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

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

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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) CONTINUING CONNECTED TRANSACTIONS – REVISION OF ANNUAL CAPS;**
- (2) REPORT OF THE BOARD OF DIRECTORS OF THE COMPANY IN 2017;**
- (3) REPORT OF THE SUPERVISORY COMMITTEE OF THE COMPANY IN 2017;**
- (4) AUDITED FINANCIAL STATEMENTS AND AUDITOR'S REPORT OF THE COMPANY AND ITS SUBSIDIARIES IN 2017;**
- (5) PROFIT APPROPRIATION PROPOSAL FOR THE YEAR OF 2017 OF THE COMPANY;**
- (6) 2018 ANNUAL BUDGET REPORT OF THE COMPANY;**
- (7) APPOINTMENT OF THE COMPANY'S AUDITOR IN 2018;**
- (8) CHANGE OF A NON-EXECUTIVE DIRECTOR OF THE COMPANY;**
- (9) PROVISION OF GUARANTEE BY THE COMPANY FOR LOANS OF HOLROYD OF GBP21.00 MILLION;**
- (10) PROVISION OF GUARANTEE BY THE COMPANY FOR LOANS OF PRECISION TECHNOLOGIES GROUP INVESTMENT DEVELOPMENT COMPANY LIMITED OF USD92.00 MILLION;**
- (11) PROVISION OF GUARANTEE BY CHONGQING GENERAL FOR LOANS OF CHONGTONG CHENGFEI OF RMB797.00 MILLION;**
- (12) PROPOSED AMENDMENT TO ARTICLES OF ASSOCIATION;**
- (13) PROPOSED GRANTING OF GENERAL MANDATE;**
- (14) NOTICE OF THE ANNUAL GENERAL MEETING OF THE COMPANY**



TC CAPITAL

The letter from the Board of the Company is set out on pages 5 to 20 of this circular.

A notice convening the 2017 Annual General Meeting of Chongqing Machinery & Electric Co., Ltd* to be held at the Conference Room, 13/F, Jidian Building, No. 60, Middle Section of Huangshan Avenue, New North Zone, Chongqing City, the PRC on Thursday, 28 June 2018 at 9:00 a.m. (Chongqing and Hong Kong time) is set out on pages 36 to 40 of this circular.

A form of proxy for use at the Annual General Meeting is enclosed with this circular and such form of proxy is also published on the websites of the Stock Exchange (www.hkexnews.hk) and the Company (www.chinacqme.com). Whether or not you intend to attend the Annual General Meeting, you are requested to complete and return (i) the enclosed reply slip despatched on 14 May 2018 in accordance with the instructions printed thereon not later than Friday, 8 June 2018 and (ii) the enclosed form of proxy in accordance with the instructions printed thereon not less than 24 hours before the time fixed for holding the Annual General Meeting or any adjournment thereof (as the case may be). Completion and return of the form of proxy will not preclude you from attending the Annual General Meeting and voting in person if you so wish.

7 June 2018

* For identification purposes only

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DEFINITIONS

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

“Annual General Meeting” or “AGM”	means the 2017 annual general meeting of the Company to be held at the Conference Room, 13/F, Jidian Building, No. 60, Middle Section of Huangshan Avenue, New North Zone, Chongqing City, the PRC on Thursday, 28 June 2018 at 9:00 a.m. (Chongqing and Hong Kong time), to consider and, if appropriate, to approve the resolutions contained in the notice of the annual general meeting which is set out on pages 36 to 40 of this circular, or any adjournment thereof
“Articles”	means the articles of association of the Company currently in force
“associates”	has the meaning ascribed to it under the Listing Rules
“Board”	means the board of Directors of the Company
“Chongqing General”	means Chongqing General Industry (Group) Co., Ltd., a wholly-owned subsidiary of the Company and a limited company incorporated in PRC
“Chongtong Chengfei”	means Jilin Chongtong Chengfei New Material Co., Ltd., a 91.18% interest owned subsidiary of the Chongqing General and a joint-stock limited company incorporated in PRC
“Company”	means Chongqing Machinery & Electric Co., Ltd* (重慶機電股份有限公司), a joint stock limited company incorporated in the PRC with limited liability
“Director(s)”	means the director(s) of the Company
“Domestic Share(s)”	means ordinary share(s) with a nominal value of RMB1.00 each in the share capital of the Company, which are subscribed for or credited as paid up in RMB
“Existing Master Sales Agreement”	means the master sales agreement entered into between the Company and the Parent Company on 7 April 2016, pursuant to which the Group has agreed to sell supplies, parts, components or materials, finished goods and other relevant or similar products, electrical equipment and components (including certain products such as control valves and parts for steering systems, gears and clutch assemblies and the BV series of electric cables) to the Parent Group from 2017 to 2019

DEFINITIONS

“GBP”	means British pound sterling, the lawful currency of the United Kingdom
“General Mandate”	means the proposed general mandate to allot, issue and otherwise deal with additional Shares representing up to the limit of 20% of the Shares in issue on the date of the passing of the relevant resolution
“Group”	means the Company and its associates
“HK\$”	means Hong Kong dollars, the lawful currency of Hong Kong, PRC
“Holroyd”	means Holroyd Precision Ltd., a wholly-owned subsidiary of PTG and a limited company incorporated in the United Kingdom
“Hong Kong”	means the Hong Kong Special Administrative Region of the PRC
“H Shares”	means overseas-listed foreign shares of the Company with a nominal value of RMB1.00 each, which are listed on the Stock Exchange
“Independent Board Committee”	means an independent committee of the Board composed of independent non-executive Directors of the Company, namely Mr. Lo Wah Wai, Mr. Ren Xiaochang, Mr. Jin Jingyu and Mr. Liu Wei
“Independent Financial Adviser” or “TC Capital”	means TC Capital International Limited, a licensed corporation to carry out type 1 (dealing in securities) and type 6 (advising on corporate finance) regulated activities under the SFO (Chapter 571 of the Laws of Hong Kong), being the independent financial adviser who gives advice to the Independent Board Committee and the Independent Shareholders in relation to the non-exempted continuing connected transactions and their respective annual caps
“Independent Shareholder(s)”	has the meaning ascribed to it under Chapter 14A of the Listing Rules, and in relation to the Company means the shareholders other than Parent Company and its associates
“Latest Practicable Date”	means 1 June 2018, 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

DEFINITIONS

“Master Sales Supplemental Agreement”	means the master sales supplemental agreement entered into between the Company and the Parent Company on 20 April 2018, pursuant to which the annual caps of 2018 and 2019 will be adjusted to RMB350.00 million and RMB360.00 million, respectively on basis of the Existing Master Sales Agreement
“Parent Company”	means Chongqing Machinery and Electronic Holding (Group) Co., Ltd. (重慶機電控股(集團)公司), a limited liability company established in the PRC on 25 August 2000 and owned by the Chongqing State-owned Assets Supervision and Administration Commission, being one of the Promoters of the Company
“Parent Group”	means Parent Company and its associates, excluding the Group
“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 of the PRC
“PTG”	means Precision Technologies Group (PTG) Limited, a wholly-owned subsidiary of the Company and a limited company incorporated in the United Kingdom
“Precision Technologies Group Investment Development Company Limited”	means Precision Technologies Group Investment Development Company Limited, a wholly-owned subsidiary of PTG and a limited company incorporated in Hong Kong
“Relevant Period”	means the period from the date of passing this resolution until the earlier of: (a) the conclusion of the next annual general meeting of the Company following the passing of this resolution, unless, by special resolution passed at that meeting, the mandate is renewed, either unconditionally or subject to conditions; or (b) the expiry of the period within which the next annual general meeting is required by the articles of association of the Company or any applicable law to be held; or (c) the passing of a special resolution of the Company in a general meeting revoking or varying the authority set out in this resolution;
“Rights Issue”	means the allotment or issue of Shares in the Company or other securities to all shareholders of the Company who are entitled to the offer (excluding, as the Board may decide, for such purpose any shareholder who is resident in a place where such offer is not permitted under the law or regulation of that place, entitled to such offer, pro rata, in spite of fractional entitlements)
“RMB”	means Renminbi, the lawful currency of the PRC

DEFINITIONS

“SFO”	means the Securities and Futures Ordinance (Chapter 571 of the laws of Hong Kong)
“Shareholder(s)”	means the holder(s) of the Shares
“Shares”	means the Domestic Shares and foreign-invested shares or the H Shares
“Shengpu”	means Chongqing Shengpu Materials Co., Ltd.* (重慶盛普物資有限公司), a wholly-owned subsidiary of the Company
“Stock Exchange”	means The Stock Exchange of Hong Kong Limited
“Supervisor(s)”	has the meaning ascribed to it under the Company Law of the PRC and the Listing Rules
“USD”	means US dollars, the lawful currency of the United States

LETTER FROM THE BOARD



CQME

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

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

(Stock Code: 2722)

Executive Directors:

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

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

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

Non-executive Directors:

Mr. Huang Yong
Mr. Deng Yong
Mr. Dou Bo
Ms. He Xiaoyan

Principal place of business in Hong Kong:

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

Independent Non-executive Directors:

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

To the Shareholders

Dear Sir or Madam,

- (1) CONTINUING CONNECTED TRANSACTIONS – REVISION OF ANNUAL CAPS;**
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LETTER FROM THE BOARD

1. INTRODUCTION

Reference is made by the Board to the announcement of the Company dated 20 April 2018 in relation to the Master Sales Supplemental Agreement as well as the proposed revised annual cap amount for the continuing connected transactions contemplated under such agreement for the two years ending 31 December 2018 and 2019.

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

2. CONTINUING CONNECTED TRANSACTIONS – REVISION OF ANNUAL CAPS

Background

References are made to the announcement of the Company dated 7 April 2016 and the circular of the Company dated 8 June 2016, in relation to, among others, the continuing connected transactions under the Existing Master Sales Agreement entered into between the Group and the Parent Group.

On 7 April 2016, the Company entered into the Existing Master Sales Agreement, pursuant to which, the Group agreed to sell supplies, parts, components or materials, finished goods and other relevant or similar products, electrical equipment and components (including control valves, parts for steering systems, gears and clutch assemblies, the BV series of electric cables, refrigeration machines, fans, wires and cables, copper plates, gas compressors, and raw materials such as steel products) to the Parent Group.

Master Sales Supplemental Agreement

Affected by the rapid growth of heavy truck market in 2017, the upcoming commencement of construction of railway transit in Chongqing in 2018 as well as the equity transfer with the Parent Group in November 2017, it is expected that the total amount of related sales in 2018 and 2019 will increase significantly and the annual cap under the Existing Master Sales Agreement would not satisfy the expected need. The Company and the Parent Company entered into the Master Sales Supplemental Agreement, proposing to increase the annual caps of 2018 and 2019 by RMB170.00 million from RMB180.00 million and RMB190.00 million, respectively. The annual caps of 2018 and 2019 after adjustment will be RMB350.00 million and RMB360.00 million, respectively. All existing principal terms and conditions under the Existing Master Sales Agreement will remain unchanged.

The Company confirmed that, as of Latest Practicable Date, the amount of transactions under the Existing Master Sales Agreement has not exceeded the existing annual caps.

LETTER FROM THE BOARD

The details of the Master Sales Supplemental Agreement are set out as follows:

Date

20 April 2018

Parties

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

Term

Subject to the approval to be obtained from the Independent Shareholders, the Master Sales Supplemental Agreement commencing from 20 April 2018 and expiring on 31 December 2019.

Nature of transaction

The Group sells supplies, parts, components or materials, finished goods and other relevant or similar products, electrical equipment and components (including control valves, parts for steering systems, the BV series of electric cables, refrigeration machines, wires and cables, copper plates, gas compressors and raw materials such as steel products) to the Parent Group.

Payment terms

The payment terms will be otherwise specified on each separate contract to be entered by both parties on normal commercial terms.

Pricing Basis for the Master Sales Supplemental Agreement

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

- (i) the market price of at least two independent third parties obtained through prices quoted on websites for the industry (including website of Alibaba (www.1688.com)) or enquiries in the market (i.e. the price of the same or similar product provided to independent third parties by suppliers other than the Company and its subsidiaries in the same region during the ordinary course of business on normal commercial terms);
- (ii) if there is no market price determined by an independent third party, the transaction price between the Group and an independent third party;

LETTER FROM THE BOARD

- (iii) if none of the above is applicable, costs plus a percentage mark-up (tax-inclusive), which is not less than 10% (i.e. price = cost * (1 + percentage mark-up)), whereas the 10% mark-up is determined based on the average margin of similar products of the Group during the past three years, except that the percentage mark-up for raw materials procured by Shengpu and sold to the Parent Group will be approximately 1%, being the handling fee of the Group.

The Master Sales Supplemental Agreement made adjustment to the cap amount of related sales under Existing Master Sales Agreement, based on the fact that the business growth is better than expected and the increase in continuing connected transactions due to the equity transfer with the Parent Group in November 2017, and all other information remains unchanged. The Master Sales Supplemental Agreement was entered into in the ordinary and usual course of business of the Group. The terms of agreement were negotiated on an arm's length basis and on normal commercial terms. Its pricing or price basis is consistent with the Existing Master Sales Agreement.

Most of the products sold to the Parent Group by the Group are fully competitive products open to the market. Therefore, the Master Sales Supplemental Agreement still generally adopts the pricing basis (i) and (ii) in accordance with the Existing Master Sales Agreement, except that pricing basis (iii) was and will be adopted for the price of gas compressors (since they are produced for military use and market price is not available).

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

Historical information and annual caps of transactions under the Existing Master Sales Agreement

	For the year ended 31 December 2017	For the period from 1 January to 31 March 2018
	<i>RMB in million</i>	<i>RMB in million</i> (Unaudited)
Annual cap amount	180.0	N/A
Historical transaction record	117.9	54.8
Utilization rate	65.5%	N/A

LETTER FROM THE BOARD

The annual caps for the year ending 31 December 2018 and for the year ending 31 December 2019 under the Existing Master Sales Agreement, as well as the new proposed annual caps for the year ending 31 December 2018 and for the year ending 31 December 2019 under the Master Sales Supplemental Agreement are set out below:

	For the year ended 31 December 2018	For the year ended 31 December 2019
	<i>RMB in million</i>	<i>RMB in million</i>
Annual caps under the Existing Master Sales Agreement	180.0	190.0
New proposed annual caps	350.0	360.0

Basis for the proposed annual caps under the Master Sales Supplemental Agreement

The proposed annual cap for the Master Sales Supplemental Agreement is determined with reference to:

- (i) the estimated demand for production and sales of vehicle parts, power equipment, general machinery and raw materials for the two years ending 31 December 2019, in particular considering that the Group will provide more accessories for heavy-duty vehicles to the Parent Group due to the expected rebound of the market of heavy-duty vehicles in the next two years in the PRC;
- (ii) the increase of continuing connected transactions due to the equity transfer with the Parent Company in 2017. The Company disposed Qijiang Gear Transmission Co., Ltd. (“**Qijiang Gear**”) to the Parent Group and purchased Chongqing Mechanical & Electrical Intelligent Manufacturing Co., Ltd. (“**Intelligent Manufacturing**”) and Chongqing Mechanical & Electrical Equipment Technology Research Institute Co., Ltd. (“**Equipment Research Institute**”) from the Parent Group in 2017. The original internal transactions (i) between Qijiang Gear and the Group; (ii) between Intelligent Manufacturing and the Parent Group; and (iii) between Equipment Research Institute and the Parent Group subsequently became continuing connected transactions of the Group;
- (iii) the historical transaction amount of the sales transactions for the financial year ended 31 December 2017;
- (iv) in order to achieve synergy and reduce costs, the Group will procure and sell raw materials to the Parent Group through the centralized procurement platform and is expected to see noticeable increase in the coming two years, with the understanding that more companies of the Parent Group will purchase wires and cables from the Group.

LETTER FROM THE BOARD

- (v) the Group will significantly increase the sales of rail wire and cable, expecting that the Parent Group will strongly develop the construction of rail transit project in the next two years and in view of the current delay in the progress of the railway transit project in Chongqing; and
- (vi) a buffer of approximately 8% and 11% for the two years ending 31 December 2019, respectively to cater for the unforeseeable changes in market conditions including an unexpected increase in consumer demands and/or unexpected increase in the cost of supply.

The details in relation to the increase of the annual caps for 2018 and 2019 by RMB170.00 million are as follows:

1. As a result of the recovery in the nationwide heavy truck market, Chongqing CAFF Automotive Braking & Steering System Co., Ltd., a wholly-owned subsidiary of the Company, expects an increase in sales of approximately RMB50.00 million and approximately RMB45.00 million in 2018 and 2019 respectively.
2. Because of the equity transfer in 2017, the original internal transactions among the Group with Qijiang Gear and that among the Parent Group with Intelligent Manufacturing and Equipment Research Institute subsequently became connected transactions of the Group, such that the sales amount is expected to increase by approximately RMB86.16 million (among which RMB55.00 million is for the supply of goods from Shengpu to Qijiang Gear, and RMB28.12 million and RMB3.04 million are for the supply of goods from Intelligent Manufacturing and Equipment Research Institute to other companies under the Parent Group respectively).
3. Due to the change of the construction progress of the railway transit in Chongqing and the change of the contracting company under the Parent Group undertaking the rail transit project in Chongqing, it is expected that the related sales amount from the Group to the Parent Group will increase by approximately RMB37.00 million.

In view of the above, the estimated sales amount from the Group to the Parent Group in each of the year 2018 and 2019 will increase by approximately RMB170.00 million. The aforesaid estimated increase is calculated after comparing the latest estimated amount and the estimated amount in the past, and the final amount shall be subject to audit.

The Directors (including the independent non-executive Directors) are of the opinion that the new proposed annual caps are fair and reasonable and that the transactions contemplated under the Master Sales Supplemental Agreement are entered into on normal commercial terms and in the ordinary and usual course of business of the Group, and the terms of the agreement are fair and reasonable and in the interest of the Shareholders as a whole.

LETTER FROM THE BOARD

Reasons for and Benefits of the Supplemental Agreement

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

Internal Control

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

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

Implications under the Listing Rules

As the Parent Company is the controlling shareholder of the Company, holding 1,924,225,189 Domestic Shares and 11,652,000 H Shares (which represent 52.54% equity interest in the Company), the Parent Group is a connected person of the Group under the Listing Rules. Therefore, the transactions contemplated under the Master Sales Supplemental Agreement constitute continuing connected transactions of the Company. As the highest applicable percentage ratios calculated in accordance with Chapter 14A of the Listing Rules in respect of the respective annual caps under the Master Sales Supplemental Agreement exceed 5% and such annual caps exceed HK\$10,000,000, the Master Sales Supplemental Agreement constitutes a non-exempted continuing connected transaction of the Company under Chapter 14A of the Listing Rules and is subject to the reporting, annual review, announcement and Independent Shareholders' approval requirements under the Listing Rules.

General Information

Information on the Group

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

Information on the Parent Group

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

LETTER FROM THE BOARD

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

The AGM will be convened by the Company at which resolutions will be proposed to seek approval from the Independent Shareholders for the Master Sales Supplemental Agreement. The Parent Company, holding 1,924,225,189 Domestic Shares and 11,652,000 H Shares (which represent 52.54% equity interest in the Company), will abstain from voting on the relevant resolutions to be proposed at the AGM.

Mr. Wang Yuxiang (chairman of the Parent Company), Mr. Huang Yong (president of the Parent Company) and 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 Master Sales Supplemental Agreement, and have abstained from voting on the relevant Board resolutions to approve the above agreement.

3. REPORT OF THE BOARD OF DIRECTORS OF THE COMPANY IN 2017

Details are set out in “Report of the Board of Directors” within the Company’s 2017 Annual Report issued by the Company on the website of the Stock Exchange on 26 April 2017.

4. REPORT OF THE SUPERVISORY COMMITTEE OF THE COMPANY IN 2017

Details are set out in “Report of the Supervisory Committee” within the Company’s 2017 Annual Report issued by the Company on the website of the Stock Exchange on 26 April 2017.

5. AUDITED FINANCIAL STATEMENTS AND AUDITOR’S REPORT OF THE COMPANY AND ITS SUBSIDIARIES IN 2017

Details are set out in “Independent Auditor’s Report”, “Consolidated Statement of Comprehensive Income”, “Consolidated Balance Sheet”, “Consolidated Statement of Changes in Equity”, “Consolidated Statement of Cash Flows” and “Notes to the Consolidated Financial Statements” within the Company’s 2017 Annual Report issued by the Company on the website of the Stock Exchange on 26 April 2017.

6. PROFIT APPROPRIATION PROPOSAL FOR THE YEAR OF 2017 OF THE COMPANY

The Board has recommended the payment of a final dividend of RMB0.030 per share (tax inclusive) for the year ended 31 December 2017, which is calculated based on the total share capital of 3,684,640,154 shares for the year ended 31 December 2017, totalling RMB110,539,204.62. Subject to approval by

LETTER FROM THE BOARD

Shareholders at the Annual General Meeting to be convened on 28 June 2018, the proposed final dividend will be paid on or about 31 July 2018 to Shareholders whose names appear on the Register of Members of the Company on 10 July 2018 (“**Record Date**”).

In order to ascertain the entitlements of the Shareholders to receive the proposed final dividend, the register of members of the Company will be closed from Thursday, 5 July 2018 to Tuesday, 10 July 2018 (both days inclusive), during which period no transfer of shares will be registered. All transfer documents accompanied by share certificates of the holders of H Shares of the Company must be lodged at our H Share Registrar at Hong Kong, Computershare Hong Kong Investor Services Limited at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen’s Road East, Wanchai, Hong Kong for registration no later than 4:30 p.m. on Wednesday, 4 July 2018.

7. 2018 ANNUAL BUDGET REPORT OF THE COMPANY

In 2018, the Company’s operating expenses are expected to be approximately RMB270.00 million, among which, approximately RMB200.19 million is for the clean energy equipment segment, approximately RMB69.92 million is for the high-end smart equipment segment, and there is no operating expenses for the industrial service segment.

8. APPOINTMENT OF THE COMPANY’S AUDITOR IN 2018

PricewaterhouseCoopers Zhong Tian LLP (Special General Partnership) and PricewaterhouseCoopers are the PRC auditor and international auditor of the Company respectively engaged in 2017. During their engagement, they fully performed their duties to present unqualified review reports of 2017 for the Company which are objective and fair in accordance with independent accounting standards.

According to the relevant regulations on the rotation of accounting firms issued by the SASAC of Chongqing City, the Company has agreed with PricewaterhouseCoopers Zhong Tian LLP (Special General Partnership) and PricewaterhouseCoopers to cease their appointments, which will become effective after the conclusion of the 2017 annual general meeting to be convened by the Company.

In order to increase efficiency as well as reduce disclosure costs and audit expenses, the Company proposed to prepare only one set of financial statements in accordance with the PRC Accounting Standards for Business Enterprises starting from the 2018 interim report. At the same time, the Company proposed to appoint ShineWing Certified Public Accountants(Special General Partnership) (hereinafter referred to as “**ShineWing**”) as the accountant of the Company for the year of 2018. ShineWing will be the only accountant to audit the financial statements of the Company in accordance with the PRC Accounting Standards for Business Enterprises and will be our international accountant under the Listing Rules. The 2018 interim and annual financial statements of the Company will be prepared in accordance with the PRC Accounting Standards for Business Enterprises. This change of the accounting standards will not have any significant adverse effects on the announcements of interim results for the six months ended 30 June 2018 and annual results for the year ended 31 December 2018 of the Company. ShineWing, as the international auditor of the Company in 2018, will hold office until the conclusion of the next annual general meeting. The total review and audit fees are RMB3.30 million for the Company’s 2018 interim financial report and annual financial report.

LETTER FROM THE BOARD

9. CHANGE OF A NON-EXECUTIVE DIRECTOR OF THE COMPANY

The Board announces that Ms. He Xiaoyan (“**Ms. He**”) will resign as a non-executive Director of the Company due to change of work allocation. Ms. He’s resignation will become effective after the appointment of Mr. Wang Pengcheng (“**Mr. Wang**”) as the new non-executive Director. Ms. He has confirmed that she has no disagreement with the Company and there is no matter in relation to her resignation that needs to be brought to the attention of the Shareholders. The Board would like to express its sincere gratitude to Ms. He for her valuable contributions to the Company during her tenure at the Company. The Company proposed to appoint Mr. Wang as the non-executive Director to fill in the vacancy upon Ms. He’s resignation. The appointment of Mr. Wang is subject to the approval by the Shareholders at the Annual General Meeting. The detailed biography of Mr. Wang is as follows:

Mr. Wang, aged 51, holds an MBA degree of Chongqing University. Mr. Wang held the following positions at the Chongqing office of China Huarong Asset Management Co., Ltd.: the deputy general manager since August 2012; assistant general manager from November 2010 to July 2012; senior manager of the Innovation Business Department and the Risk Compliance Department from January 2010 to November 2010; senior manager of the Operational Management Department from February 2008 to January 2010; senior manager of the General Department from July 2007 to February 2008; senior deputy manager (in charge) of the General Department from September 2006 to July 2007; senior deputy manager of the General Department from July 2000 to August 2006; and office team leader of the preparation panel from January 2000 to June 2000. He held the following positions at Chongqing branch of Industrial and Commercial Bank of China: deputy chief of organization division of Organization Department (in charge) from September 1997 to December 2000; staff member and deputy chief of the general, cadres deployment, technical cadres management, and cadres management sections of the Personnel Division from September 1992 to August 1997; and guardian, cashier, clerk, accountant, and personnel director of Hongqiezixi sub-branch (紅茄子溪分理處) from June 1990 to August 1992.

Mr. Wang did not have any directorship in any other listed companies in the last three years, nor did he hold any other position in the Company or other members of the Group or have any relationship with any Directors, senior management, substantial shareholders or controlling shareholders of the Company, or have any interest in the securities of the Company within the meaning of Part XV of the SFO. Upon the appointment of Mr. Wang as a non-executive Director at the AGM, the Company will enter into a service contract with Mr. Wang in connection with his appointment for a term commencing from the date of the AGM until the expiration of the current session of the Board.

Mr. Wang is entitled to receive Director fees, which will be determined according to the remuneration criteria for non-executive Directors approved at the annual general meeting of 2015, subject to the approval of Ms. He’s resignation at the AGM.

Save as disclosed above, there is no matter which needs to be brought to the attention of the Shareholders in respect of Mr. Wang’s proposed appointment, and there is also no other information that is required to be disclosed pursuant to Rules 13.51(2)(h) to (v) of the Listing Rules.

LETTER FROM THE BOARD

10. PROVISION OF GUARANTEE BY THE COMPANY FOR LOANS OF HOLROYD OF GBP21.00 MILLION

Holroyd requested the Company to provide guarantee for its loans totalling GBP21.00 million (“**Loans of Holroyd**”). Holroyd is a wholly-owned subsidiary of PTG, which in turn is a wholly-owned subsidiary of the Company.

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

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

Terms of the Guarantee

The guarantee for the Loans of Holroyd is for a term of one year commencing from the date of approval by the shareholders and completion of relevant formalities by Holroyd. The Board is of the opinion that the terms of provision of guarantee for the Loans of Holroyd are fair and reasonable and are in the best interests of the Company and its shareholders as a whole and will not have a material adverse impact on the financial conditions of the Company.

Holroyd is not a connected person of the Group and the guarantee to be provided for Holroyd does not exceed the applicable percentage ratio specified in the Listing Rules. Therefore, such transaction is not subject to the requirements under Chapters 14 and 14A of the Listing Rules. However, as the gearing ratio of Holroyd reaches 81%, the provision of guarantee by the Company for Holroyd is subject to consideration and approval at the general meeting according to requirements of the Articles.

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

11. PROVISION OF GUARANTEE BY THE COMPANY FOR LOANS OF PRECISION TECHNOLOGIES GROUP INVESTMENT DEVELOPMENT COMPANY LIMITED OF USD92.00 MILLION

Precision Technologies Group Investment Development Company Limited (“**PTG Hong Kong**”) requested the Company to continue to provide guarantee for its loans totaling USD92.00 million (“**Loans of PTG Hong Kong**”). PTG Hong Kong is a wholly-owned subsidiary of PTG, which in turn is a wholly-owned subsidiary of the Company.

Reasons for and Benefits of the Provision of Guarantee for the Loans of PTG Hong Kong

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

LETTER FROM THE BOARD

Terms of the Guarantee

The guarantee for the Loans of PTG Hong Kong is for a term of one year commencing from the date of approval by the shareholders and completion of relevant formalities by PTG Hong Kong. The Board is of the opinion that the terms of provision of guarantee for the Loans of PTG Hong Kong are fair and reasonable and are in the best interests of the Company and its shareholders as a whole and will not have a material adverse impact on the financial conditions of the Company.

PTG Hong Kong is not a connected person of the Group and the guarantee to be provided for the Loans of PTG Hong Kong does not exceed the applicable percentage ratio specified in the Listing Rules. Therefore, such transaction is not subject to the requirements under Chapters 14 and 14A of the Listing Rules. However, as the gearing ratio of PTG Hong Kong reaches 99%, the provision of guarantee for the Loans of PTG Hong Kong is subject to consideration and approval at the general meeting according to requirements of the Articles.

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

12. PROVISION OF GUARANTEE BY CHONGQING GENERAL FOR LOANS OF CHONGTONG CHENGFEI OF RMB797.00 MILLION

Chongtong Chengfei requested Chongqing General to provide guarantee for its loans totalling RMB797.00 million (“**Loans of Chongtong Chengfei**”). Chongtong Chengfei is a 91.18% interests-owned subsidiary of Chongqing General, and Chongqing General is a wholly-owned subsidiary of the Company.

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

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

Terms of the Guarantee

The guarantee for the Loans of Chongtong Chengfei is for a term of one year commencing from the date of approval by the shareholders and completion of relevant formalities by Chongtong Chengfei. The Board is of the opinion that the terms of provision of guarantee for the Loans of Chongtong Chengfei are fair and reasonable and are in the best interests of the Company and its shareholders as a whole and will not have a material adverse impact on the financial conditions of the Company.

Chongtong Chengfei is not a connected person of the Group and the guarantee to be provided for the Loans of Chongtong Chengfei does not exceed the applicable percentage ratio specified in the Listing Rules. Therefore, such transaction is not subject to the requirements under Chapters 14 and

LETTER FROM THE BOARD

14A of the Listing Rules. However, as the gearing ratio of Chongtong Chengfei reaches 86%, the provision of guarantee for the Loans of Chongtong Chengfei is subject to consideration and approval at the general meeting according to requirements of the Articles.

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

13. PROPOSED AMENDMENT TO ARTICLES OF ASSOCIATION

In order to increase efficiency as well as reduce disclosure costs and audit expenses, the Company proposed to prepare financial statements uniformly in accordance with PRC accounting standards. The Board of Directors passed a resolution to propose the following amendments to the Articles of Association:

- (i) the original Article 157: “The financial statements of the Company shall, in addition to being prepared in accordance with PRC accounting standards and regulations, be prepared in accordance with either international accounting standards or that of the overseas place where the Company’s shares are listed. If there is any material difference between the financial statements prepared respectively in accordance with the two accounting standards, explanations shall be made in the financial statements. When the Company is to distribute its after-tax profits, the lower of the after-tax profits as shown in the two financial statements shall be adopted.”

being revised as follows: “The financial statements of the Company shall, in addition to being prepared in accordance with PRC accounting standards and regulations, be prepared in accordance with either international accounting standards or accounting standards which are recognized by stock exchange of the overseas place where the Company’s shares are listed. If there is any material difference (if any) between the financial statements prepared respectively in accordance with the two accounting standards, explanations shall be made in the financial statements. When the Company is to distribute its after-tax profits, the lower of the after-tax profits as shown in the two financial statements (if any) shall be adopted.”

- (ii) the original Article 158: “Any interim results or financial information published or disclosed by the Company shall be prepared in accordance with PRC accounting standards and regulations, and also in accordance with either international accounting standards or that of the overseas place where the Company’s shares are listed.”

being revised as follows: “Any interim results or financial information published or disclosed by the Company shall be prepared in accordance with PRC accounting standards and regulations, and also in accordance with either international accounting standards or accounting standards which are recognized by stock exchange of the overseas place where the Company’s shares are listed.”

LETTER FROM THE BOARD

14. PROPOSED GRANTING OF THE GENERAL MANDATE

To increase the flexibility and efficiency in operation and to give discretion to the Board in the event that it becomes desirable to issue any Shares, the Company proposes to obtain shareholders' approval for the General Mandate to allot, issue and otherwise deal with additional Shares up to the limit of 20% of the Shares in issue on the date of the passing of the relevant resolution. The Board has no present plan to issue new Shares pursuant to the General Mandate.

Any exercise of the power by the Directors under the General Mandate shall comply with the relevant requirements of the Listing Rules, the Articles and the applicable laws and regulations of the PRC and the following conditions:

- (a) the General Mandate shall not extend beyond the Relevant Period save that the Board may during the Relevant Period make or grant offers, agreements and/or options which may require the exercise of such power after the end of the Relevant Period;
- (b) the aggregate number of the Domestic Shares and the H Shares allotted and issued or agreed conditionally or unconditionally to be allotted and issued (whether pursuant to an option or otherwise) by the Board (otherwise than pursuant to any scrip dividend scheme (or similar arrangement providing for the allotment and issue of shares in lieu of the whole or any part of a dividend), any share option scheme, a Rights Issue or any separate approval of the shareholders of the Company) shall not exceed:
 - (i) 20% of the aggregate number of the Domestic Shares in issue; and
 - (ii) 20% of the aggregate number of the H Shares in issue, respectively, in each case as at the date of passing of the resolution for General Mandate by the shareholders; and
- (c) the Board will only exercise its power under the General Mandate in accordance with the Company Law of the PRC and the Listing Rules (as each of them may be amended from time to time) and only if all necessary approvals from the China Securities Regulatory Commission and/or other relevant government authorities in the PRC are obtained.

In addition, contingent on the Board resolving to exercise the General Mandate, the Company proposes to obtain shareholders' approval to authorise the Board to:

- (a) approve, execute and do, and/or procure to be executed and done all such documents, deeds and matters which it may consider necessary in connection with the exercise of the General Mandate and/or the issue of Shares, including but not limited to the time, price, quantity and place for such issue, to make all necessary applications to the relevant authorities, and to enter into marketing agreement (s) or any other agreement (s);
- (b) determine the use of proceeds and to make all necessary filings and registration with the relevant authorities in the PRC, Hong Kong and/or any other places and jurisdictions (as appropriate);

LETTER FROM THE BOARD

- (c) increase the registered capital of the Company and make all necessary amendments to the Articles to reflect such increase and to register the increased capital with the relevant authorities in the PRC, Hong Kong and/or any other places and jurisdictions (as appropriate) so as to reflect the new capital and/or share capital structure of the Company.

As at the Latest Practicable Date, the Company had 3,684,640,154 Shares in issue. Subject to the passing of the proposed resolution for the approval of the General Mandate and in accordance with the terms therein, the Company will be allowed to allot, issue and deal with up to a maximum of 736,928,030 Shares on the basis that no additional Shares will be issued by the Company prior to the Annual General Meeting.

15. ANNUAL GENERAL MEETING AND PROXY ARRANGEMENT

The notice of the Annual General Meeting is set out on pages 36 to 40 of this circular. At the Annual General Meeting, resolutions will be proposed to approve, inter alia, (i) continuing connected transactions – revision of annual caps; (ii) report of the Board of Directors of the Company in 2017; (iii) report of the Supervisory Committee of the Company in 2017; (iv) audited financial statements and auditor's report of the Company and its subsidiaries in 2017; (v) profit appropriation proposal for the year of 2017 of the Company; (vi) 2018 annual budget report of the Company; (vii) appointment of the Company's auditor in 2018; (viii) consideration and approval of change of a non-executive Director; (ix) provision of guarantee by the Company for Loans of Holroyd of GBP21.00 million; (x) provision of guarantee by the Company for Loans of Precision Technologies Group Investment Development Company Limited of USD92.00 million; (xi) provision of guarantee by Chongqing General for Loans of Chongtong Chengfei of RMB797.00 million; (xii) proposed amendment to Articles of Association; (xiii) proposed granting of general mandate.

A form of proxy for use at the Annual General Meeting is enclosed with this circular and such form of proxy is also published on the websites of the Stock Exchange (www.hkex.com.hk) and the Company (www.chinacqme.com). Whether or not you intend to attend the Annual General Meeting, you are requested to complete and return (i) the enclosed reply slip despatched on 14 May 2018 in accordance with the instructions printed thereon not later than Friday, 8 June 2018 and (ii) the enclosed form of proxy in accordance with the instructions printed thereon not less than 24 hours before the time fixed for holding the Annual General Meeting or any adjournment thereof (as the case may be). Completion and return of the form of proxy will not preclude you from attending the Annual General Meeting and voting in person if you so wish.

To the best of the Directors' knowledge, information and belief after having made all reasonable enquiries, other than the Parent Company and its associates who shall abstain from voting at the AGM in respect of the Master Sales Supplemental Agreement, none of the Directors or Shareholders has a material interest in the resolutions to be proposed at the Annual General Meeting and no Shareholder is required to abstain from voting on any of the resolutions at the Annual General Meeting.

16. PROCEDURES FOR VOTING AT THE ANNUAL GENERAL MEETING

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

LETTER FROM THE BOARD

17. RECOMMENDATION

The Directors consider that all resolutions to be proposed for consideration and approval by the Shareholders at the Annual General Meeting are in the best interests of the Company and the Shareholders as a whole.

Accordingly, the Directors recommend that all the Shareholders should vote in favour of all the resolutions to be proposed at the Annual General Meeting as set out in the notice of the Annual General Meeting.

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

7 June 2018

* *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 June 2018

To the Independent Shareholders

Dear Sir or Madam,

Reference is made to the circular issued by the Company to the shareholders dated 7 June 2018 (the “**Circular**”) of which this letter forms a part. Unless otherwise specified, capitalised terms used herein shall have the same meanings as those defined in the Circular.

We have been appointed by the Board to advise you on the Master Sales Supplemental Agreement. TC Capital has been appointed as the Independent Financial Adviser to advise you and us in this regard. Details of its advice, together with the principal factors and reasons it has taken into consideration in giving such advice, are set out on pages 22 to 30 of the Circular and the additional information is set out in the appendices thereto.

Having considered the Master Sales Supplemental Agreement, and taking into account the independent advice of TC Capital, in particular the principal factors, reasons and recommendations set out in its letter on pages 22 to 30 of the Circular, we consider that (i) the transactions under the Master Sales Supplemental Agreement are entered into in the ordinary course of business of the Group; (ii) the terms of the Master Sales Supplemental Agreement are normal commercial terms, are fair and reasonable and are in the interests of the Company and the shareholders as a whole; and (iii) the proposed revised annual caps for the transactions contemplated under the Master Sales Supplemental Agreement for the two years ending 31 December 2019 are fair and reasonable and in the interests of the Company and the shareholders as a whole. Accordingly, we recommend you to vote in favor of the ordinary resolutions set out in the notice of AGM to approve the annual caps for such transactions for the year ending 31 December 2019.

Yours faithfully,

the Independent Board Committee

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

* *For identification purposes only*

The following is the letter of advice from TC Capital to the Independent Board Committee and the Independent Shareholders prepared related to the Master Sales Supplemental Agreement and the corresponding annual caps for the purpose of inclusion in this circular.



7 June 2018

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

Dear Sirs,

**CONTINUING CONNECTED TRANSACTIONS
REVISION OF ANNUAL CAPS**

INTRODUCTION

We refer to our appointment as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders in relation to the Master Sales Supplemental Agreement and the proposed revise annual caps for the two years ending 31 December 2019 (the “**Revised Annual Caps**”). Details of which are set out in the letter from the Board (the “**Letter from the Board**”) in the circular of Chongqing Machinery & Electric Co., Ltd. (the “**Company**”) to the Shareholders dated 7 June 2018 (the “**Circular**”), of which this letter forms part. Capitalised terms used in this letter have the same meanings as those defined in the Circular unless the context otherwise requires.

As stated in the Letter from the Board, references are made to the announcement of the Company dated 7 April 2016 and the circular of the Company dated 8 June 2016 in relation to, among others, the continuing connected transactions under the Existing Master Sales Agreement entered into between the Group and the Parent Group. On 7 April 2016, the Group entered into the Existing Master Sales Agreement, pursuant to which, the Group agreed to sell supplies, parts, components or materials, finished goods and other relevant or similar products, electrical equipment and components to the Parent Group. Affected by the rapid growth of heavy truck market in 2017, the upcoming commencement of construction of railway transit in Chongqing in 2018 as well as the equity transfer with the Parent Group in November 2017, it is expected that the total amount of related sales in 2018 and 2019 will increase significantly and the annual cap under the Existing Master Sales Agreement would not satisfy the expected need. The Company and the Parent Company entered into the Master Sales Supplemental Agreement, proposing to increase the annual caps of 2018 and 2019 by RMB170 million from RMB180 million and RMB190 million, respectively. The annual caps of 2018 and 2019 after adjustment will be RMB350 million and RMB360 million, respectively. All existing principal terms and conditions under the Existing Master Sales Agreement will remain unchanged.

As stated in the Letter from the Board, as at the Latest Practicable Date, as the Parent Company was the Controlling Shareholder of the Company, holding 52.54% equity interest in the Company, the Parent Group was a connected person of the Group under the Listing Rules. Therefore, the transactions

APPENDIX II LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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

We have been appointed by the Company to advise (i) the Independent Board Committee and the Independent Shareholders as to whether or not the Master Sales Supplemental Agreement is entered in the ordinary and usual course of business of the Company, the terms of the Master Sales Supplemental Agreement are on normal commercial terms, fair and reasonable insofar as the Independent Shareholders are concerned and in the interests of the Company and the Shareholders as a whole and the Revised Annual Caps are fair and reasonable; and (ii) how the Independent Shareholders should vote in respect of the relevant resolutions to approve the Master Sales Supplemental Agreement and the Revised Annual Caps.

OUR INDEPENDENCE

As at the Latest Practicable Date, we did not have any relationships or interests with the Company or any other parties that could reasonably be regarded as relevant to the independence of us. In the last two years, we have acted as an independent financial adviser to the then independent board committee and independent shareholders of the Company in relation to an occasion as detailed in the circular of the Company dated 8 June 2016. Given (i) our independent role in the abovementioned engagement; and (ii) our fees for the abovementioned engagement represented an insignificant percentage of our revenue, we consider that the abovementioned engagement would not affect our independence to form our opinion in respect of the transactions contemplated under the Master Sales Supplemental Agreement.

BASIS OF OPINION

In putting forth our recommendation, we have relied on all relevant information, opinions and facts supplied and representations made to us by the Directors and the representatives of the Company. We have reviewed, amongst other things, (i) the Master Sales Supplemental Agreement; (ii) the Company's annual reports for the two years ended 31 December 2017 (the "**2016 Annual Report**" and "**2017 Annual Report**", respectively); and (iii) other information as set out in the Circular. We have also relied on all relevant information, opinions and facts supplied and representations made to us by the Directors and the representatives of the Company.

We have assumed that all such information, opinions, facts and representations, which have been provided to us by the Directors and/or the representatives of the Company, for which they are fully responsible, were true, accurate and complete in all respects at the date hereof and may be relied upon. We have no reason to doubt the truth, accuracy and completeness of the information and representations provided to us by the Company. The Company has also confirmed to us that no material facts have been omitted from the information supplied and referred to in the Circular, which would make any statements therein misleading.

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

PRINCIPAL FACTORS AND REASONS CONSIDERED

In formulating our opinion in respect of the Master Sales Supplemental Agreement, we have taken into account the following principal factors and reasons:

1. Background information of the parties involved

(i) The Group

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

(ii) The Parent Group

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

2. Principal terms of the Master Sales Supplemental Agreement

As stated in the Letter from the Board, on 20 April 2018, the Company and the Parent Company entered into the Master Sales Supplemental Agreement, proposing to increase the annual caps of 2018 and 2019 by RMB170 million from RMB180 million and RMB190 million, respectively. The annual caps of 2018 and 2019 after adjustment will be RMB350 million and RMB360 million, respectively. All existing principal terms and conditions under the Existing Master Sales Agreement will remain unchanged, details of which are set out in the paragraph headed “Master Sales Supplemental Agreement” in the Letter from the Board. Set out below is the pricing basis for the Master Sales Supplemental Agreement.

Pricing basis for the Master Sales Supplemental Agreement

As stated in the Master Sales Supplemental Agreement, the pricing or consideration under the Master Sales Supplemental Agreement will be determined with reference to:

- (i) the market price of at least two independent third parties obtained through prices quoted on websites for the industry or enquiries in the market (i.e. the price of the same or similar product provided to independent third parties by suppliers other than the Company and its subsidiaries in the same region during the ordinary course of business on normal commercial terms);

APPENDIX II LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

- (ii) if there is no market price determined by an independent third party, the transaction price between the Group and an independent third party; and
- (iii) If none of the above is applicable, cost plus a percentage mark-up (tax-inclusive), which is not less than 10% (i.e. price = cost x (1 + percentage mark-up)).

As stated in the Letter from the Board, most of the products sold to the Parent Group by the Group are fully competitive products open to the market. Therefore, the Master Sales Supplemental Agreement still generally adopts the pricing basis (i) and (ii) in accordance with the Existing Master Sales Agreement, except that pricing basis (iii) was and will be adopted for the price of gas compressors (since they are produced for military use and market price is not available). The management of the Company advised that the products currently sold to the Parent Group are mainly (i) control valves and parts for steering systems; (ii) wires and cables and the BV series of electric cables; and (iii) refrigeration machines, copper plates, gas compressors, and raw materials such as steel products. We have conducted the below works in relation to the pricing basis of the three types of products under the Master Sales Supplemental Agreement:

- for control valves and parts for steering systems, we have obtained the top 3 contracts/invoices between the Group and the company in the Parent Group which conducted the 3 largest amount of this type of products for each of the years ended 31 December 2016 and 31 December 2017. We have selected the 10 largest amount of products in each of the top 3 contracts/invoices between the Group and such company for each of the years ended 31 December 2016 and 31 December 2017 and compared to market prices of two independent third parties obtained through prices quoted on websites for the industry. We noted that the prices of the products sold to such company are higher than market prices of independent third parties;
- for the wires and cables and the BV series of electric cables, we have obtained the top 3 contracts/invoices between the Group and the company in the Parent Group which conducted the 3 largest amount of this type of products for each of the years ended 31 December 2016 and 31 December 2017. We have selected the 10 largest amount of products in each of the top 3 contracts/invoices between the Group and such company for each of the years ended 31 December 2016 and 31 December 2017 and compared to market prices of two independent third parties obtained through prices quoted on websites for the industry. We noted that the prices of the products sold to such company are higher than market prices of independent third parties; and
- for refrigeration machines, copper plates, gas compressors, and raw materials such as steel products, we have obtained the top 3 contracts/invoices between the Group and the company in the Parent Group which conducted the 3 largest amount of this type of products for each of the years ended 31 December 2016 and 31 December 2017. We have compared the products in each of the top 3 contracts/invoices between the Group and such company for each of the years ended 31 December 2016 and 31 December 2017 to market prices of two independent third parties obtained through prices quoted on websites for the industry or the contracts/invoices between the Group and the

APPENDIX II LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

independent third parties of similar products. We noted that the prices of the products sold to such company are higher than that of market prices of independent third parties or the product sold to independent third parties.

We are of the view that the pricing policies under the Master Sales Supplemental Agreement are fair and reasonable so far as the Independent Shareholders are concerned, as the prices charged for the products sold to the Parent Group by the Group will be set at a price not less than the market price or the price offered to the independent third parties.

3. Reasons for and benefits of the entering of Master Sales Supplemental Agreement

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

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

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

4. Revised Annual Caps and basis of determination

A summary of the historical amount for the transactions contemplated under the Existing Master Sales Agreement for two years ended 31 December 2017 and the three months ended 31 March 2018, and the Revised Annual Caps are set out in the table below:

	Historical amount			Revised Annual Caps	
	2016	2017	2018 (Jan – Mar)	2018	2019
	<i>RMB in million</i>	<i>RMB in million</i>	<i>RMB in million</i>	<i>RMB in million</i>	<i>RMB in million</i>
Historical transaction record/ proposed annual caps	68.6	117.9	54.8	350.0	360.0

As discussed with the management of the Company, the Revised Annual Caps have been determined mainly based on the historical transaction amount of the sales between the Group and the Parent Group for the financial year ended 31 December 2017 by taking into account of the expected increase in the sales between the Group and the Parent Group for the years ending 31 December 2018 and 2019 resulting from (i) an expected rebound of the market of heavy-duty vehicles in the next two years in the PRC; (ii) the equity transfer completed in November 2017; (iii) the change of the construction progress of the railway transit in Chongqing; (iv) more business opportunities from the Parent Group on wires and cables; and (v) a buffer to cater for the unforeseeable changes in market conditions including an unexpected increase in consumer

demands and/or unexpected increase in the cost of supply. We have reviewed the breakdown of Revised Annual Caps and noted that the Revised Annual Caps was determined based on (i) the historical amount for the year ended 31 December 2017; (ii) a buffer of approximately 8% and 11% for the two years ending 31 December 2019, respectively. We consider that it is justifiable to set a buffer in determining the Revised Annual Caps as (a) the buffer is to cater for the unforeseeable changes in market conditions including an unexpected increase in consumer demands and/or unexpected increase in the cost of supply; and (b) the Master Sales Supplemental Agreement offers an additional option to the Group to sell the products to the Parent Group if the price is competitive; and (iii) the below factors.

(i) *The expected rebound of the market of heavy-duty vehicles in the PRC in the next two years*

As stated in the 2017 Annual Report, in 2017, sales volume of heavy trucks reached approximately 1,120,000 units, representing an increase of approximately 52.4% as compared with last year. After considering (i) the above market data on the heavy truck vehicles; and (ii) sales of control valves and parts for steering systems to the Parent Group for the year ended 31 December 2017 increased approximately 120% over that for the year ended 31 December 2016, we consider that caps of sales of control valves and parts for steering systems to the Parent Group for the years ending 31 December 2018 and 2019 representing an increase of 100% over the historical amount of the year ended 31 December 2017 was determined fair and reasonable. After comparing the breakdown of annual caps of sales of control valves and parts for steering systems to the Parent Group for the years ending 31 December 2018 and 2019 under the Master Sales Supplemental Agreement with that under the Existing Master Sales Agreement as provided by the Company, we noted that the annual caps of sales of control valves and parts for steering systems under the Master Sales Supplemental Agreement, through Chongqing CAFF Automotive Braking & Steering System Co., Ltd., a wholly-owned subsidiary of the Company, are increased by approximately RMB50 million and RMB45 million for the years ending 31 December 2018 and 2019 respectively as compared with those under the Existing Master Sales Agreement.

(ii) *Increase in continuing connected transactions arising from the equity transfer in 2017*

The Company disposed Qijiang Gear Transmission Co., Ltd. ("**Qijiang Gear**") to the Parent Group and purchased Chongqing Mechanical & Electrical Intelligent Manufacturing Co., Ltd. ("**Intelligent Manufacturing**") and Chongqing Mechanical & Electrical Equipment Technology Research Institute Co., Ltd. Co., Ltd. ("**Equipment Research Institute**") from the Parent Group in 2017. The above transfers were completed in November 2017. Thus the transactions (i) between Qijiang Gear and the Group; (ii) between Intelligent Manufacturing and the Parent Group; and (iii) between Equipment Research Institute and the Parent Group become continuing connected transactions of the Group after the above completion. We have obtained the historical amount of the above transactions for the year ended 31 December 2017 and note that the proposed annual caps of the above continuing connected transactions for the year ending 31 December 2018 of approximately RMB86.16 million (supply of goods from Shengpu to Qijiang Gear of approximately RMB55 million, from Intelligent Manufacturing to other companies under the Parent Group of approximately RMB28.12 million and from Equipment Research Institute to other companies under the Parent Group of approximately RMB3.04 million) is approximate to their historical transactions for the year ended 31

December 2017. Given the above equity transfer in 2017 was not foreseeable in setting the annual caps for the years ending 31 December 2018 and 2019 under the Existing Master Sales Agreement by the Company, the Company did not take into account of the above sales in setting the annual caps for the years ending 31 December 2018 and 2019 under the Existing Master Sales Agreement. Therefore, the annual caps under the Master Sales Supplemental Agreement are increased by approximately RMB86.16 million for each of the years ending 31 December 2018 and 2019 as compared with those under the Existing Master Sales Agreement.

(iii) The change of the construction progress of the railway transit in Chongqing

The management of the Company advised that the railway transit project in Chongqing was delayed from the second half of 2017 to 2018 and thus resulted in more sales of wires and cables to the Parent Group in the next two years. We have reviewed the contract with the Parent Group signed in July 2017 for the wires and cables to be used in the railway transit project. The management of the Company advised that the Parent Group informed the Company that due to the delay in railway transit project in Chongqing, the delivery of the products in the contract was deferred to 2018 and 2019. We noted that the cap of sale of wires and cables to be used in the railway transit project to the Parent Group for the year ending 31 December 2018 is covered by a contract signed in July 2017. After comparing the annual caps of sales of wires and cables to be used in the railway transit project to the Parent Group for the years ending 31 December 2018 and 2019 under the Master Sales Supplemental Agreement with those under the Existing Master Sales Agreement as provided by the Company, we noted that the annual caps of sales of wires and cables to be used in the railway transit project to the Parent Group for the years ending 31 December 2018 and 2019 under the Master Sales Supplemental Agreement are increased by approximately RMB37 million for each of the years ending 31 December 2018 and 2019 as compared with those under the Existing Master Sales Agreement.

(iv) More business opportunities from the Parent Group on wires and cables

The management of the Company advised that based on the increase in sales of wires and cables to the Parent Group for the year ended 31 December 2017 as compared with that for the year ended 31 December 2016 and the communication with the Parent Group that more companies of the Parent Group will purchase wires and cables from the Group, the Company expected that cap of sale of wires and cables to the Parent Group for the year ending 31 December 2018 will increase 150% to RMB17 million from RMB7 million for the year ended 31 December 2017. After taking into account of sales of wires and cables to the Parent Group for the year ended 31 December 2017 represented an increase of approximately 31% as compared with that for the year ended 31 December 2016 and the Parent Group indicated that 3 companies of the Parent Group will start to purchase wires and cables starting from 2018, we consider that cap of sales of wires and cables for the year ending 31 December 2018 was determined fair and reasonable. After comparing the annual caps of sales of wires and cables to the Parent Group for the years ending 31 December 2018 and 2019 under the Master Sales Supplemental Agreement with those under the Existing Master Sales Agreement as provided

APPENDIX II LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

by the Company, we noted that the annual caps of sales of wires and cables to the Parent Group for the years ending 31 December 2018 and 2019 under the Master Sales Supplemental Agreement is not materially different from those under the Existing Master Sales Agreement.

In light of the above, we are of the view that the Revised Annual Caps are determined based on reasonable estimation and after due and careful consideration and they are fair and reasonable so far as the Company and the Independent Shareholders are concerned. Moreover, based on the above, the Revised Annual Caps will increase by approximately RMB170 million (mainly arising from the expected rebound of the market of heavy-duty vehicles in the PRC in the next two years of approximately RMB50 million and RMB45 million for the years ending 31 December 2018 and 2019, an increase in continuing connected transactions arising from the equity transfer in 2017 of approximately RMB86.16 million and the change of the construction progress of the railway transit in Chongqing of approximately RMB37 million) as compared with the annual caps for the years ending 31 December 2018 and 2019 under the Existing Master Sales Agreement.

Shareholders should note that as the Revised Annual Caps are relating to future events and was estimated based on assumptions which may or may not remain valid for the entire period up to 31 December 2019, and they do not represent forecasts of the sales to the Parent Group under the Master Sales Supplemental Agreement. Consequently, we express no opinion as to how closely the actual sales to the Parent Group under the Master Sales Supplemental Agreement will correspond with the respective Revised Annual Caps.

5. Internal control

The management of the Company advised that the Group has maintained the connected transaction implementation guidelines (the “**Guidelines**”) which stipulate the procedures to be complied with when conducting connected transactions. We have obtained and reviewed the Guidelines and noted that the Guidelines includes that the business management department will monitor the level of connected transaction to prevent from exceeding the caps. We also noted that, before entering into a connected transaction, the sales department, legal department and audit department will review and assess the pricing and the terms of the connected transaction agreements.

Moreover, as stated in the 2017 Annual Report, the auditor of the Company has issued an unqualified letter mentioned, including but not limited to, (i) for transactions involving the provision of goods or services by the Group, nothing has come to their attention that causes them to believe that the transactions were not, in material respects, in accordance with the pricing policies of the Group; and (ii) nothing has come to their attention that causes them to believe that the transactions were not entered into, in all material respects, in accordance with the relevant agreements governing such transactions.

Based on the above, consider that the internal control procedures are sufficient in place to ensure the transactions under the Master Sales Supplemental Agreement will be conducted in accordance with the terms of the agreements, including the pricing policies, and the annual caps are not exceeded.

APPENDIX II LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

RECOMMENDATION

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

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

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

*The English translation of the Chinese name(s) in this letter, where indicated with * is included for information purpose only and should not be regarded as the official English name(s) of such Chinese names.*

1. RESPONSIBILITY STATEMENT

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

2. DISCLOSURE OF INTEREST

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

3. SUBSTANTIAL SHAREHOLDERS’ AND OTHER PERSONS’ INTERESTS IN SHARES AND UNDERLYING SHARES

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

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

Name of shareholders	Number of shares	Categories	Capacity	Note	Percentage of total issued domestic shares (%)	Percentage of total issued H Shares (%)	Percentage of total issued shares (%)
Chongqing Machinery and Electronic Holding (Group) Co., Ltd.	1,924,225,189	domestic shares	Beneficial owner	(1)	74.46 (L)	-	52.22
	11,652,000	H Shares	Beneficial owner	(1)	-	1.06 (L)	0.32
Chongqing Yufu Assets Management Group Co., Ltd	232,132,514	domestic shares	Beneficial owner	(1)	8.98 (L)	-	6.30
Chongqing Construction Engineering Group Co., Ltd. (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

Name of shareholders	Number of shares	Categories	Capacity	Note	Percentage of total issued domestic shares (%)	Percentage of total issued H Shares (%)	Percentage of total issued 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	Beneficial owner	(1)	-	1.06 (L)	0.32
Ministry of Finance of the PRC	195,962,467	domestic shares	Interest in controlled corporation	(3)	7.58 (L)	-	5.32

(L) Long Position

H Shares of RMB1.00 each of the Company

Name of shareholders	Number of shares	Capacity	Note	Percentage of total issued H Shares (%)	Percentage of total issued shares (%)
JPMorgan Chase & Co.	109,831,600(L) 882,000(S) 108,949,600(P)	Investment Manager		9.98(L) 0.08(S) 9.90(P)	2.98(L) 0.00(S) 2.96(P)
Templeton Asset Management Ltd.	109,659,300(L)	Investment Manager		9.97(L)	2.98(L)
The Bank of New York Mellon (formerly known as "The Bank of New York")	87,276,000(L) 0(P)	Storekeeper		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)	Corporate interest under the control of major shareholders	(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, 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 its wholly-owned subsidiaries Chongqing Construction Investment Holding Co., Ltd.. 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 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 2017, 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 2017, 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
TC Capital International Limited	A licensed corporation to carry out type 1 (dealing in securities) and type 6 (advising on corporate finance) regulated activity under the SFO (Chapter 571 of the Laws of Hong Kong)

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

As at the Latest Practicable Date, (i) Independent Financial Adviser did not have any interest, either direct or indirect, in any assets which had been, since 31 December 2017, 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) Independent Financial Adviser did not have any shareholding interests in any member of the Group and it did not have any right, whether legally enforceable or not, to subscribe for or nominate persons to subscribe for securities of any members of the Group.

10. 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 AGM:

- (i) the letter from the Independent Board Committee to the Independent Shareholders, the text of which is set out in page 21 of this circular;
- (ii) the written consent from TC Capital;
- (iii) the letter from TC Capital to the Independent Board Committee and the Independent Shareholders, the text of which is set out in page 22 to 30 of this circular;
- (iv) the Master Sales Supplemental Agreement;
- (v) a copy of this circular.

**CQME****Chongqing Machinery & Electric Co., Ltd.***
重慶機電股份有限公司*(a joint stock limited company incorporated in the People's Republic of China)*

(Stock Code: 2722)

NOTICE OF THE ANNUAL GENERAL MEETING

NOTICE IS HEREBY GIVEN that an Annual General Meeting (the “**Meeting**” or “**AGM**”) of Chongqing Machinery & Electric Co., Ltd.* (the “**Company**”) will be held at the Conference Room, 13/F, Jidian Building, No. 60, Middle Section of Huangshan Avenue, New North Zone, Chongqing City, the PRC on Thursday, 28 June 2018 at 9:00 a.m. (Chongqing and Hong Kong time) (or any adjournment thereof) for the following purposes:

ORDINARY RESOLUTIONS

1. To consider and approve the revision of annual caps for sales of the continuing connected transactions for 2018 to 2019;
2. To consider and approve the report of the Board of Directors of the Company in 2017;
3. To consider and approve the report of the Supervisory Committee of the Company in 2017;
4. To consider and approve the audited financial statements and auditor’s report of the Company and its subsidiaries in 2017;
5. To consider and approve the profit appropriation proposal for the year of 2017 of the Company;
6. To consider and approve the financial budget for the year of 2018 of the Company;
7. To consider and approve the appointment of the Company’s auditor in 2018;
8. To consider and approve the change of a non-executive Director;
9. To consider and approve the provision of guarantee by the Company for loans of Holroyd of GBP21.00 million;
10. To consider and approve the provision of guarantee by the Company for loans of Precision Technologies Group Investment Development Company Limited of USD92.00 million;

* For identification purposes only

11. To consider and approve the provision of guarantee by Chongqing General for loans of Chongtong Chengfei of RMB797.00 million;

SPECIAL RESOLUTION

1. To consider and approve the proposed amendments to the Articles of Association;
2. To grant a general mandate to the Board to allot, issue and deal with additional Domestic Shares and/or the H Shares and to make or grant offers, agreements and/or options in respect thereof (the “**General Mandate**”), subject to the following conditions:

“THAT

- (A) (a) the General Mandate shall not extend beyond the Relevant Period save that the Board may during the Relevant Period make or grant offers, agreements and/or options which may require the exercise of such power after the end of the Relevant Period;
- (b) the aggregate number of the Domestic Shares and the H Shares allotted and issued or agreed conditionally or unconditionally to be allotted and issued (whether pursuant to an option or otherwise) by the Board (otherwise than pursuant to any scrip dividend scheme (or similar arrangement providing for the allotment and issue of shares in lieu of the whole or part of a dividend), any share option scheme, a Rights Issue or any separate approval of the shareholders of the Company) shall not exceed:
- (i) 20% of the aggregate number of the Domestic Shares in issue; and
- (ii) 20% of the aggregate number of the H Shares in issue, respectively, in each case as at the date of passing of this special resolution; and
- (c) the Board will only exercise its power under the General Mandate in accordance with the Company Law of the PRC and the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (as each of them maybe amended from time to time) and only if all necessary approvals from the China Securities Regulatory Commission and/or other relevant government authorities in the PRC are obtained;

and, for the purposes of this resolution:

“Domestic Share(s)” mean ordinary domestic share (s) in the share capital of the Company which are subscribed and/or paid for in Renminbi;

“H Share(s)” mean overseas listed foreign invested shares (being ordinary shares) in the share capital of the Company which are subscribed and/or paid for in Hong Kong dollars or foreign currency other than Renminbi;

“Relevant Period” means the period from the date of passing this resolution until the earlier of: (a) the conclusion of the next annual general meeting of the Company following the passing of this resolution, unless, by special resolution passed at that meeting, the mandate is renewed, either unconditionally or subject to conditions; or (b) the expiry of the period within which the next annual general meeting is required by the articles of association of the Company or any applicable law to be held; or (c) the passing of a special resolution of the Company in a general meeting revoking or varying the authority set out in this resolution;

“Rights Issue” means the allotment or issue of shares in the Company or other securities which would or might require shares to be allotted and issued pursuant to an offer made to all the shareholders of the Company (excluding, as the Board may decide, for such purpose any shareholder who is resident in a place where such offer is not permitted under the law or regulation of that place) entitled to such offer, pro rata (apart from fractional entitlements) to their then existing holdings of shares; and

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

- (c) to increase the registered capital of the Company and make all necessary amendments to the Articles to reflect such increase and to register the increased capital with the relevant authorities in the PRC, Hong Kong and/or any other places and jurisdictions (as appropriate) so as to reflect the new capital and/or shareholding structure of the Company.”

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

Chongqing, the PRC
14 May 2018

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 shares registrar Computershare Hong Kong Investor Services Limited, at 17M Floor, Hopewell Centre, 183 Queen’s Road East, Wanchai, Hong Kong, and in case of holders of domestic shares, to the Company’s mailing address at No. 60, Middle Section of Huangshan Avenue, New North Zone, Chongqing City, the PRC, not later than 24 hours before the time appointed for holding the Meeting or the time appointed for passing the resolutions or any adjournment thereof. Delivery of the form of proxy shall not preclude a Member from attending and voting in person at the Meeting and, in such event, the instrument appointing a proxy shall be deemed to be revoked.
3. In order to determine the Members who are entitled to attend and vote at the AGM, the register of Members will be closed from Tuesday, 29 May 2018 to Thursday, 28 June 2018, both days inclusive. All duly completed 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 for registration not later than 4:30 p.m. on Monday, 28 May 2018.
4. In order to ascertain the shareholders who are entitled to receive the proposed final dividend, the register of members of the Company will be closed from Thursday, 5 July 2018 to Tuesday, 10 July 2018 (both days inclusive), during which period no transfer of shares will be effected. All transfer documents accompanied by the relevant share certificates must be lodged at our H Share Registrar Computershare Hong Kong Investor Services Limited at Rooms 1712-1716, 17th Floor, Hopewell Centre, 183 Queen’s Road East, Wanchai, Hong Kong for registration no later than 4:30 p.m. on Wednesday, 4 July 2018.
5. Whether or not holders of H shares of the Company can attend the Meeting, please complete the enclosed reply slip for the Meeting and return it, by hand or by post, to the Company’s H share registrar Computershare Hong Kong Investor Services Limited, at 17M Floor, Hopewell Centre, 183 Queen’s Road East, Wanchai, Hong Kong, or by fax on or before Friday, 8 June 2018.

6. Whether or not holders of domestic shares of the Company can attend the Meeting, please complete the enclosed reply slip for the Meeting and return it, by hand or by post, to the Company's mailing address at No. 60, Middle Section of Huangshan Avenue, New North Zone, Chongqing City, the PRC, or by fax on or before Friday, 8 June 2018.

As at the date of this notice, the executive Directors are Mr. Wang Yuxiang, Ms. Chenping and Mr. Yang Quan; the non-executive Directors are Mr. Huang Yong, Mr. Deng Yong, Mr. Dou Bo 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.