent Manufacturing; unless otherwise stated, the Company is assumed to be in full compliance with all relevant laws and regulations.

APPENDIX III ASSET VALUATION REPORTS ON THE TARGET COMPANIES

(II) Assumptions of valuation environment

1. There is no material change in the laws, regulations and policy environment of the region where the valuation target is located as compared with the situation on the valuation reference date;
2. There is no material change in the social and economic environment, international politics and economic environment of the place where the valuation target is located as compared with the situation on the valuation reference date;
3. There is no material change in the interest rate, exchange rate and price level in relation to the valuation target as compared with the situation on the valuation reference date.

(III) Assumptions of open trading conditions

The buyers and sellers with voluntary trading intentions have a reasonable knowledge background of the assets entrusted for valuation, market, and relevant factors which could affect the value of assets entrusted for valuation. Relevant parties will autonomously and independently decide their transaction behaviors without any external pressure or intimidation.

1. Public bidding, auction and listing for trading are implemented for the valuation target in the principle of fairness. The interested buyers make rational offers and participate in bidding in an equal and independent manner.
2. None of the obligee, principal and other interested parties and their connected persons in relation to the transaction corresponding to the valuation purpose enjoys the priority for valuation target, nor interferes with the transaction price of valuation target.

The valuers believe that the above valuation assumptions on the valuation reference date are reasonable and necessary and serve as a basis for the formation of the valuation conclusions. In the case that the above assumptions cannot be established on the valuation reference date or experience significant change in the future, it may lead to unachievable valuation conclusion. According to the requirements of the asset valuation, and it is assumed that these assumptions are established on the valuation reference date. When the future economic environment changes significantly, no responsibility will be assumed for different valuation conclusions arising from the change of the assumption conditions.

VIII. VALUATION CONCLUSION

As at 30 June 2017, being the valuation reference date, the total audited assets of Intelligent Manufacturing amounted to RMB122,100,200, the book value of liability amounted to RMB23,502,600 and the book value of net assets amounted to RMB98,597,600

After the valuation, the value of the assets is RMB156,222,300, the liability is RMB23,502,600 and the net assets is RMB132,719,700, (in word RMB one hundred thirty two million seven hundred nineteen thousand seven hundred), the appraised value increased RMB34,122,100 and with an appreciation rate of 34.61%.

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The valuation results are summarized in the following table:

Table of Summary of Asset Valuation Results

Valuation reference date: 30 June 2017

The appraised company: Chongqing Machinery & Electronics Intelligent Manufacturing Co., Ltd.

Unit: RMB0'000

Item		Carrying value	Appraised value	Increase/decrease	Increment rate%
		A	B	C=B-A	D=C/A×100%
1	Current assets	4,879.30	4,879.30	-	-
2	Non-current assets	7,330.72	10,742.93	3,412.21	46.55
3	Include: Available-for-sale financial assets				
4	Held-to – maturity investments				
5	Long-term receivables				
6	Long – term equity investment	7,313.23	10,654.94	3,341.71	45.69
7	Investment properties				
8	Fixed assets	17.49	18.53	1.04	5.96
9	Construction in progress				
10	Engineer material				
11	Disposal of fixed assets				
12	Productive biological assets				
13	Oil and gas assets				
14	Intangible assets	-	69.46	69.46	-
15	Development expenditure				
16	Goodwill				
17	Long-term prepaid expenses				
18	Deferred income tax assets	-	-	-	-
19	Other non-current assets				
20	Total assets	12,210.02	15,622.23	3,412.21	27.95
21	Current liabilities	2,350.26	2,350.26	-	-
22	Non-current liabilities	-	-	-	-
23	Total liabilities	2,350.26	2,350.26	-	-
24	Net assets (owner's equity)	9,859.76	13,271.97	3,412.21	34.61

Please refer to the Detailed Statement of Asset Valuation for details of the valuation conclusion.

After the valuation, the appraised value increased RMB34,122,100, and with an appreciation rate of 34.61%. The main reasons for the increasing appraised value are as follows:

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1. Intangible assets – patents and computer software copyrights

Patents and computer software copyrights relate to intangible assets, because they have been expensed and no book value, all of which form the appraised value.

2. Long-term equity investment

The carrying value of the long-term equity investment that fall within the scope of valuation is RMB73,132,300, the appraised value is RMB106,549,400, the appraised value increased RMB33,417,100 and with an increased rate of 45.69%. The valuer conducted an overall assessment on the invested enterprise, and determined the value of long-term equity investment by multiplying the total equity value of the shareholders of the invested enterprise with the proportion of the shares held by Intelligent Manufacturing. As the appraised value of the subsidiary increased, Intelligent Manufacturing increased accordingly the appraised value of long-term equity investment in proportion.

Through the analysis above, the valuer confirmed that the market value of the total interest of shareholders of Intelligent Manufacturing on 30 June 2017, being the valuation reference date is RMB132,719,700. (In word: RMB One hundred thirty two million seven hundred nineteen thousand seven hundred).

IX. EXPLANATORY NOTES ON SPECIAL MATTERS

- (I) The valuation is made under the principle of independence, objectivity and fairness. None of the persons involved in the asset valuation are interested in the principal and the valuated enterprise. Valuers conducted the valuation in strict compliance with relevant systems and standards, and observed professional ethics and standards during the valuation.
- (II) This valuation report is made based on the basic documents, data and information provided by the principal and relevant parties concerned. It is the responsibility of the principal and relevant parties concerned to provide all necessary information and ensure the truthfulness, legitimacy and integrity of such information provided, whereas the asset valuers are responsible for analyzing, estimating the value of the valuation target as at the valuation reference date for specific purposes and giving professional opinions thereon.
- (III) The valuation conclusion provides a reference on the market value of the 100% equity interest of the shareholders in the appraised enterprise as at the valuation reference date for the purpose of valuation as stated in this report, under the valuation assumptions and restrictions specified in the report, without consideration to the effect on the value of valuation target by shareholding premium, minority equity discount and the equity liquidity discount. Users of the report should understand that the value of the shareholders' partial equity is not certainly equal to the value of the shareholders' total equity multiplied by the equity ratio.
- (IV) This valuation conclusion is to reflect the prevailing market value of the valuation target determined by the open market principle for the valuation purpose, without considering the impact on such conclusion due to the assessment of the rapid realization of assets or possible pledge, guarantee to be undertaken, nor taking into account the impact on asset price due to

APPENDIX III ASSET VALUATION REPORTS ON THE TARGET COMPANIES

change of national macroeconomic policies, or the occurrence of natural forces and other force majeure. In case of any change to the aforesaid conditions and the ongoing use principle adopted in the valuation, the valuation conclusion shall normally become invalid. The valuation agency is not accountable for the related legal liabilities for the invalidity of the valuation conclusion arising from changes to such conditions.

- (V) In appraising the assets within the valuation scope, we have not considered the possible expenses and taxes to be assumed for the use of such assets, nor appreciation or depreciation of certain assets for tax purposes.
- (VI) The principal, the valuation target and the parties concerned shall assume liability for the truthfulness, legitimacy and integrity of the legal ownership information on the valuation target thus provided. The asset valuers execute asset valuation for the purpose of estimating the value of the valuation target, giving professional opinions thereon, and paying attention to the legal ownership of such target, other than providing guarantee to such legal ownership.
- (VII) The explanatory notes on collateral and guarantee matters

The collateral and guarantee matters in which MengXun High-Tech involved are as follows:

No.	Mortgagor	mortgagee	Type of mortgage	Balance of loan as of 30 June 2017 (RMB0'000)	The carrying value/ appraised value of the collateral (RMB0'000)	The start date of the mortgage	The end date of the mortgage	Collateral
1	Chongqing MengXun Electronic & Technology Co., Ltd	Hua Xia Bank Co., Limited ChongQing branch	Collateral for borrowings	1,000.00	7567.63	30 March 2016	30 March 2019	1# Plant located at No.6 of the First Mechanical and Electrical Road, Nanan District, the floor space is 23473.89 square meters, the land area is 28737 square meters (No. 000034927 of Yu 2016 Nanan District Real Estate Rights)

- (VIII) In October 2015, Agreement on Supporting the Second Phase Construction of Mengxun Industrial Park was entered into by Mengxun Technology (盟訊科技) with the People's Government of Nanan District of Chongqing (重慶市南岸區人民政府) and the Management Committee of Eco-tech Development Zone of Chongqing(重慶市經濟技術開發區管委會), which stipulates that Mengxun Technology (盟訊科技) shall provide its entirety to the People's Government of Nanan District of Chongqing (重慶市南岸區人民政府)and the Management Committee of Eco-tech Development Zone of Chongqing(重慶市經濟技術開發區管委會) for investment promotion of electronic and information industry after the

APPENDIX III ASSET VALUATION REPORTS ON THE TARGET COMPANIES

completion of this construction, the period of free use is 43 months commenced from the delivery date of plant and supporting houses agreed by two sides. The influence of the above matters on the assessment results was not taken into account in this assessment.

- (IX) During the validity period of this valuation report, in the event of any changes in the quantity of assets and the basis of consideration included in the scope of valuation, the principal shall make corresponding adjustments to the actual consideration of assets; in the event of any changes in the quantity of assets, the principal shall make adjustments to the asset amount in accordance with the original valuation method; and in the event of any changes in the pricing basis of assets which will have a material impact on the appraised value of assets, the principal shall promptly engage an appraisal firm to re-confirm the appraised value.

The aforesaid matters may have impact on the appraised value. The principal and the relevant report users are advised to make independent judgment on the potential risks in using the conclusions of the report.

X. RESTRICTION ON THE USE OF THE REPORT

- (I) The valuation report is issued only for the valuation purposes and uses as specified;
- (II) The valuation report could be used by the users as specified in the valuation report only;
- (III) Any extract, quotation or disclosure of the content of the valuation report in public media, either in whole or in part, shall be subject to prior review of the Company. Unless otherwise required by laws and regulations or agreed among relevant parties, the content of the valuation report shall not be extracted, quoted or disclosed in any public media without prior written content of the Company;
- (IV) Validity period for use of the valuation report

The valuation results of this report will be effective for a year commencing from the valuation reference date upon filing with the State – owned Assets Supervision and Administration or obtaining relevant approval, namely from 30 June 2017 to 29 June 2018. If the purpose of valuation is fulfilled within a year commencing from the valuation reference date, the valuation results can be deemed as a basis of consideration; if it has been more than a year since the valuation reference date, another assets appraisal shall be arranged in this regard.

XI. DATE OF THE VALUATION REPORT

The valuation report is finalized as at 11 September 2017, being the date of forming professional opinion by the asset valuer.

4. ASSET VALUATION REPORT OF RESEARCH INSTITUTE

The Asset Valuation Project of the Entire Equity Interest of Chongqing Machinery & Electronic Equipment Technology Research Institute Co., Ltd. involved in the Equity Transfer between Chongqing Machinery & Electronic Holding (Group) Co., Ltd. and Chongqing Machinery & Electric Co., Ltd.

Asset Valuation Report

Chong Kang Ping Bao Zi (2017) No. 210-4

**To: Chongqing Machinery & Electric Co., Ltd.
Chongqing Machinery & Electronic Holding (Group) Co., Ltd.**

As engaged by you, Chongqing Huakang Asset & Land & Real Estate Valuation Co., Ltd. has, pursuant to relevant laws and regulations as well as standards and principles of asset valuation and by adopting the assets-based approach in compliance with the required valuation procedures, conducted a valuation on the market value of the entire equity interest of Chongqing Machinery & Electronic Equipment Technology Research Institute Co., Ltd. as at 30 June 2017 involved in the equity transfer between Chongqing Machinery & Electronic Holding (Group) Co., Ltd. and Chongqing Machinery & Electric Co., Ltd.

It is the responsibility of the asset valuer to analyse and estimate the value of the valuation target as at the valuation reference date for a specific purpose and express its professional opinions, in compliance with the relevant laws, regulations and principles of assets valuation. It is the responsibility of the principal and the related parties to provide the necessary information and to ensure its truthfulness, legitimacy and completeness, and to apply the valuation report in a proper manner.

We have completed the relevant valuation and hereby making report on the details and results of the assets valuation as follows:

I. APPRAISED COMPANY

The appraised company of the valuation is Chongqing Machinery & Electronic Equipment Technology Research Institute Co., Ltd.

I. Basic information

- (1) Company name: Chongqing Machinery & Electronic Equipment Technology Research Institute Co., Ltd. (hereinafter referred to as “**Mechanical & Electrical Research Institute (機電研究院)**”)
- (2) Type of Company: Limited liability company (wholly owned by a corporation)
- (3) Address: No. 60 Middle Section of Huangshan Avenue, New North Zone, Chongqing

APPENDIX III ASSET VALUATION REPORTS ON THE TARGET COMPANIES

- (4) Legal representative: Zhang Yongnan
- (5) Registered capital: RMB20,000,000
- (6) Date of incorporation: 13 October 2011
- (7) Expiry of operation: Permanent from 13 October 2011
- (8) Scope of business: It is principally engaged in research and development of electrical and mechanical equipment technology, technical consultancy, promotion of technology, transfer of technology as well as design, research and development, manufacturing and sales of electrical and mechanical equipment products (items prohibited by laws and regulations should not be operated, and the items regulated by laws and regulations can only assume operation upon obtaining permission or approval).
- (9) History and proportion of shares held by the shareholders

Mechanical & Electrical Research Institute, established in October 2011 with an initial registered capital of RMB20,000,000, incorporated by funding from the Chongqing Machinery & Electronic Holding (Group) Co., Ltd., which was examined by the capital examination report Diwei Kuai Suo Yan No.(2011)815 issued by Chongqing Diwei Certified Public Accountants Co., Ltd.

As at the valuation reference date, the shareholding structures of the Mechanical & Electrical Research Institute are as follows:

Unit: RMB0'000

Name of shareholders	Registered capital	Percentage holding in registered capital (%)	Paid in capital
Chongqing Machinery & Electronic Holding (Group) Co., Ltd.	2,000.00	100.00	2,000.00
Total	2,000.00	100.00	2,000.00

APPENDIX III ASSET VALUATION REPORTS ON THE TARGET COMPANIES

(10) Particulars of External Investments of Mechanical & Electrical Research Institute

As at 30 June 2017, being the valuation reference date, external companies invested by Mechanical & Electrical Research Institute principally included Chongqing Chongtong Turbine Technology Company Limited (重慶重通透平技術股份有限公司) and Chongqing RSDA Power Science & Technology Co., Ltd. (重慶瑞時達動力科技有限公司).

A. Basic information of the Chongqing Chongtong Turbine Technology Company Limited (重慶重通透平技術股份有限公司):

- ① Company name: Chongqing Chongtong Turbine Technology Company Limited (重慶重通透平技術股份有限公司) (hereinafter referred to as “**Chongtong Company (重通股份)**”)
- ② Address: Environmental Chengtao Joint Plant, No. 18 Jidian Road, Nan An Zone, Chongqing City (重慶市南岸區機電路18號環保成套聯合廠房)
- ③ Legal representative: Liu Zhongtang
- ④ Registered capital: RMB30,000,000
- ⑤ Company type: Joint stock limited company
- ⑥ Scope of business: It is principally engaged in business including turbomachinery products testing, equipment and system maintenance and renovation, manufacture and sale of spare parts, turbomachinery products research and development and technical consultancy. Import and export of goods and technologies. (Items that require pre-approvals according to laws and regulations can only be conducted after obtaining approvals from the relevant authorities).
- ⑦ Date of incorporation: 7 January 2016
- ⑧ Expiry of operation: 7 January 2016 to no fixed term
- ⑨ Particulars of shareholdings of shareholders : Chongqing General Industry (Group) Co., Ltd. (重慶通用工業(集團)有限責任公司) holds 40.00% equity interest in Chongtong Company. Mechanical & Electrical Research Institute holds 26.67% equity interest in Chongtong Company. Chongqing Information Industry Investment Promotion Center* (重慶市信息產業投資促進中心) (Chongqing International Electronic Commerce Transaction Certification Center (重慶國際電子商務交易認證中心)) holds 33.33% equity interest in Chongtong Company.

APPENDIX III ASSET VALUATION REPORTS ON THE TARGET COMPANIES

- B. Basic information of Chongqing RSDA Power Science & Technology Co., Ltd. (重慶瑞時達動力科技有限公司):
- ① Company name: Chongqing RSDA Power Science & Technology Co., Ltd. (重慶瑞時達動力科技有限公司) (hereinafter referred to as “**RSDA Technology(瑞時達科技)**”)
 - ② Address: No. 19 Ying Long Avenue, Longxing town, Yubei Zone, Chongqing City
 - ③ Legal representative: Lan Yingzhao
 - ④ Registered capital: RMB20,000,000
 - ⑤ Company type: Limited liability company
 - ⑥ Scope of business: It is principally engaged in business including technical research and development, technical consultancy, technology promotion and technology transfer of new energy vehicles and its components. Products design, research and development, production, sales and after-sale service of new energy vehicles and its components (without vehicle maintenance); import and export of goods and technologies. (Items that require pre-approvals according to laws and regulations can only be conducted after obtaining approvals from the relevant authorities).
 - ⑦ Date of incorporation: 20 December 2016
 - ⑧ Expiry of operation: 20 December 2016 to no fixed term
 - ⑨ Particulars of shareholdings of shareholders: Machinery & Electric Company (機電股份) holds 51.00% equity interest in RSDA Technology. Mechanical & Electrical Research Institute holds 20.00% equity interest in RSDA Technology. Shanghai Edrive Co., Ltd. (上海電驅動股份有限公司) holds 9.00% equity interest in RSDA Technology. Ningbo Meishan Duty-Free District Miaojing Investment Management Partnership (Limited Partnership) (寧波梅山保稅港區妙淨投資管理合夥企業(有限合夥)) holds 20.00% equity interest in RSDA Technology.

APPENDIX III ASSET VALUATION REPORTS ON THE TARGET COMPANIES

II. Assets, finance, operating position and accounting policies for recent three years and six months

(I) Assets, finance, and operating position

Unit: RMB0'000

Item	As at 31 December 2014	As at 31 December 2015	As at 31 December 2016	As at 30 June 2017
Total assets	2,761.86	3,442.33	3,102.52	2,582.57
Current assets	2,738.80	3,423.70	2,288.28	1,736.42
Non-current assets	23.06	18.63	814.24	846.15
Total liabilities	895.40	1,808.85	1,292.82	1,168.62
Current liabilities	875.40	1,167.13	968.93	1,136.62
Non-current liabilities	20.00	641.72	323.89	32.00
Shareholder's Equity	1,866.46	1,633.48	1,809.70	1,413.95
Item	2014	2015	2016	From January to June 2017
Operating income	0.97	46.04	545.90	46.32
Operating costs	0.20	25.28	85.69	9.23
Operating profits	-137.12	-343.32	39.08	-687.65
Net profit	-137.08	-232.98	176.23	-395.76

II. APPRAISAL PURPOSE

This valuation aims to provide reference in respect of the market value of the entire equity interest of shareholders of Mechanical & Electrical Research Institute on the valuation reference date for the equity transfer between Machinery & Electric Group and Machinery & Electric Company.

III. VALUATION TARGET AND SCOPE

The valuation target is the value of the entire equity interest of Mechanical & Electrical Research Institute.

The scope of this valuation includes audited assets and liabilities of Mechanical & Electrical Research Institute. According to the audited financial statements declared by Mechanical & Electrical Research Institute, as of 30 June 2017, the total assets of the Mechanical & Electrical Research Institute was RMB25,825,700, the total liabilities was RMB11,686,200, the Shareholder's entire equity was RMB14,139,500.

Particulars are as follows:

APPENDIX III ASSET VALUATION REPORTS ON THE TARGET COMPANIES

The total assets was RMB25,825,700, of which the current assets was RMB17,364,200, and the non-current assets was RMB8,461,500. The total liabilities was RMB11,686,200, in which the current liabilities was RMB11,366,200, and non-current liabilities was RMB320,000.

1. Current assets principally included monetary fund that was RMB12,216,900, the accounts receivable was RMB700,000, the other receivables was RMB3,635,900, the inventory was RMB36,800, the other current assets was RMB774,600.
2. Long-term equity investment: the book value was RMB8,011,000, which are subsidiaries of Mechanical & Electrical Research Institute, particulars are as follows:

Unit: RMB0,000

No.	Name of Invested Company	Investment Date	Shareholding Percentage (%)	Investment Cost	Book Value	Remarks
1	A. Chongqing Chongtong Turbine Technology Company Limited* (重慶重通透平技術股份有限公司)	2016-04	26.67	800.00	801.10	
2	Chongqing RSDA Power Science & Technology Co., Ltd. (重慶瑞時達動力科技有限公司)	2016-12	20.00	-	-	
Total				800.00	801.10	

3. Fixed assets: principally included vehicles and electronic equipment, particulars are as follows:

Unit: RMB0,000

Category of fixed assets	Electronic Equipment	Vehicles	Total
Carrying amounts (set)	66.00	1.00	67.00
Original carrying amount	28.83	29.91	58.73
Net carrying amount	15.32	28.97	44.30

Vehicles: which is mainly a Buick car.

Electronic equipment: mainly included computers, printers, photocopiers and other equipment for office.

4. Intangible assets: the book value was RMB750,000, which is the amortized cost of the office software of Mechanical & Electrical Research Institute.

Off-balance-sheet intangible assets mainly included patent certificates and domain names, particulars are as follows:

APPENDIX III ASSET VALUATION REPORTS ON THE TARGET COMPANIES

(1) Patent right

No.	Category of patent	Patent certificate No.	Patentee	Name of patent	The date of patent application	Maturity date	Remarks
1	Invention patents		Chongqing Machinery & Electronic Equipment Technology Research Institute Co., Ltd. (重慶機電裝備技術研究院有限公司)	Multi – station separated monorail wheel system and its methods	6 September 2015		Substantive examination and just as taking effect
2	New utility patents	No. 5007614	Chongqing Machinery & Electronic Equipment Technology Research Institute Co., Ltd. (重慶機電裝備技術研究院有限公司)	A servo motor type monorail wheel changer	6 September 2015	6 September 2025	
3	New utility patents	No. 5011653	Chongqing Machinery & Electronic Equipment Technology Research Institute Co., Ltd. (重慶機電裝備技術研究院有限公司)	A multi – station separate single – track changer	6 September 2015	6 September 2025	

(2) Website domain name

No.	Website	Domain name	Website registered/ license No.	Approval time
1	www.cme-ra.com	cme-ra.com	Yu ICP Bei No. 16008735 -1	22 August 2016

5. Current liabilities mainly included payables of RMB1,224,500, salaries payable of RMB187,900, and other payable of RMB9,953,800.
6. Non-current liabilities were RMB320,000, which are special payables.

The valuation target and its scope are exactly the target and scope as entrusted by Machinery & Electric Group and Machinery & Electric Company.

Details of the valuation target and scope are set out in the Detailed Statement of Asset Valuation.

IV. VALUATION TYPES AND THEIR DEFINITIONS

The types of asset valuation include the market value and the types of valuation other than market value.

V. VALUATION REFERENCE DATE

The valuation reference date is 30 June 2017.

The valuation reference date is determined by the principal, with the possible proximity towards the realization date of the valuation aim as the major consideration factor, in order to derive a valuation result which effectively satisfies the valuation aim and minimize the impact of events occurred subsequent to the valuation reference date on the valuation result.

VI. VALUATION APPROACHES**(A) Selection of valuation approach**

The purpose of the valuation is to provide reference of market value of the entire equity interests of shareholders of Mechanical & Electrical Research Institute as at the valuation reference date for the share transfer between Machinery & Electronic Group and Machinery & Electric Company. As it is difficult to collect similar transactions in the market for comparison, the valuer cannot use the market approach to conduct the valuation; the Mechanical & Electrical Research Institute mainly provides electrical and mechanical equipment procurement and maintenance business within Machinery & Electronic Group, which is unstable and unsustainable and the future revenue as well as the risk attached can't be anticipated reasonably. Therefore, it is not appropriate to use the income approach to conduct the valuation. As the list of asset of Mechanical & Electrical Research Institute as entrusted is easier to access and the current value of individual asset can be obtained through market research, it is appropriate to use the asset-based approach to conduct the valuation. In conclusion, the valuer adopted asset-based approach to conduct the valuation on the assets of the Mechanical & Electrical Research Institute.

The specific model of the asset-based approach is as follows:

The appraised value of all the shareholders' interests = Σ appraised value of the various assets – Σ appraised value of the various liabilities

In the valuation process, the valuer used different valuation methods based on the specific circumstances of the assets and liabilities, the details are as follows:

1. Inventory

The main products of Mechanical & Electrical Research Institute are finished products. As the finished products are mainly used as test equipment by the Mechanical & Electrical Research Institute, the audited book value is temporarily used to determine the appraised value.

2. Long-term equity investment

The long-term equity investment held by the Institute of Electrical and Mechanical Services is the equity investment in the equity of subsidiary. The valuer shall determine the appraised value of the long-term equity investment by multiplying the net assets of the invested as at the reference date by the shareholding held by Mechanical & Electrical Research Institute.

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3. *Equipment*

Equipment of Mechanical & Electrical Research Institute mainly includes vehicles and electronic equipment. The valuer used the replacement cost method to carry out the valuation, that is, according to the purchase price of equipment, transportation costs, installation fees and other reasonable purchase and construction costs to calculate the full cost of replacement, combined with the age of the equipment and maintenance status to determine the residue ratio, and come up with the appraised value by multiplying the aforesaid figures.

Equipment appraised value = equipment total replacement cost × residue ratio

(1) *For transport vehicles*

Shipping vehicle replacement cost = vehicle purchase price + purchase surcharge + license fee + other cost

(2) *For electronic office equipment*

The valuer considered that the installation fee and transportation costs of such equipment are so low that it could be negligible. Hence, the full replacement cost of the equipment = purchase price of the equipment.

4. *Intangible assets*

Intangible assets of Mechanical & Electrical Research Institute mainly include software, patent and website domain name.

(1) *Software*

For office software, the valuer mainly checked and verified the basis of the original book value of the intangible assets, and made amortization estimates according to the Mechanical & Electrical Research Institute's amortization policy on the intangible assets.

(2) *Patent and website domain name*

The valuer used the replacement cost method to evaluate the patent and website domain name and the formula is as follows:

Patent appraised value = (license application fee + agent registration fee + R & D costs + appropriate profit) × residue ratio

Domain name value = domain name business value + domain name registration annual fee × validity period

APPENDIX III ASSET VALUATION REPORTS ON THE TARGET COMPANIES

5. *Other assets, creditor's rights and liabilities*

The valuer mainly examined the authenticity and legality of other assets, creditor's rights and liabilities and determine the appraised value after investigation and verification. Among them:

For the accounts receivables, the valuer first examined the accounts with larger amount and longer age, and used the substitute procedure to confirm the authenticity of the balance. Then, to analyse the aging of each accounts and understand the debtor's solvency through various methods so as to estimate its recoverability. On the basis of the above understandings, the valuer determined the possibility of the risk of loss and ultimately determined the appraised value.

For the accounts payables, the valuer investigated and understood their economic nature, inspected the relevant contracts or agreements, identified the specific creditors, and determined the appraised value by verifying the liabilities.

(B) The method of determining conclusion of the assessment

The purpose of this valuation is to provide reference of the market value of the entire equity interests of the shareholders of Mechanical & Electrical Research Institute as at the valuation reference date for the share transfer between Machinery & Electronic Group and Machinery & Electric Company. The valuer formulated the preliminary conclusion of the valuation after implementing the necessary valuation procedures according to the determined valuation approach. Based on the analysis of the reasonableness of the preliminary conclusion of the valuation and the quality and quantity of the data used, conclusion of the valuation report is finalized after comprehensive analysis.

VII. VALUATION ASSUMPTIONS

The analysis and conclusion in the valuation report are only true based on the following assumptions:

(I) General assumptions

1. The information provided by Mechanical & Electrical Research Institute and based on which the valuation conclusion of this report made is credible and accurate.
2. There is no violation on the rights of continuous operation, and of legal possession, use and disposal of assets and enjoying profit from such assets by Mechanical & Electrical Research Institute; unless otherwise stated, the Company is assumed to be in full compliance with all relevant laws and regulations.

(II) Assumptions of valuation environment

1. There is no material change in the laws, regulations and policy environment of the region where the valuation target is located as compared with the situation on the valuation reference date;

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2. There is no material change in the social and economic environment, international politics and economic environment of the place where the valuation target is located as compared with the situation on the valuation reference date;
3. There is no material change in the interest rate, exchange rate and price level in relation to the valuation target as compared with the situation on the valuation reference date.

(III) Assumptions of open trading conditions

The buyers and sellers with voluntary trading intentions have a reasonable knowledge background of the assets entrusted for valuation, market, and relevant factors which could affect the value of assets entrusted for valuation. Relevant parties will autonomously and independently decide their transaction behaviors without any external pressure or intimidation.

1. Public bidding, auction and listing for trading are implemented for the valuation target in the principle of fairness. The interested buyers make rational offers and participate in bidding in an equal and independent manner.
2. None of the obligee, principal and other interested parties and their connected persons in relation to the transaction corresponding to the valuation purpose enjoys the priority for valuation target, nor interferes with the transaction price of valuation target.

The valuers believe that the above valuation assumptions on the valuation reference date are reasonable and necessary and serve as a basis for the formation of the valuation conclusions. In the case that the above assumptions cannot be established on the valuation reference date or experience significant change in the future, it may lead to unachievable valuation conclusion. According to the requirements of the asset valuation, and assumed that these assumptions are established on the valuation reference date and that when the future economic environment changes significantly, no responsibility will be assumed for different valuation conclusions arising from the change of the assumption conditions.

VIII. VALUATION CONCLUSION

As of 30 June 2017, being the valuation reference date, the total audited assets of Mechanical & Electrical Research Institute amounted to RMB25,825,700, the total liabilities amounted to RMB11,686,200 and the total equity interest of shareholders amounted to RMB14,139,500.

After the valuation, the total assets amounted to RMB26,075,000, the total liabilities amounted to RMB11,686,200 and the entire equity interests of shareholders amounted to RMB14,388,800, and the appraised value increased RMB249,300, with an appreciation rate of 1.76%.

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The valuation results are summarized as follows:

Table of Summary of Asset Valuation Results

Valuation reference date: 30 June 2017

The appraised company: Chongqing Machinery & Electronic Equipment Technology Research Institute Co., Ltd. (重慶機電裝備技術研究院有限公司)

Unit: RMB0'000

Item		Carrying amount	Appraised value	Increase/decrease	Appreciation rate %
		A	B	C=B-A	D=C/A×100%
1	Current assets	1,736.42	1,736.42	0.00	0.00
2	Non-current Assets	846.15	871.08	24.93	2.95
3	Including: Available-for-sale financial assets				
4	Held-to-maturity investments				
5	Long-term receivables				
6	Long-term equity investments	801.10	801.10	0.00	0.00
7	Investment properties				
8	Fixed assets	44.30	39.95	-4.35	-9.80
9	Construction in progress				
10	Construction materials				
11	Fixed assets pending for disposal				
12	Productive biological assets				
13	Oil and gas assets				
14	Intangible assets	0.75	30.03	29.28	3,899.25
15	Development costs				
16	Goodwill				
17	Long-term prepaid expenses				
18	Deferred income tax assets				
19	Other non-current assets				
20	Total assets	2,582.57	2,607.50	24.93	0.97
21	Current liabilities	1,136.62	1,136.62	0.00	0.00
22	Non-current liabilities	32.00	32.00	0.00	0.00
23	Total liabilities	1,168.62	1,168.62	0.00	0.00
24	Shareholders' entire equity interests (the owner's equity interests)	1,413.95	1,438.88	24.93	1.76

Please refer to the Detailed Statement of Asset Valuation for details of the valuation conclusion.

APPENDIX III ASSET VALUATION REPORTS ON THE TARGET COMPANIES

In the valuation, the appraised value increased RMB249,300. The increased appraised value was mainly represented by increased appraised value of intangible assets and its book value amounted to RMB7,500, the appraised value amounted to RMB300,300 and the appraised value increased RMB292,800. The reason for increase in appraised value was because the intangible assets such as patent right and domain name of Mechanical & Electrical Research Institute were not reflected in book assets, and the appraisal was performed upon the reporting of Mechanical & Electrical Research Institute and audited intangible assets such as patent right and domain name by valuer to conclude the valuation.

The valuer determined that the market value of the entire equity interests of shareholders of Mechanical & Electrical Research Institute as at 30 June 2017, being the valuation reference date via above mentioned analysis was RMB14,388,800 (In word: RMB fourteen million three hundred eighty-eight thousand eight hundred).

IX. EXPLANATORY NOTES ON SPECIAL MATTERS

1. The valuation is made under the principle of independence, objectivity and fairness. None of the persons involved in the asset valuation are interested in the principal and the valuated enterprise. Valuers conducted the valuation in strict compliance with relevant systems and standards, and observed professional ethics and standards during the valuation.
2. This valuation report is made based on the basic documents, data and information provided by the principal and relevant parties concerned. It is the responsibility of the principal and relevant parties concerned to provide all necessary information and ensure the truthfulness, legitimacy and integrity of such information provided, whereas the asset valuers are responsible for analyzing, estimating the value of the valuation target as at the valuation reference date for specific purposes and giving professional opinions thereon.
3. The valuation conclusion provides a reference on the market value of the entire equity interest of the shareholders in the appraised enterprise as at the valuation reference date for the purpose of valuation as stated in this report, under the valuation assumptions and restrictions specified in the report, without consideration to the effect on the value of valuation target by shareholding premium, minority equity discount and the equity liquidity discount. Users of the report should understand that the value of the shareholders' partial equity is not certainly equal to the value of the shareholders' total equity multiple by the equity ratio.
4. This valuation conclusion is to reflect the prevailing market value of the valuation target determined by the open market principle for the valuation purpose, without considering the impact on such conclusion due to the assessment of the rapid realization of assets or possible pledge, guarantee to be undertaken, nor taking into account the impact on asset price due to change of national macroeconomic policies, or the occurrence of natural forces and other force majeure. In case of any change to the aforesaid conditions and the ongoing use principle adopted in the valuation, the valuation conclusion shall normally become invalid. The valuation agency is not accountable for the related legal liabilities for the invalidity of the valuation conclusion arising from changes to such conditions.

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5. In appraising the assets within the valuation scope, we have not considered the possible expenses and taxes to be assumed for the transfer of such assets, nor appreciation of certain assets for tax purposes.
6. As of the valuation reference date, the carrying amounts of special item payable from Mechanical & Electrical Research Institute is RMB320,000, being the subsidy of industrialization of key technologies research of MVR energy saving evaporation for waste water with high density and high salinity. The subsidy shall be paid to the equipment procurement company for purchasing equipment for this research and development project. Its carrying amounts was remained temporarily in appraisal procedures due to the precise amounts cannot be determined.
7. The appraisal institute and valuers disclaim any responsibility for those defects that may affect the valuation of the assets but are not explained specifically in engagement, and are unknown to the valuers after implementing appraisal procedures.
8. During the validity period of this valuation report, in the event of any changes in the quantity of assets and the basis of consideration included in the scope of valuation, the principal shall make corresponding adjustments to the actual consideration of assets; in the event of any changes in the quantity of assets, the principal shall make adjustments to the asset amount in accordance with the original valuation method; and in the event of any changes in the pricing basis of assets which will have a material impact on the appraised value of assets, the principal shall promptly engage an appraisal firm to re-confirm the appraised value.

The previously mentioned matters may have impact on the appraised value. The principal and the relevant report users are advised to make independent judgment on the potential risks in using the conclusions of the report.

X. RESTRICTION ON THE USE OF THE REPORT

- (I) The valuation report is issued only for the valuation purposes and uses as specified;
- (II) The valuation report could be used by the users as specified in the valuation report only;
- (III) Any extract, quotation or disclosure of the content of the valuation report in public media, either in whole or in part, shall be subject to prior review of the Company. Unless otherwise required by laws and regulations or agreed among relevant parties, the content of the valuation report shall not be extracted, quoted or disclosed in any public media without prior written content of the Company;

APPENDIX III ASSET VALUATION REPORTS ON THE TARGET COMPANIES

(IV) Validity period for use of the valuation report

The valuation results of this report will be effective for a year commencing from the valuation reference date upon filing with the State – owned Assets Supervision and Administration or obtaining relevant approval, namely from 30 June 2017 to 29 June 2018. If the purpose of valuation is fulfilled within a year commencing from the valuation reference date, the valuation results can be deemed as a basis of consideration; if it has been more than a year since the valuation reference date, another assets appraisal shall be arranged in this regard.

XI. DATE OF THE VALUATION REPORT

The valuation report is finalized as at 11 September 2017, being the date of forming professional opinion by the asset valuer.

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:

Domestic shares of RMB1.00 each of the Company

Name of shareholders	Number of		Capacity	Note	Percentage of	Percentage of	Percentage of
	shares	Categories			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. (重慶建工集團股份有限公司)	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

APPENDIX IV
GENERAL INFORMATION

Name of shareholders	Number of		Capacity	Note	Percentage of	Percentage of	Percentage of
	shares	Categories			total issued	total issued H	total issued
					domestic shares	Shares	shares
					(%)	(%)	(%)
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	Percentage
				of total issued H Shares	of total issued shares
				(%)	(%)
Templeton Asset Management Ltd.	142,803,300(L)	Investment Manager		12.98(L)	3.88(L)
JPMorgan Chase & Co.	124,258,300(L) 0(S)	Investment Manager		11.29(L) 0.00(S)	3.37(L) 0.00(S)
	124,258,300(P)			11.29(P)	3.37(P)
Bank of New York Mellon (formerly known as “The Bank of New York”)	87,276,000(L) 0(P)	Custodian		7.93(L) 0(P)	2.37(L) 0(P)
The Bank of New York Mellon Corporation	87,276,000(L) 87,276,000(P)	Interest in controlled corporation controlled by substantial shareholder	(4)	7.93(L) 7.93(P)	2.37(L) 2.37(P)
GE Asset Management Incorporated	75,973,334(L)	Investment Manager		6.91(L)	2.06(L)

(L) Long position

(S) Short position

(P) Lending Pool

Notes:

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 76.53% by State-Owned Assets Supervision and Administration Commission of Chongqing Municipal Government through Chongqing Construction Investment Holding Co., Ltd., which as its wholly-owned subsidiaries. Therefore, State-Owned Assets Supervision and Administration Commission of Chongqing Municipal Government is 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 in 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 of the Company are not aware of any persons holding any interests or short positions in the shares or underlying shares of the Company which were required to be recorded in the register pursuant to section 336 of the SFO as at the Latest Practicable Date.

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

As at the Latest Practicable Date, none of the Directors and the Supervisors of the Company had any direct or indirect interest in any assets which have been acquired or disposed 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 2016, being the date to which the latest published audited accounts of the Company were made up.

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

5. SERVICE 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 2016, 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:

Name	Qualification
Shinco Capital	A licensed corporation to carry out type 6 (advising on corporate finance) regulated activity under the SFO (Chapter 571 of the Laws of Hong Kong)

Shinco Capital 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) Shinco Capital did not have any interest, either direct or indirect, in any assets which had been, since 31 December 2016, 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) Shinco Capital 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. 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 1204-06, 12th Floor, the Chinese Bank Building, 61 Des Voeux 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.

11. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection at the Room 1204-06, 12th Floor, the Chinese Bank Building, 61 Des Voeux Road Central, Central, Hong Kong on any workday from the date of this circular up to and as at the date of the EGM:

- (i) the letter from the Independent Board Committee to the Independent Shareholders, the text of which is set out in page 19 of this circular;
- (ii) the letter from Shinco Capital to the Independent Board Committee and the Independent Shareholders, the text of which is set out in page 20 to 38 of this circular;
- (iii) the written consent from Shinco Capital;
- (iv) the Equity Transfer Agreement entered into between Chongqing Machinery & Electric Co., Ltd. and Chongqing Machinery and Electronic Holding (Group) Co., Ltd. in relation to sales and transfer of Qijiang Gear Transmission Co., Ltd.;
- (v) the Equity Transfer Agreement entered into among Chongqing Machinery & Electric Co., Ltd., Chongqing Machine Tools (Group) Co., Ltd., Chongqing General Industry (Group) Co., Ltd., Chongqing Pump Industry Co., Ltd., Chongqing Water Turbine Works Co., Ltd. and Chongqing Machinery and Electronic Holding (Group) Co., Ltd. in relation to sales and transfer of Chongqing New North Zone Machinery and Electronic Microcredit Co., Ltd.;
- (vi) the Equity Transfer Agreement entered into between Chongqing Machinery & Electric Co., Ltd. and Chongqing Machinery and Electronic Holding (Group) Co., Ltd. in relation to sales and transfer of Chongqing Machinery & Electronic Equipment Technology Research Institute Co., Ltd.;
- (vii) the Equity Transfer Agreement entered into between Chongqing Machinery & Electric Co., Ltd. and Chongqing Machinery and Electronic Holding (Group) Co., Ltd. in relation to sales and transfer of Chongqing Mechanical & Electrical Intelligent Manufacturing Co. Ltd..



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 EXTRAORDINARY GENERAL MEETING

NOTICE IS HEREBY GIVEN that the first extraordinary general meeting in 2017 (the “**EGM**”) 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 Monday, 27 November 2017 at 10:00 a.m. for the purpose of considering and, if appropriate, approving following resolutions, with or without modification:

ORDINARY RESOLUTIONS

1. To consider and approve the equity transfers between the Company and Chongqing Machinery and Electronic Holding (Group) Co., Ltd.; and
2. To consider and approve the resignation of Mr. Wei Fusheng as non-executive Director; and
3. To consider and approve the appointment of Mr. Dou Bo as a non-executive Director of the Company to hold office from the date of EGM until the expiry of the 4th session of the board of Directors (the “**Board**”), and authorise the Board to fix the remuneration of Mr. Dou Bo based on the standard of Director’s remuneration that 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.

By Order of the Board

Chongqing Machinery & Electric Co., Ltd.*

Wang Yuxiang

Executive Director, Chairman

Chongqing, the PRC

7 November 2017

* *For identification purposes only*

APPENDIX V NOTICE OF THE EXTRAORDINARY GENERAL MEETING

Notes:

1. A member of the Company (“**Member**”) entitled to attend and vote at the meeting is entitled to appoint a proxy or proxies to attend and vote in his stead. A proxy need not be a Member. A form of proxy for use at the meeting is enclosed herewith. In the case of the joint holders of any share, only the person whose name appears first in the register of members shall be entitled to receive this notice, to attend and exercise all the voting powers attached to such share at the meeting, and this notice shall be deemed to be given to all joint holders of such share.
2. To be valid, the form of proxy together with any power of attorney or other authority (if any) under which it is signed or a notarially certified copy of that power of attorney or authority must be deposited with the Company’s H share registrar Computershare Hong Kong Investor Services Limited, at 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 any adjournment thereof or the time appointed for passing the resolutions. 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. For the identification of Members who are qualified to attend and vote at the meeting, the register of Members in Hong Kong will be closed from 28 October 2017 to 27 November 2017, both days inclusive, during which period no transfer of H shares of the Company will be effected. All transfer documents accompanied by the relevant share certificates must be lodged with the Company’s H share registrar Computershare Hong Kong Investor Services Limited, at Rooms 1712-1716, 17/F, Hopewell Centre, 183 Queen’s Road East, Wanchai, Hong Kong not later than 4:30 p.m. on 27 October 2017 for register.
4. Whether or not the holders of H shares of the Company who intend to attend the meeting shall complete the enclosed reply slip for the meeting and return it, by hand or by post, to the Company’s H share registrar Computershare Hong Kong Investor Services Limited, at 17/F, Hopewell Centre, 183 Queen’s Road East, Wanchai, Hong Kong, or by fax on or before Monday, 6 November 2017.

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