THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

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

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

CQME

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

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

(Stock Code: 2722)

(1) REPORT OF THE BOARD OF DIRECTORS OF THE COMPANY IN 2018;
(2) REPORT OF THE SUPERVISORY COMMITTEE OF THE COMPANY IN 2018;
(3) AUDITED FINANCIAL STATEMENTS AND AUDITOR'S REPORT OF THE COMPANY AND ITS SUBSIDIARIES IN 2018;
(4) PROFIT APPROPRIATION PROPOSAL FOR THE YEAR OF 2018 OF THE COMPANY;
(5) 2019 ANNUAL BUDGET REPORT OF THE COMPANY;
(6) APPOINTMENT OF THE COMPANY'S AUDITOR IN 2019;
(7) CONTINUING CONNECTED TRANSACTIONS;
(8) MAJOR TRANSACTIONS AND CONTINUING CONNECTED TRANSACTIONS;
(9) RE-ELECTION OF DIRECTORS AND CONTINUOUS APPOINTMENT OF INDEPENDENT NON-EXECUTIVE DIRECTORS WHO HAVE SERVED MORE THAN NINE YEARS;
(10) RE-ELECTION OF SUPERVISORS;
(11) REMUNERATION PROPOSAL FOR THE FIFTH SESSION OF DIRECTORS AND SUPERVISORS;
(12) PROVISION OF GUARANTEE BY THE COMPANY FOR COMPREHENSIVE FINANCING OF HOLROYD OF GBP21.00 MILLION;
(13) PROVISION OF GUARANTEE BY THE COMPANY FOR COMPREHENSIVE FINANCING OF PTG DEVELOPMENT OF USD50.00 MILLION;
(14) GUARANTEE BY THE COMPANY FOR COMPREHENSIVE FINANCING OF HOLROYD OR PTG DEVELOPMENT OF USD84.50 MILLION;
(15) PROVISION OF GUARANTEE BY THE COMPANY FOR LOANS OF CHONGQING GENERAL OF RMB110.00 MILLION;
(16) PROVISION OF GUARANTEE BY CHONGQING GENERAL FOR LOANS OF CHONGTONG CHENGFEI OF RMB817.00 MILLION;
(17) PROPOSED GRANTING OF GENERAL MANDATE TO ISSUE NEW SHARES OF THE COMPANY; AND
(18) NOTICE OF THE ANNUAL GENERAL MEETING OF THE COMPANY

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

TC CAPITAL

The letter from the Board of the Company is set out on pages 6 to 32 of this circular.

Notice convening the 2018 Annual General Meeting of Chongqing Machinery & Electric Co., Ltd.* to be held at the Conference Room, 16/F, Jidian Building, No. 60, Middle Section of Huangshan Avenue, New North Zone, Chongqing City, the PRC on Wednesday, 26 June 2019 at 9:00 a.m. are set out on pages 74 to 81 of this circular.

A form of proxy for use at the Annual General Meeting has been despatched on 10 May 2019 and such form of proxy is also published on the websites of the Stock Exchange (www.hkexnews.hk) and the Company (www.chinacqme.com). Whether or not you intend to attend the Annual General Meeting, you are requested to complete and return (i) the reply slip despatched on 10 May 2019 by the Company in accordance with the instructions printed thereon not later than Thursday, 6 June 2019 and (ii) the 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.

6 June 2019

* *For identification purposes only*

CONTENTS

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

"2020-2022 Group Financial Services Framework Agreement"	means the financial services framework agreement entered into between the Company and the Finance Company on 1 April 2019, pursuant to which the Finance Company will provide deposits, loans, guarantees and other financial services to the Group during 2020-2022
"2020-2022 Master Sales Agreement"	means the agreement entered into between the Company and the Parent Company on 1 April 2019, pursuant to which the Group has agreed to sell steering tie rod, distance rod, bumper, the BV series of electric cables, wires and cables, refrigeration machines, copper plates, gas compressors, software and steel and gears to the Parent Group during 2020-2022
"2020-2022 Parent Group Financial Services Framework Agreement"	means the financial services framework agreement entered into between the Parent Company and the Finance Company on 1 April 2019, pursuant to which the Finance Company will provide deposits, loans, guarantees and other financial services to the Parent Group during 2020-2022
"Announcement"	means the announcement dated 1 April 2019 published by the Company in relation to the 2020-2022 Master Sales Agreement, the 2020-2022 Master Supplies Agreement, 2020-2022 Master Leasing Agreement, 2020-2022 Group Financial Services Framework Agreement and 2020-2022 Parent Group Financial Services Framework Agreement
"Annual General Meeting" or "AGM"	means the 2018 annual general meeting of the Company to be held at the Conference Room, 16/F, Jidian Building, No. 60, Middle Section of Huangshan Avenue, New North Zone, Chongqing City, the PRC on Wednesday, 26 June 2019 at 9:00 a.m., to consider and, if appropriate, to approve the resolutions contained in the notice of the annual general meeting which are set out on pages 74 to 81 of this circular, or any adjournment thereof
"Articles of Association" or "Articles"	means the articles of association of the Company currently in force
"associates"	has the meaning ascribed to it under the Listing Rules
"Board"	means the board of Directors of the Company
"CBIRC"	means China Banking and Insurance Regulatory Commission (中國銀行保險監督管理委員會)

"Company"	means Chongqing Machinery & Electric Co., Ltd.* (重慶機電股份有限公司), a joint stock limited company incorporated in the PRC
"Controlling Shareholder(s)"	has the meaning ascribed to it under the Listing Rules
"Director(s)"	means the director(s) of the Company
"Domestic Share(s)"	means ordinary share(s) with a nominal value of RMB1.00 each in the share capital of the Company, which are subscribed for or credited as paid up in RMB
"Existing Group Financial Services Framework Agreement"	means the financial services framework agreement entered into between the Company and the Finance Company on 7 April 2016, pursuant to which the Finance Company would provide deposits, loans, guarantees and other financial services to the Group during 2017-2019
"Existing Master Sales Agreement"	means the master sales agreement and the master sales supplemental agreement entered into between the Company and the Parent Company on 7 April 2016 and 20 April 2018, respectively, pursuant to which the Group agreed to sell certain products such as control valves and parts for steering systems, gears and clutch assemblies and the BV series of electric cables to the Parent Group during 2017-2019
"Existing Master Supplies Agreement"	means the master supplies agreement entered into between the Company and the Parent Company on 7 April 2016, pursuant to which the Parent Group agreed to supply parts and raw materials such as gears, component parts, YB2 series engines, electricity, water, gas and electrolytic copper to the Group during 2017-2019
"Existing Master Leasing Agreement"	means the master leasing agreement entered into between the Company and the Parent Company on 7 April 2016, pursuant to which the Parent Group agreed to supply land, plant and office space to the Group during 2017-2019
"Existing Parent Group Financial Services Framework Agreement"	means the financial services framework agreement and the financial services framework supplemental agreement entered into between the Parent Company and the Finance Company on 7 April 2016 and 13 May 2016, respectively, pursuant to which the Finance Company would provide deposits, loans, guarantees and other financial services to the Parent Group during 2017-2019

"Finance Company"	means Chongqing Machinery and Electric Holding (Group) Finance Co., Ltd.* (重慶機電控股集團財務有限公司), a limited liability company established in the PRC on 16 January 2013, which is owned as to 70% and 30% by the Company and the Parent Company respectively
"General Mandate"	means the proposed general mandate to allot, issue and otherwise deal with additional Shares representing up to the limit of 20% of the Shares in issue on the date of the passing of the relevant resolution
"Group"	means the Company and its associates
"H Shares"	means overseas-listed foreign shares of the Company with a nominal value of RMB1.00 each, which are listed on the Stock Exchange
"HK$"	means Hong Kong dollars, the lawful currency of Hong Kong
"Holroyd"	means Holroyd Precision Ltd., a wholly-owned subsidiary of PTG and a limited company incorporated in the United Kingdom
"Hong Kong"	means the Hong Kong Special Administrative Region of the PRC
"Independent Board Committee"	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 to the Independent Board Committee and the Independent Shareholders in relation to the terms and the transactions (including the annual caps) for continuing connected transactions and major transactions of the Group
"Independent Shareholder(s)"	has the meaning ascribed to it under Rule 14A.10(5) of the Listing Rules, and in relation to the Company means the Shareholders other than Parent Company and its associates
"Latest Practicable Date"	means 31 May 2019, being the latest practicable date prior to the printing of this circular for ascertaining certain information in this circular

"Listing Rules"	means the Rules Governing the Listing of Securities on the Stock Exchange
"Parent Company"	means Chongqing Machinery and Electronic Holding (Group) Co., Ltd. (重慶機電控股(集團)公司), a limited liability company established in the PRC on 25 August 2000 and owned by the Chongqing State-owned Assets Supervision and Administration Commission, being one of the Promoters of the Company
"Parent Group"	means Parent Company and its associates, excluding the Group
"PBOC"	means the People's Bank of China, the central bank of the PRC
"PRC"	means the People's Republic of China, which, for the purpose of this circular, excludes the Hong Kong Special Administrative Region, the Macau Special Administrative Region and the Taiwan region
"Promoter"	has the meaning ascribed to it under the Listing Rules
"Prospectus"	means the prospectus dated 30 May 2008 issued by the Company
"PTG"	means Precision Technologies Group Limited, a wholly-owned subsidiary of the Company and a limited company incorporated in the United Kingdom
"PTG Development"	means PTG Investment Development Company Ltd., a wholly-owned subsidiary of PTG and a limited company incorporated in Hong Kong
"Relevant Period"	means the period from the date of passing the resolution until the earlier of: (a) the conclusion of the next annual general meeting of the Company following the passing of the relevant resolution, unless, by a special resolution passed at that meeting, the mandate is renewed, either unconditionally or subject to conditions; or (b) the expiry of the period within which the next annual general meeting is required by the Articles or any applicable law to be held; or (c) the passing of a special resolution of the Company at a general meeting revoking or varying the authority set out in the resolution approving the General Mandate

"Rights Issue"	means the allotment or issue of Shares in the Company or other securities to all shareholders of the Company who are entitled to the offer (excluding, as the Board may decide, for such purpose any shareholder who is resident in a place where such offer is not permitted under the law or regulation of that place, entitled to such offer, pro rata, in spite of fractional entitlements)
"SFO"	means the Securities and Futures Ordinance (Chapter 571 of the laws of Hong Kong)
"Chongqing General"	means Chongqing General Industry (Group) Co., Ltd., a wholly-owned subsidiary of the Company
"Chongtong Chengfei"	means Jilin Chongtong Chengfei New Material Co., Ltd., a subsidiary controlled by Chongqing General
"Chongqing Shengpu"	means Chongqing Shengpu Materials Co., Ltd.* (重慶盛普物資有限公司), a wholly-owned subsidiary of the Company
"Share(s)"	means domestic share(s) and H share(s)
"Shareholder(s)"	means the holder(s) of the Shares
"Stock Exchange"	means The Stock Exchange of Hong Kong Limited
"Supervisor(s)"	has the meaning ascribed to it under the Company Law of the PRC and the Listing Rules
"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
"GBP"	means British pound sterling, the lawful currency of the United Kingdom
"RMB"	means Renminbi, the lawful currency of the PRC
"USD"	means US dollars, the lawful currency of the United States

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

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

(Stock Code: 2722)

Executive Directors:
Mr. Wang Yuxiang
Ms. Chen Ping
Mr. Yang Quan

Non-executive Directors:
Mr. Huang Yong
Mr. Dou Bo
Mr. Wang Pengcheng

Independent Non-executive Directors:
Mr. Lo Wah Wai
Mr. Ren Xiaochang
Mr. Jin Jingyu
Mr. Liu Wei

Registered office and principal place of business in the PRC:
No. 60, Middle Section
Huangshan Avenue,
New North Zone,
Chongqing City, the PRC

Principal place of business in Hong Kong:
Room 1204-06, 12th Floor,
The Chinese Bank Building,
61 Des Voeux Road Central,
Central, Hong Kong

6 June 2019

To the Shareholders

Dear Sir or Madam,

**(1) REPORT OF THE BOARD OF DIRECTORS OF THE COMPANY IN 2018;
(2) REPORT OF THE SUPERVISORY COMMITTEE OF THE COMPANY IN 2018;
(3) AUDITED FINANCIAL STATEMENTS AND AUDITOR'S REPORT OF THE COMPANY AND ITS SUBSIDIARIES IN 2018;
(4) PROFIT APPROPRIATION PROPOSAL FOR THE YEAR OF 2018 OF THE COMPANY;
(5) 2019 ANNUAL BUDGET REPORT OF THE COMPANY;
(6) APPOINTMENT OF THE COMPANY'S AUDITOR IN 2019;
(7) CONTINUING CONNECTED TRANSACTIONS;
(8) MAJOR TRANSACTIONS AND CONTINUING CONNECTED TRANSACTIONS;
(9) RE-ELECTION OF DIRECTORS AND CONTINUOUS APPOINTMENT OF INDEPENDENT NON-EXECUTIVE DIRECTORS WHO HAVE SERVED MORE THAN NINE YEARS;
(10) RE-ELECTION OF SUPERVISORS;
(11) REMUNERATION PROPOSAL FOR THE FIFTH SESSION OF DIRECTORS AND SUPERVISORS;
(12) PROVISION OF GUARANTEE BY THE COMPANY FOR COMPREHENSIVE FINANCING OF HOLROYD OF GBP21.00 MILLION;
(13) PROVISION OF GUARANTEE BY THE COMPANY FOR COMPREHENSIVE FINANCING OF PTG DEVELOPMENT OF USD50.00 MILLION;
(14) GUARANTEE BY THE COMPANY FOR COMPREHENSIVE FINANCING OF HOLROYD OR PTG DEVELOPMENT OF USD84.50 MILLION;
(15) PROVISION OF GUARANTEE BY THE COMPANY FOR LOANS OF CHONGQING GENERAL OF RMB110.00 MILLION;
(16) PROVISION OF GUARANTEE BY CHONGQING GENERAL FOR LOANS OF CHONGTONG CHENGFEI OF RMB817.00 MILLION;
(17) PROPOSED GRANTING OF GENERAL MANDATE TO ISSUE NEW SHARES OF THE COMPANY; AND
(18) NOTICE OF THE ANNUAL GENERAL MEETING OF THE COMPANY**

* *For identification purposes only*

1. INTRODUCTION

Reference is made by the Board to the Announcement of the Company dated 1 April 2019 in relation to the 2020-2022 Master Sales Agreement, the 2020-2022 Master Supplies Agreement, the 2020-2022 Master Leasing Agreement, the 2020-2022 Group Financial Services Framework Agreement and the 2020-2022 Parent Group Financial Services Framework Agreement as well as the proposed annual cap amounts for the continuing connected transactions contemplated under such agreements for the three years ending 31 December 2020, 2021 and 2022.

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

2. REPORT OF THE BOARD OF DIRECTORS OF THE COMPANY IN 2018

Details are set out in "Report of the Board of Directors" within the Company's 2018 Annual Report issued by the Company on the website of the Stock Exchange on 26 April 2019.

3. REPORT OF THE SUPERVISORY COMMITTEE OF THE COMPANY IN 2018

Details are set out in "Report of the Supervisory Committee" within the Company's 2018 Annual Report issued by the Company on the website of the Stock Exchange on 26 April 2019.

4. AUDITED FINANCIAL STATEMENTS AND AUDITOR'S REPORT OF THE COMPANY AND ITS SUBSIDIARIES IN 2018

Details are set out in "Independent Auditor's Report", "Consolidated Balance Sheet", "Consolidated Statement of Income", "Consolidated Statement of Changes in Equity", "Consolidated Statement of Cash Flows" and "Notes to the Consolidated Financial Statements" within the Company's 2018 Annual Report issued by the Company on the website of the Stock Exchange on 26 April 2019.

5. PROFIT APPROPRIATION PROPOSAL FOR THE YEAR OF 2018 OF THE COMPANY

The Board has recommended the payment of a final dividend of RMB0.040 per share (tax inclusive) for the year ended 31 December 2018, which is calculated based on the total share capital of 3,684,640,154 Shares for the year ended 31 December 2018, totaling RMB147,385,606.16. Subject to approval by Shareholders at the Annual General Meeting to be convened on 26 June 2019, the proposed final dividend will be paid on 31 July 2019 to Shareholders whose names appear on the register of members of the Company on 8 July 2019 ("**Record Date**").

In order to ascertain the entitlements of the Shareholders to receive the final dividend, the register of members of the Company will be closed from Wednesday, 3 July 2019 to Monday, 8 July 2019 (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 Tuesday, 2 July 2019.

6. 2019 ANNUAL BUDGET REPORT OF THE COMPANY

In 2019, the Company's operating expenses are expected to be approximately RMB323.00 million, among which, approximately RMB245.0363 million is for the clean energy equipment segment, approximately RMB75.3887 million is for the high-end smart equipment segment, and approximately RMB2.07 million for the industrial service segment.

7. APPOINTMENT OF THE COMPANY'S AUDITOR IN 2019

ShineWing Certified Public Accountants（Special General Partnership）is the PRC accountant of the Company engaged in 2018. During their engagement, they fully performed their duties to present unqualified audited report of 2018 for the Company which are objective and fair in accordance with independent accounting standards.

The Company proposed to reappoint ShineWing Certified Public Accountants（Special General Partnership）as the auditor of the Company in 2019. The review and audit fees are approximately RMB3 million for the 2019 interim financial report and annual financial report.

8. CONTINUING CONNECTED TRANSACTIONS

Background

References are made to the announcements of the Company dated 8 April 2016 and 20 April 2018, as well as the circulars of the Company dated 8 June 2016 and 7 June 2018, in relation to, among others, the Existing Master Sales Agreement which constitutes continuing connected transactions of the Company under Chapter 14A of the Listing Rules and which will expire on 31 December 2019.

2020-2022 Master Sales Agreement

On 7 April 2016, the Company entered into the Existing Master Sales Agreement, and entered into the Master Sales Supplemental Agreement on 20 April 2018 with the Parent Company, 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 certain products such as control valves and 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.

As the Existing Master Sales Agreement will expire on 31 December 2019, the Company renewed the Existing Master Sales Agreement with the Parent Company under the same or similar terms by entering into the 2020-2022 Master Sales Agreement on 1 April 2019, details of which are set out as follows:

Date

1 April 2019

Parties

(i) the Company, as supplier; and

(ii) the Parent Group, as purchaser.

Term

Subject to the approval being obtained from the Independent Shareholders, commencing from 1 January 2020 and expiring on 31 December 2022.

Nature of transaction

The Group sells certain materials such as steering tension rods, track bars, bumpers, the BV series of electric cables, wires and cables, refrigeration machines, copper plates, gas compressors, software and raw materials such as steel and gears 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, such as adopting accrued payment for 0-3 months according to the prevalent industrial practice, under which various factors including the type of products involved will be considered.

Pricing Basis for the 2020-2022 Master Sales Agreement

The 2020-2022 Master Sales 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 under the 2020-2022 Master Sales Agreement will be determined with reference to:

(i) the market price obtained through prices quoted on websites for the industry (including website of Alibaba (www.1688.com)) or enquiries for market prices from at least two independent third parties (i.e. the price of the same or similar product provided to independent third parties by suppliers other than the Company and its subsidiaries in the same region during the ordinary course of business on normal commercial terms);

(ii) if there is no market price determined by an independent third party, the transaction price between the Group and an independent third party;

(iii) if none of the above is applicable, cost plus a percentage mark-up (tax-inclusive), which is not less than 15% (i.e. price = cost x (1 + percentage mark-up)), whereas the 15% mark-up is determined based on the average gross margin of the Group in the past three years, except that the percentage mark-up for raw materials procured by Chongqing Shengpu and sold to the Parent Group will be 1%, being the handling fee of the Group.

The products sold to the Parent Group are mainly fully competitive products that are open to the market. Therefore, the pricing basis (i) and (ii) were and will be generally adopted in the Existing Master Sales Agreement and the 2020-2022 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), software (since they are customized in compliance with the need of different customers) and raw materials purchased by Chongqing Shengpu and sold to the Parent Group.

After reviewing the relevant basis, the Directors (including the independent non-executive Directors) are of the view that the terms of the 2020-2022 Master Sales Agreement are on normal commercial terms and are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

The historical transaction records and the annual cap amounts under the Existing Master Sales Agreement are set out below:

Historical transaction records

	For the year ended 31 December 2016	**For the year ended 31 December 2017**	**For the year ended 31 December 2018**
	RMB in million	*RMB in million*	*RMB in million*
Annual cap amount	310.0	180.0	350.0
Historical transaction record	68.6	117.9	296.5
Utilization rate	22.1%	65.5%	84.7%

The proposed annual cap under the 2020-2022 Master Sales Agreement

	For the year ended 31 December		
	2020	**2021**	**2022**
	RMB in million	*RMB in million*	*RMB in million*
Proposed annual cap amount	344.7	330.0	336.2

Basis for the Proposed Annual Cap under the 2020-2022 Master Sales Agreement

The proposed annual cap for the 2020-2022 Master Sales Agreement is determined with reference to:

(i) the estimated demand for the production and sales of commercial vehicle parts, power equipment, general machinery and CNC machine tools;

(ii) the estimated sales volume of the Group for each of the three fiscal years ending 31 December 2022;

(iii) the prospect of the PRC economy and the markets relevant to the Group, in particular, the PRC automobile and power equipment segments;

(iv) the historical transaction amount of the sales transactions up to the financial year ended 31 December 2018;

(v) Chongqing Shengpu serves as the centralized procurement platform of bulk materials for the Group. In order to achieve synergy and reduce costs, the Group will procure and sell raw materials to the Parent Group through this centralized procurement platform in the next three years. It is expected that the demands of purchasers will be slightly improving, as the price of raw materials such as copper and steel declined due to de-capacity and intensifying environmental governance of the country since 2018. However, based on the analysis on industry market, in 2019, the investment in domestic infrastructure project is picking up, which will lead to the gradual increase in demands of steels, and the steel price will rebound at an earlier time and maintain stable;

(vi) As of the end of 2018, the third round of Chongqing Rail Transit has been approved by the competent authority of the PRC, and the project is planned to take place from 2018 to 2023. During the period from 2020 to 2022, the Parent Group is expected to undertake a project with an amount of approximately RMB1,200 million. In such premises, Chongqing Pigeon Electric Wires & Cables Co., Ltd., a subsidiary of the Company which is mainly engaged in wires and cables business, will be expected to enter into a contract with the Parent Group of approximately RMB44 million for the supply of wires and cables to be used by the Parent Group in the said rail transit project. Additionally, Chongqing General, a subsidiary of the Company, is expected to be further engaged by the Parent Group to undertake the ventilation and air conditioning engineering for the said rail transit project, with a contract amount of approximately RMB18 million, representing approximately RMB6 million for each year of 2020-2022. The above contract and project to be undertaken by the Group will therefore attribute to the annual cap for the supply of bulk materials by the Group to the Parent Group under the 2020-2022 Master Sales Agreement. Also, the Parent Group will vigorously push ahead the mechanic and electronic engineering contracting business which may increase the sales volume of cables and wires; and

(vii) SAIC-IVECO Hongyan Commercial Vehicle Co. Ltd. ("**SAIC-IVECO**"), a subsidiary of the Parent Group, in active response to the policy of upgrading and updating the latest national vehicle pollutant emission standard, developed in a rapid manner in the heavy truck industry, and it is expected that the steady growth trend will be maintained in 2020-2022.

The fluctuation of the proposed annual caps for 2020, 2021 and 2022 is due to the expected progress of the existing railway project in Chongqing and Phase 1 of loop line (Chongqing Rail Transit) according to the existing contract. Currently, half of the abovementioned projects that involve wires and cables have been completed. It is expected that the transaction amount of wires and cables in 2020 (being the outstanding amount under the existing contract) would be approximately RMB52.5 million, while those in 2021 and 2022 are expected to be approximately RMB32.5 million and RMB33.0 million respectively. However, the transaction amount of some other materials to be supplied by the Group to the Parent Group under the 2020-2022 Master Sales Agreement is expected to increase steadily due to the factors (i) to (vii) stated above. In particular, the transaction amount of steering tension rods, distance rod, and bumpers is expected to increase from RMB136.5 million in 2021 to RMB141.5 million in 2022, which mainly contributes to the slightly higher annual cap in 2022 compared to that of 2021.

The Directors (including the independent non-executive Directors) are of the opinion that since (i) the domestic economic situation improved stably, (ii) the overall operating income of the Group increased steadily and the commercial vehicle business of the Parent Group grew rapidly, and (iii) the price of raw materials such as copper and steel is rising gradually, the proposed annual caps are fair and reasonable and that the transactions contemplated under the 2020-2022 Master Sales Agreement are entered into on normal commercial terms and in the ordinary and usual course of business of the Group, and the terms of the 2020-2022 Master Sales Agreement are fair and reasonable and in the interest of the Shareholders as a whole.

Reasons for and Benefits of the Transactions Contemplated under the 2020-2022 Master Sales Agreement

From the perspective of the Group, the sales of the products to the Parent Group would provide a reliable customer base, a stable income and timely 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 operation management department of the Company and the relevant subsidiaries will monitor monthly whether the pricing basis of the connected transactions have been complied with;

(ii) The operation management department of the Company and other subsidiaries in the Group will ensure that the pricing terms and annual caps under the 2020-2022 Master Sales Agreement are complied with every individual agreement entered into thereunder.

(iii) the operation management department of the Company will review the implementation of the caps of the connected transactions monthly to ensure the annual caps have been fully complied with; and

(iv) the audit and risk management committee of the Company will review the implementation of sales and supplies regarding connected transactions monthly.

IMPLICATIONS UNDER THE LISTING RULES

As of the date of the Announcement, the Parent Company is the Controlling Shareholder of the Company, holding 1,924,225,189 Domestic Shares and 11,652,000 H Shares, representing 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 2020-2022 Master Sales Agreement constitute continuing connected transactions of the Company. As the highest applicable percentage ratios calculated in accordance with Chapter 14A of the Listing Rules in respect of the respective annual caps under the 2020-2022 Master Sales Agreement exceed 5% and such annual caps exceed HK$10,000,000, each of the 2020-2022 Master Sales Agreement constitutes a non-exempted continuing connected transaction of the Company under Chapter 14A of the Listing Rules and is subject to the reporting, annual review, announcement and Independent Shareholders' approval requirements under the Listing Rules.

9. MAJOR TRANSACTIONS AND CONTINUING CONNECTED TRANSACTIONS

Background

References are made to the announcements of the Company dated 8 April 2016 and 13 May 2016 as well as the circular of the Company dated 8 June 2016, in relation to, among others, the Existing Group Financial Services Framework Agreement and the Existing Parent Group Financial Services Framework Agreement, which constitute major transactions and continuing connected transactions of the Company under Chapter 14 and Chapter 14A of the Listing Rules and which will expire on 31 December 2019.

2020-2022 Group Financial Services Framework Agreement

On 1 April 2019, the Company and the Finance Company entered into the 2020-2022 Group Financial Services Framework Agreement, pursuant to which, the Finance Company will provide financial services to the Group, including loan services, guarantee services and other financial services and, subject to the approval of the Independent Shareholders, deposit services. The Group is not under any obligation to obtain any or all of the financial services provided by the Finance Company and may obtain such financial services based on its business needs.

The major terms of deposit services under the 2020-2022 Group Financial Services Framework Agreement are set out below:

Date:

1 April 2019

Parties:

(i) the Company; and

(ii) the Finance Company

Term:

Subject to the approval being obtained from the Independent Shareholders, the terms of deposit services under the 2020-2022 Group Financial Services Framework Agreement will become effective from 1 January 2020 and expire on 31 December 2022. The terms of loan services, guarantee services and other financial services under the 2020-2022 Group Financial Services Framework Agreement will become effective from 1 January 2020 and expire on 31 December 2022.

Services:

Pursuant to the 2020-2022 Group Financial Services Framework Agreement, the Finance Company has agreed to provide financial services to the Group, including deposit services, loan services, guarantee services and other financial services.

The Finance Company undertakes under the 2020-2022 Group Financial Services Framework Agreement that the terms of any financial services to be provided by the Finance Company to the Group will be no less favorable than those of similar financial services provided by independent third parties to the Group (subject to no violation of relevant laws and regulations).

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

Payment terms:

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

Pricing standards:

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

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

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

Proposed Annual Cap Amounts and the Basis for Deposit Services under the 2020-2022 Group Financial Services Framework Agreement

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

	For the year ended 31 December 2016 *RMB in million*	**For the year ended 31 December 2017** *RMB in million*	**For the year ended 31 December 2018** *RMB in million*
Annual cap amount (including corresponding interest)	2,116.0	2,600.0	3,000.0
Daily balance of deposits (including corresponding interest)	1,491.5	1,504.8	1,796.2
Utilization rate	70.5%	57.9%	59.9%

The proposed annual cap for the deposit services for each of the three years ending 31 December 2022 under the 2020-2022 Group Financial Services Framework Agreement is set out below:

	For the year ending 31 December 2020 *RMB in million*	**For the year ending 31 December 2021** *RMB in million*	**For the year ending 31 December 2022** *RMB in million*
Proposed annual cap amount (including corresponding interest)	3,155.0	3,313.0	3,479.0

As at 31 December 2016, 31 December 2017 and 31 December 2018, the Group had cash and cash equivalents of RMB1,800.6 million, RMB1,658.6 million and RMB2,164.7 million, respectively.

Since the Group strengthened the cash flow management, the product structural adjustment, transformation and upgrading, it is expected that the cash and cash equivalents of the Group in 2019-2022 will be increasing gradually at the growth rate of 5%. Also, the expected interest rate offered to the Group by the Finance Company in 2019 is expected to remain at similar level as in 2018. Furthermore, the Group is expected to raise new bank borrowings of approximately RMB800.0 million in 2019 for repayment of the debts of the Company which will be in recurring basis. As the Company would need to repay its corporate bonds in the amount of RMB800.0 million which will mature in September 2019, the Company would require new bank borrowings to repay the said corporate bonds, together with that additional funds will be required by the Company for repayment of those bank borrowings when expired, which would then create consequential recurring debts in the coming three years. The Company has considered other sources of finance to repay the said corporate bonds, including using its own working capital and issuing other debt instruments. However, the Company opines that its working capital should instead be utilized for its daily production and operation, and it is not feasible to issue further debt instruments at the present stage considering the timing, the preparation work required and the costs involved. Obtaining borrowings from the Finance Company is not feasible to the Company either because it is unlikely that the Company would be able to obtain a sizeable loan amounting to RMB800.00 million in addition to the loans for its ordinary operation, and in fact there will not be material difference between the interest rate charged by the Finance Company and independent commercial banks as the Finance Company would determine the interest rate with reference to the market price. Although the interest rate of the bank borrowings is expected to be higher than that of the deposit services, having considered (i) the necessity of such funds, (ii) that such bank borrowings would be deposited in the Finance Company for a short term (which is expected to be approximately 1 to 2 months in order to allow buffer time to ensure the sufficiency of funds for repayment before the maturity of the corporate bonds and other borrowings) as a transitional arrangement only for gathering funds to repay its debts and (iii) that the interest of the deposit services is incidental to such transitional arrangement which may lower the cost of financing but is not a factor affecting the decision for obtaining of the said bank borrowings, the Company opines that the said bank borrowings are obtained in the interests of the Company and the Independent Shareholders as a whole. In view of the above, the cash and cash equivalent at the end of 2019 is estimated to approximately RMB3,005.0 million.

The proposed annual caps for the deposit services under the 2020-2022 Group Financial Services Framework Agreement are determined with references to: (a) the data set out above; (b) the expectation of the Group's capital needs for the period from now up to 31 December 2022; (c) the financial ability of the Finance Company; and (d) the historical transaction records of the deposit services under the Existing Group Financial Services Framework Agreement.

The Directors (including the independent non-executive Directors) are of the opinion that the proposed annual caps and pricing of the 2019-2022 Group Financial Services Framework Agreement are fair and reasonable and that the transactions contemplated under it are entered into on normal commercial terms and in the ordinary and usual course of business of the Group, and the terms of the Agreement are fair and reasonable and in the interest of the Company and the Shareholders as a whole.

2020-2022 Parent Group Financial Services Framework Agreement

On 1 April 2019, the Parent Company and the Finance Company entered into the 2020-2022 Parent Group Financial Services Framework Agreement, pursuant to which, the Finance Company will provide financial services to the Parent Group, including deposit services, guarantee services and other financial services and, subject to the approval of the Independent Shareholders, loan services. The Finance Company is not under any obligation to provide any or all of the financial services to the Parent Group and may offer such financial services based on its business needs.

The major terms of the loan services contemplated under the 2020-2022 Parent Group Financial Services Framework Agreement are set out below:

Date:

1 April 2019

Parties:

(i) the Parent Company; and

(ii) the Finance Company

Term:

Subject to the approval being obtained from the Independent Shareholders, the terms of loan services under the 2020-2022 Parent Group Financial Services Framework Agreement will become effective from 1 January 2020 and expire on 31 December 2022. The terms of deposit services, guarantee services and other financial services under the 2020-2022 Parent Group Financial Services Framework Agreement will become effective from 1 January 2020 and expire on 31 December 2022.

Services:

Pursuant to the 2020-2022 Parent Group Financial Services Framework Agreement, the Finance Company agreed to provide the financial services to the Parent Group, including deposit services, loan services, guarantee services and other financial services.

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

Payment terms:

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

Pricing standards:

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

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

The Company will make inquiries to at least two banks among the national commercial banks in the PRC or the local commercial banks in Chongqing that have business relations with the Company in respect of loan services of similar nature and under similar terms with reference to the credit characteristics of the relevant company with the Parent Group, and submit the results to the Finance Company. The Finance Company will then make the final assessments and determine the final interest rates provided to the Parent Group by reference to the Parent Group's business risks, comprehensive returns, capital cost of the Finance Company and regulatory indictors and others factors, so as to ensure that the interests of loans provided by the Finance Company to the Parent Group are in compliance with the above pricing standards for loan services.

Proposed Annual Cap Amounts and the Basis for Financial Services under the 2020-2022 Parent Group Financial Services Framework Agreement

Loan services

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

	For the year ended 31 December 2016	**For the year ended 31 December 2017**	**For the year ended 31 December 2018**
	RMB in million	*RMB in million*	*RMB in million*
Annual cap amount (including corresponding interest)	2,500.0	2,500.0	3,000.0
Daily balance of loans (including corresponding interest)	1,502.8	1,351.9	1,288.2
Utilization rate	60.1%	54.1%	42.9%

The proposed annual caps for the loan services under the 2020-2022 Parent Group Financial Services Framework Agreement for each of the three years ending 31 December 2022 are set out below:

	For the year ending 31 December 2020 *RMB in million*	For the year ending 31 December 2021 *RMB in million*	For the year ending 31 December 2022 *RMB in million*
Proposed annual cap amount (including corresponding interest)	2,350.0	2,474.0	2,754.0

As at 31 December 2016, 31 December 2017 and 31 December 2018, the borrowings and loans of the Parent Group amounted to RMB6,870.5 million, RMB6,186.0 million and RMB7,189.0 million, respectively.

The total cash and cash equivalents and restricted cash of the Group was approximately RMB1,800.6 million and approximately RMB2,164.7 million as at 31 December 2018, representing a compound annual growth rate of approximately 9.6% from 2016 to 2018. The total cash and cash equivalents and restricted cash of the Parent Group (excluding the Group) was approximately RMB882.0 million as at 31 December 2016 and approximately RMB933.2 million as at 31 December 2018, representing a compound annual growth rate of approximately 3.0% from 2016 to 2018.

As of 31 December 2018, the cash and cash equivalents of the Group amounted to approximately RMB2,164.7 million, the cash and cash equivalents of the Parent Company amounted to RMB933.2 million, Thus, the size of existing available fund of the Finance Company will be up to RMB3,097.9 million. It is expected that the cash and cash equivalents of the Group and the Parent Group in 2019-2022 will grow gradually at the growth rate of 5%, which was a conservative estimate with reference to the historical growth from 2016 to 2018 stated above. Moreover, there are possibilities that the Finance Company will enter into inter-bank lending business starting from 2019 because the Finance Company is expected to obtain borrowings from other banks at a low interest rate so as to enable it to provide loans to the Parent Group and other parties, from which the Finance Company will profit from the difference in borrowing and lending interest rate. The interest rate of loans to the Group and the Parent Group charged by the Finance Company would both be determined with reference to the market price, while the interest rate of loans to the Group would not higher than that charged by independent commercial banks and the interest rate of loans to the Parent Group would not be lower than that charged by independent commercial banks. It is expected that new bank borrowing of approximately RMB800.0 million will be raised by the Company in 2019 for the purpose of repayment of its debts, and that the interbank lending transaction of the Finance Company would not be higher than RMB600.0 million. As such, it is estimated that the maximum size of capital of the Finance Company in 2019 will be approximately RMB4,500.0 million.

Furthermore, the proportion of loans to the Parent Group by the Finance Company to the total loans of the Finance Company is expected to be approximately 50% for the three years ending 31 December 2022 with reference to the historical proportion of loans to the Parent Group by the

Finance Company. The historical proportion of loans to the Parent Group by the Finance Company to the total loans has been approximately 50% for the past few years due to the capital need for the different stage of the projects or business development from the Group and the Parent Group. The Company considers that such proportion will not be significantly different for the three years ending 31 December 2022 as there is no material change on the business development of the Group and the Parent Group in the foreseeable future. The maximum size of capital would take into account all the funds available to the Finance Company (including restricted cash because the restriction on the usage of such cash may be removed subsequently) and represent the maximum size of loans that can be offered by the Finance Company. The said new bank borrowing of RMB800.0 million of the Company is included in the calculation of the Finance Company's maximum capital scale because the Finance Company may utilize such amount for its lending business during the transitional period before the Company's withdrawal provided that the Finance Company has sufficient funds and can accommodate the withdrawal of RMB800.00 million by the Company. In view of the above and considering that it is not feasible to make an accurate forecast on the amount of the total loans in the coming three years, the Company considers appropriate to adopt the said 50% proportion out of the maximum size of capital of the Finance Company as an upper limit for the loan services provided by the Finance Company to the Parent Group in order to reserve sufficient capital resource for the Group's future development.

The proposed annual caps for the loan services under the 2020-2022 Parent Group Financial Services Framework Agreement are determined with references to: (a) the data set out above; (b) the expectation of the Parent Group's capital needs for the period from now up to 31 December 2022; (c) the financial ability of the Finance Company; and (d) the historical transaction records of the loan services.

The Directors (including the independent non-executive Directors) are of the opinion that the proposed annual caps and pricing of the 2020-2022 Parent Group Financial Services Framework Agreement are fair and reasonable and that the transactions contemplated under it are entered into on normal commercial terms and in the ordinary and usual course of business of the Group, and the terms of the Agreement are fair and reasonable and in the interest of the Company and the Shareholders as a whole.

Internal Control and Risk Management

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

General measures on pricing terms

The audit and risk management committee of the Company will review the implementation of connected transactions under the 2020-2022 Group Financial Services Framework Agreement and the 2020-2022 Parent Group Financial Services Framework Agreement monthly. The operation management department of the Company and other subsidiaries of the Group will ensure that the pricing terms under the 2020-2022 Group Financial Services Framework Agreement and the 2020-2022 Parent Group Financial Services

Framework Agreement are complied with every individual agreement entered into thereunder. For details, please refer to the section headed "Internal Control" under the section of the "2020-2022 Master Sales Agreement" in this circular.

Measures specific to 2020-2022 Group Financial Services Framework Agreement and 2020-2022 Parent Group Financial Services Framework Agreement

(a) Capital requirement of the Finance Company

Pursuant to the relevant regulations set by the CBIRC, financial institutions in the PRC have to comply with certain requirements, which include, among other things, the minimum total capital requirement of a capital adequacy ratio of not less than 10% as set out by the CBIRC. Based on the registered capital of RMB600,000,000 of the Finance Company and that the Finance Company shall provide the financial services not exceeding the proposed annual caps, the Finance Company sets its capital adequacy ratio for the period of 2020 to 2022 at not less than 10%, which is in compliance with relevant provisions of the CBIRC. The minimum registered capital of the Finance Company is RMB300,000,000.

(b) Internal control of the Finance Company

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

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

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

(c) Qualifications of the Finance Company

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

Reasons for and benefits of entering into 2020-2022 Group Financial Services Framework Agreement

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

(b) The Finance Company is regulated by the PBOC and the CBIRC and is required to provide its services in accordance with the rules and operational requirements of these regulatory authorities. In addition, capital risk could be reduced through the risk management measures;

(c) The interest rates for the capital deposited by the Group with the Finance Company will not be lower than interest rates for deposits of similar nature and under similar terms provided to Group by other independent commercial banks in the PRC. Such arrangement will enable the Group to increase its interest income more effectively; and

(d) The Group is able to obtain loans from the Finance Company at an interest rate not higher than the interest rates for loans of similar nature and under similar terms charging the Group by other independent commercial banks in the PRC, which could effectively lower its financing costs.

Reasons for and benefits of entering into 2020-2022 Parent Group Financial Services Framework Agreement

(a) It will expand the business scale of the Finance Company, thus benefiting the development of the Finance Company;

(b) It will consolidate cash resources, enhance the capital utilization efficiency and lower the finance cost;

(c) It will enlarge the operation scale of the Group, thus enhancing the profitability of the Group; and

(d) The Company, through its direct 70% equity interest in the Finance Company, will be able to share the profits of the Finance Company through its provision of loan services under the 2020-2022 Parent Group Financial Services Framework Agreement.

Implications under the Listing Rules

2020-2022 Group Financial Services Framework Agreement

As of the date of the Announcement, as the Parent Company is the Controlling Shareholder of the Company, holding 1,924,225,189 domestic shares and 11,652,000 H shares (representing 52.54% equity interest in the Company), the Parent Group is a connected person of the Group under the Listing Rules. The Finance Company, which is owned as to 30% by the Parent Company, is a connected person of the Company. Therefore, the transactions contemplated under the 2020-2022 Group Financial Services Framework Agreement constitute continuing connected transactions of the Company.

As one or more of the applicable percentage ratios calculated in accordance with the Listing Rules in respect of the maximum daily amount of the deposit services exceed 5% and the annual cap exceeds HK$10,000,000, the deposit services under the 2020-2022 Group Financial Services Framework Agreement are subject to the reporting, annual review, announcement and Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules. Furthermore, as one or more of the applicable percentage ratios calculated in respect of the maximum daily deposit amount exceed 25%, such transactions constitute major transactions of the Company under Rule 14.06(3) of the Listing Rules and are subject to the notification, announcement and Shareholders' approval requirements for major transactions under Chapter 14 of the Listing Rules.

2020-2022 Parent Group Financial Services Framework Agreement

As of the date of the Announcement, as the Parent Company is the Controlling Shareholder of the Company, holding 1,924,225,189 domestic shares and 11,652,000 H shares (representing 52.54% equity interest in the Company), the Parent Group is a connected person of the Group under the Listing Rules. The Finance Company, which is owned as to 70% by the Company, is a subsidiary of the Company. The Finance Company is also owned as to 30% by the Parent Company and is the Parent Company's associate. Pursuant to the Listing Rules, the Parent Group is a connected person of the Company. Therefore, the transactions contemplated under the 2020-2022 Parent Group Financial Services Framework Agreement constitute continuing connected transactions of the Company.

As one or more of the applicable percentage ratios calculated in accordance with the Listing Rules in respect of the maximum daily amount of the loan services exceed 5% and the annual cap exceeds HK$10,000,000, the loan services under the 2020-2022 Parent Group Financial Services Framework Agreement are subject to the reporting, annual review, announcement and Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules. Furthermore, as one or more of the applicable percentage ratios calculated in respect of the maximum daily loan amount exceed 25%, such transactions also constitute major transactions of the Company under Rule 14.06(3) of the Listing Rules and are subject to the notification, announcement and Shareholders' approval requirements for major transactions under Chapter 14 of the Listing Rules.

General Information

The Group is principally engaged in the production and sales of clean energy equipment, high-end smart equipment, and industrial services.

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

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

The Independent Board Committee comprising all independent non-executive Directors has been formed in accordance with the Listing Rules to advise the Independent Shareholders on the 2020-2022 Master Sales Agreement, the terms of deposit services under the 2020-2022 Group Financial Services Framework Agreement, and the terms of loan services under the 2020-2022 Parent Group Financial Services Framework Agreement. The Independent Financial Adviser has been appointed to advise the Independent Board Committee and the Independent Shareholders as to whether the terms and conditions of the agreements for the above non-exempted continuing connected transactions, the transactions contemplated thereunder, and their respective annual caps are fair and reasonable so far as the Independent Shareholders are concerned and in the interests of the Company and the Shareholders as a whole.

The AGM will be convened by the Company at which resolutions will be proposed to seek approval from the Independent Shareholders for the 2020-2022 Master Sales Agreement, the transactions contemplated under the deposit services under the 2020-2022 Group Financial Services Framework Agreement and the transactions contemplated under the loan services under the 2020-2022 Parent Group Financial Services Framework Agreement and their respective proposed annual caps for the three years ending 31 December 2022. The Parent Company and its associates, which hold a total of 1,960,753,189 Shares (representing 53.21% of the total share capital) in the Company as at the Latest Practicable Date, 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 (general manager 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 2020-2022 Master Sales Agreement, the 2020-2022 Group Financial Services Framework Agreement and the 2020-2022 Parent Group Financial Services Framework Agreement and have abstained from voting on the relevant Board resolutions to approve the above agreements.

10. RE-ELECTION OF DIRECTORS AND CONTINUOUS APPOINTMENT OF INDEPENDENT NON-EXECUTIVE DIRECTORS WHO HAVE SERVED MORE THAN NINE YEARS

The Board of the Company currently comprises of 10 Directors. All of the Directors shall retire by rotation under Article 102 of the Articles at the AGM and, being eligible, offer themselves for re-election as Directors. Details of the candidates for the Directors proposed for re-election at the AGM are set out in Appendix IV to this circular.

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

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

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

Any Shareholder who wishes to nominate a person to stand for election as a Director of the Company at the AGM must lodge with the Company at its principal place of business in Hong Kong at Room 1204-06, The Chinese Bank Building, 61 Des Voeux Road Central, Central, Hong Kong within the period from Friday, 13 May 2019 to Thursday, 16 June 2019, both days inclusive, (i) his written nomination of the candidate, (ii) written confirmation from such nominated candidate of his willingness to be elected as Director and (iii) the biographical details of such nominated candidate as required under Rule 13.51(2) of the Listing Rules for publication by the Company.

11. RE-ELECTION OF SUPERVISORS

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

Any Shareholder who wishes to nominate a person to stand for election as a Supervisor of the Company at the AGM must lodge with the Company at its principal place of business in Hong Kong at Room 1204-06, The Chinese Bank Building, 61 Des Voeux Road Central, Hong Kong within the period from Friday, 13 May 2019 to Thursday, 16 June 2019, both days inclusive, (i) his written nomination of the candidate, (ii) written confirmation from such nominated candidate of his willingness to be elected as Supervisor and (iii) the biographical details of such nominated candidate as required under Rule 13.51(2) of the Listing Rules for publication by the Company.

12. REMUNERATION PROPOSAL FOR THE FIFTH SESSION OF DIRECTORS AND SUPERVISORS

(i) The remuneration of independent non-executive Directors who are Hong Kong residents is HK$13,000 per month;

(ii) The remuneration of each independent non-executive Director in Mainland China is RMB6,700 per month;

(iii) The remuneration of each non-executive Director is RMB5,000 per month;

(iv) The remuneration of each independent Supervisor is RMB5,000 per month;

(v) The remuneration of each non-independent Supervisor is RMB3,000 per month;

(vi) Special notes: According to the relevant provisions of the “part-time job but non-part-time salary” of state-owned enterprise leaders, the part-time state-owned enterprise leaders should return their remuneration attributable to the part-time job to their unit for accounting from the perspective of safeguarding the interests of the investor. For the remuneration of the state-owned enterprise leaders who are concurrently Directors and Supervisors of the Company, the unit in which they served issues labor invoices to the Company semiannually, and the Company pays the remuneration of Directors and Supervisors for half a year at a time.

The above proposal will be valid from July 2019 to June 2022.

13. PROVISION OF GUARANTEE BY THE COMPANY FOR COMPREHENSIVE FINANCING OF HOLROYD OF GBP21.00 MILLION

Holroyd requested the Company to provide guarantee for its comprehensive financing totaling GBP21.00 million ("**Comprehensive Financing 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 Comprehensive Financing 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 Comprehensive Financing 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 Comprehensive Financing 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 ratios specified in the Listing Rules. Therefore, such transaction is not subject to the requirements under Chapters 14 and 14A of the Listing Rules. However, as the gearing ratio of Holroyd reaches 82.50%, 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.

14. PROVISION OF GUARANTEE BY THE COMPANY FOR COMPREHENSIVE FINANCING OF PTG DEVELOPMENT OF USD50.00 MILLION

PTG Development requested the Company to provide guarantee for its comprehensive financing totaling USD50.00 million ("**Comprehensive Financing of PTG Development**"). PTG Development is a wholly-owned subsidiary of PTG, which in turn is a wholly-owned subsidiary of the Company.

Reasons for and Benefits of the Provision of Guarantee for the Comprehensive Financing of PTG Development

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

Terms of the Guarantee

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

PTG Development is not a connected person of the Group and the guarantee to be provided for the Comprehensive Financing of PTG Development does not exceed the applicable percentage ratios specified in the Listing Rules. Therefore, such transaction is not subject to the requirements under Chapters 14A of the Listing Rules. However, as the gearing ratio of PTG Development reaches 99.09%, the provision of guarantee for the Comprehensive Financing of PTG Development is subject to consideration and approval at the general meeting according to requirements of the Articles.

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

15. PROVISION OF GUARANTEE BY THE COMPANY FOR COMPREHENSIVE FINANCING OF PTG DEVELOPMENT OR HOLROYD OF USD84.50 MILLION

PTG Development and Holroyd jointly requested the Company to provide guarantee for their comprehensive financing totaling USD84.50 million ("**Co-Financing**"). PTG Development and Holroyd are wholly-owned subsidiaries of PTG, which in turn are wholly-owned subsidiaries of the Company.

Reasons for and Benefits of the Provision of Guarantee for the Co-Financing

Considering that PTG Development represents an important platform of the Company in Hong Kong as well as the optimistic business prospect of Holroyd, their continuous and stable development will facilitate the Company's expansion into overseas markets.

Terms of the Guarantee

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

PTG Development and Holroyd are not a connected person of the Group and the guarantee to be provided for the Co-Financing does not exceed the applicable percentage ratios specified in the Listing Rules. Therefore, such transaction is not subject to the requirements under Chapters 14A of the Listing Rules. However, as the respective gearing ratio of PTG Development and Holroyd exceeds 70%, the provision of guarantee for the Co-Financing 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 Co-Financing is subject to approval by the Shareholders at the general meeting.

16. PROVISION OF GUARANTEE BY THE COMPANY FOR LOANS OF CHONGQING GENERAL OF RMB110.00 MILLION

Chongqing General requested the Company to provide guarantee for its loans totalling RMB110.00 million ("**Loans of Chongqing General**"). Chongqing General is a wholly-owned subsidiary of the Company.

Reasons for and Benefits of the Provision of Guarantee for the Loans of Chongqing General

Considering that the future industrial fan business of Chongqing General continues to improve, its continuous and stable development will facilitate the Company's further improvement of management quality.

Terms of the Guarantee

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

Chongqing General is not a connected person of the Group and the guarantee to be provided for the Loans of Chongqing General does not exceed the applicable percentage ratios specified in the Listing Rules. Therefore, such transaction is not subject to the requirements under Chapters 14A of the Listing Rules. However, as the gearing ratio of Chongqing General reaches 75.56%, the provision of guarantee for the Loans of Chongqing General is subject to consideration and approval at the general meeting according to requirements of the Articles.

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

17. PROVISION OF GUARANTEE BY CHONGQING GENERAL FOR LOANS OF CHONGTONG CHENGFEI OF RMB817.00 MILLION

Chongtong Chengfei requested Chongqing General to provide guarantee for its loans totalling RMB817.00 million ("**Loans of Chongtong Chengfei**"). Chongqing General is a wholly-owned subsidiary of the Company, and Chongtong Chengfei is a holding subsidiary of Chongqing General.

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

Considering the future wind turbine business of Chongtong Chengfei continues to improve, its continuous and stable development will facilitate the Company's further improvement of management quality.

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 ratios specified in the Listing Rules. Therefore, such transaction is not subject to the requirements under Chapters 14A of the Listing Rules. However, as the gearing ratio of Chongtong Chengfei reaches 94.08%, 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 Chongqing General for the Loans of Chongtong Chengfei is subject to approval by the Shareholders at the general meeting.

18. PROPOSED GRANTING OF GENERAL MANDATE TO ISSUE NEW SHARES OF THE COMPANY

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 be subject to 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 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, conditional on the Board resolving to exercise the General Mandate, the Company proposes to obtain shareholders' approval to authorise the Board to:

(a) approve, execute and do, and/or procure to be executed and done all such documents, deeds and matters which it may consider necessary in connection with the exercise of the General Mandate and/or the issue of Shares, including but not limited to the time, price, quantity and place for such issue, to make all necessary applications to the relevant authorities, and to enter into underwriting agreement(s) or any other agreement(s);

(b) determine the use of proceeds and to make all necessary filings and registration with the relevant authorities in the PRC, Hong Kong and/or any other places and jurisdictions (as appropriate);

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

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.

19. ANNUAL GENERAL MEETING AND PROXY ARRANGEMENT

The notice of the Annual General Meeting is set out on pages 74 to 81 of this circular. At the Annual General Meeting, resolutions will be proposed to approve, inter alia, (i) the report of the Board for the year ended 31 December 2018; (ii) the report of the Supervisory Committee for the year ended 31 December 2018; (iii) the audited financial statements and the Auditor's Report of the Company and its subsidiaries for the year ended 31 December 2018; (iv) the profit appropriation proposal for the year of 2018; (v) the appointment of the Company's accountant in 2019; (vi) the 2020-2022 Master Sales Agreement; (vii) deposit services under the 2020-2022 Group Financial Services Framework Agreement; (viii) loan services under the 2020-2022 Parent Group Financial Services Framework Agreement; (ix) re-election of Directors and continuous appointment of independent non-executive Directors who have served more than nine years;

(x) re- election of Supervisors; (xi) remuneration proposal for the fifth session of Directors and Supervisors; (xii) provision of guarantee by the Company for Comprehensive Financing of Holroyd of GBP21.00 million; (xiii) provision of guarantee by the Company for Comprehensive Financing of PTG Development of USD50.00 million; (xiv) provision of guarantee by the Company for Comprehensive Financing of PTG Development or Holroyd of USD84.50 million; (xv) provision of guarantee by the Company for Loans of Chongqing General of RMB110.00 million; (xvi) provision of guarantee by Chongqing General for Loans of Chongtong Chengfei of RMB817.00 million; and (xvii) granting of General Mandate to issue new shares of the Company.

The revised form of proxy for use at the Annual General Meeting has been despatched on 10 May 2019 and such form of proxy is also published on the websites of the Stock Exchange (www.hkex.com.hk) and the Company (www.chinacqme.com). Whether or not you intend to attend the Annual General Meeting, you are requested to complete and return (i) the reply slip dispatched on 10 May 2019 by the Company in accordance with the instructions printed thereon not later than Thursday, 6 June 2019 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 resolutions relating to (i) the 2020-2022 Master Sales Agreement; (ii) deposit services under the 2020-2022 Group Financial Services Framework Agreement; and (iii) loan services under the 2020-2022 Parent Group Financial Services Framework Agreement, none of the Directors or Shareholders has a material interest in the resolutions to be proposed at the Annual General Meeting and no Shareholder is required to abstain from voting on any of the resolutions at the Annual General Meeting.

20. 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.

21. RECOMMENDATION

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

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

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

* *For identification purposes only*

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)

6 June 2019

To the Independent Shareholders

Dear Sir or Madam,

Reference is made to the circular issued by the Company to the Shareholders dated 6 June 2019 (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 2020-2022 Master Sales Agreement, the terms of the deposit services under the 2020-2022 Group Financial Services Framework Agreement and the terms of loan services under the 2020-2022 Parent Group Financial Services Framework Agreement. TC Capital has been appointed as the Independent Financial Adviser to advise you and us in this regard. Details of its advice, together with the principal factors and reasons it has taken into consideration in giving such advice, are set out on pages 34 to 54 of the Circular and the additional information is set out in the appendices thereto.

Having considered the 2020-2022 Master Sales Agreement, the terms of deposit services under the 2020-2022 Group Financial Services Framework Agreement and the terms of loan services under the 2020-2022 Parent Group Financial Services Framework Agreement, and taking into account the independent advice of TC Capital, in particular the principal factors, reasons and recommendations set out in its letter on pages 34 to 54 of the Circular, we consider that the 2020-2022 Master Sales Agreement, the terms of deposit services under the 2020-2022 Group Financial Services Framework Agreement and the terms of loan services under the 2020-2022 Parent Group Financial Services Framework Agreement are fair and reasonable so far as the Independent Shareholders are concerned, are on normal commercial terms or better and in the ordinary and usual course of business of the Company, and are in the interests of the Company and the Shareholders as a whole. Accordingly, we recommend you to vote in favor of the ordinary resolutions to be proposed at the AGM for 2018 to approve the annual caps for such transactions for the year ending 31 December 2022.

Yours faithfully,
the Independent Board Committee
Lo Wah Wai, Ren Xiaochang, Jin Jingyu and Liu Wei

* *For identification purposes only*

Set out below is the text of a letter received from the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders in respect of the 2020-2022 Master Sales Agreement, the Deposit Services (as defined below), the Loan Services (as defined below) and the Proposed Annual Caps (as defined below) for the purpose of inclusion in this circular.

TC CAPITAL

6 June 2019

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

Dear Sirs,

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

INTRODUCTION

We refer to our appointment as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in relation to (i) the sale of goods (the "**Agreed Sales**") under the 2020-2022 Master Sales Agreement; (ii) the deposit services (the "**Deposit Services**") under the 2020-2022 Group Financial Services Framework Agreement; and (iii) the loan services (the "**Loan services**", together with the Agreed Sales and the Deposit Services, the "**Continuing Connected Transactions**") under the 2020-2022 Parent Group Financial Services Framework Agreement, together with the respective proposed annual caps for the three years ending 31 December 2022 (the "**Proposed Annual Caps**"), details of which are set out in the letter from the Board (the "**Letter from the Board**") in the circular issued by Chongqing Machinery & Electric Co., Ltd.* (the "**Company**") to the Shareholders dated 6 June 2019 (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, on 7 April 2016, the Company entered into the master sales agreement, and entered into the Master Sales Supplemental Agreement on 20 April 2018 with the Parent Company, 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 certain products such as control valves and 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. As the Existing Master Sales Agreement will expire on 31 December 2019, the Company renewed the Existing Master Sales Agreement with the Parent Company under the same or similar terms by entering into the 2020-2022 Master Sales Agreement on 1 April 2019.

As stated in the Letter from the Board, on 1 April 2019, the Company and the Finance Company entered into the 2020-2022 Group Financial Services Framework Agreement, pursuant to which, the Finance Company will provide financial services to the Group, including loan services, guarantee services and other financial services and, subject to the approval of the Independent Shareholders, the Deposit Services. The Group is not under any obligation to obtain any or all of the financial services provided by the Finance Company and may obtain such financial services based on its business needs.

As stated in the Letter from the Board, on 1 April 2019, the Parent Company and the Finance Company entered into the 2020-2022 Parent Group Financial Services Framework Agreement, pursuant to which, the Finance Company will provide the financial services to the Parent Group, including deposit services, guarantee services and other financial services and, subject to the approval of the Independent Shareholders, the Loan Services. The Finance Company is not under any obligation to provide any or all of the financial services to the Parent Group and may offer such financial services based on its business needs.

IMPLICATION UNDER THE LISTING RULES

As stated in the Letter from the Board, the Parent Company is the Controlling Shareholder of the Company, holding approximately 52.54% equity interest in the Company as at the date of the Announcement, the Parent Company is a connected person of the Group under the Listing Rules. The Finance Company, which is owned as to 30% by the Parent Company and 70% by the Company, is an associate of the Parent Company and a subsidiary and a connected person of the Company. Therefore, the transactions contemplated under the 2020-2022 Master Sales Agreement, the 2020-2022 Group Financial Services Framework Agreement and the 2020-2022 Parent Group Financial Services Framework Agreement constitute continuing connected transactions of the Company under Chapter 14A of the Listing Rules.

As the highest applicable percentage ratios calculated in accordance with Chapter 14A of the Listing Rules in respect of the respective annual caps under the 2020-2022 Master Sales Agreement exceed 5% and such annual caps exceed HK$10,000,000, the 2020-2022 Master Sales Agreement constitutes a non-exempted continuing connected transaction of the Company under Chapter 14A of the Listing Rules and is subject to the reporting, annual review, announcement and Independent Shareholders' approval requirements under the Listing Rules.

As one or more of the applicable percentage ratios calculated in accordance with the Listing Rules in respect of the maximum daily amount of the Deposit Services exceed 5% and the annual caps exceed HK$10,000,000, the Deposit Services under the 2020-2022 Group Financial Services Framework Agreement are subject to the reporting, annual review, announcement and Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules. Meanwhile, as one or more of the applicable percentage ratios calculated in respect of the maximum daily deposit amount exceed 25%, such transactions also constitute major transactions of the Company under Rule 14.06(3) of the Listing Rules and are subject to the notification, publication and Shareholders' approval requirements for major transactions under Chapter 14 of the Listing Rules.

As one or more of the applicable percentage ratios calculated in accordance with the Listing Rules in respect of the maximum daily amount of the Loan Services exceed 5% and the annual cap exceeds HK$10,000,000, the Loan Services under the 2020-2022 Parent Group Financial Services Framework Agreement are subject to the reporting, annual review, announcement and Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules. Meanwhile, as one or more of the applicable percentage ratios calculated in respect of the maximum daily loan amount exceed 25%, the Loan Services also constitute major transactions of the Company under Rule 14.06(3) of the Listing Rules and are subject to the notification, publication and Shareholders' approval requirements for major transactions under Chapter 14 of the Listing Rules.

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

OUR INDEPENDENCE

We are independent pursuant to Rule 13.84 of the Listing Rules to act as the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders in relation to the Continuing Connected Transactions and the Proposed Annual Caps. As at the Latest Practicable Date, we did not have any relationships or interests with the Company or any other parties that could reasonably be regarded as relevant to our independence. Within the two years prior to the Latest Practicable Date, we have acted as an independent financial adviser to the then independent board committee and independent shareholders of the Company in relation to continuing connected transactions of the Company, details of which are set out in the circular of the Company dated 7 June 2018. Apart from normal professional fees paid to us in connection with the aforesaid appointment, no arrangements exist whereby we have received any fees or benefits from the Company or any other party to the transactions during the two years prior to the Latest Practicable Date, therefore we consider such relationship would not affect our independence to form our opinion in respect of the Continuing Connected Transactions and the Proposed Annual Caps.

BASIS OF OPINION

In formulating our opinion to the Independent Board Committee and the Independent Shareholders, we have relied on all the relevant statements, information, opinions and facts supplied and representations made to us by the Directors and the representatives of the Company. We have reviewed, among other things, (i) the 2020-2022 Master Sales Agreement; (ii) the 2020-2022 Group Financial Services Framework Agreement; (iii) the 2020-2022 Parent Group Financial Services Framework Agreement; (iv) the annual reports of the Company for the year ended 31 December 2017 and 31 December 2018 (the "**2017 Annual Report**" and "**2018 Annual Report**", respectively); (v) the Circular; and (vi) relevant market data and information available from public sources.

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, are true, accurate and complete in all respects. 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 we have no reason to suspect that any material information has been withheld by the Company or is misleading.

We consider that we have 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/or the representatives of the Company, the Parent Group and the Finance Company, nor have we conducted any independent investigation into the business, affairs, operations, financial position or future prospects of each of the Group, the Parent Group, the Finance Company and any of their respective subsidiaries and associates.

PRINCIPAL FACTORS AND REASONS CONSIDERED

In formulating our opinion in respect of the Continuing Connected Transactions and the Proposed Annual Caps, we have taken into consideration of the following principal factors and reasons:

1. Background information of the parties to the Continuing Connected Transactions

Information on the Group

As stated in the Letter from the Board, the Group is principally engaged in the production and sales of clean energy equipment, high-end smart equipment, and industrial services.

Information on the Parent Group

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

Information on the Finance Company

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

2. Reasons for and benefits of the entering into the Continuing Connected Transactions

As stated in the Letter from the Board, 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.

As stated in the Letter from the Board, the reasons for and benefits of entering into the Deposit Services under the 2020-2022 Group Financial Services Framework Agreement between the Company and the Finance Company are that: (i) the Finance Company will gradually become the capital settlement center, capital management center, financing support center, capital operation center and information service center of the Group, which would be able to enhance the financial management and control practices, reduce operational risk and consolidate internal resources of the Group; (ii) the Finance Company is regulated by the PBOC and the CBIRC and is required to provide its services in accordance with the rules and operational requirements of these regulatory authorities. In addition, capital risk could be reduced through the risk management measures; and (iii) the interest rates for the capital deposited by the Group with the Finance Company will not be lower than the interest rates for deposits of similar nature and under similar terms provided to the Group by other independent commercial banks in the PRC. Such arrangement will enable the Group to increase its interest income more effectively.

As stated in the Letter from the Board, the reasons for and benefits of entering into the Loan Services under the 2020-2022 Parent Group Financial Services Framework Agreement are that: (i) it will expand the business scale of the Finance Company, thus benefiting the development of the Finance Company; (ii) it will consolidate cash resources, enhance the capital utilization efficiency and lower the finance cost; (iii) it will enlarge the operation scale of the Group, thus enhancing the profitability of the Group; and (iv) the Company through its direct 70% equity interest in the Finance Company will be able to share the profits of the Finance Company, obtained through provision of the Loan Services under the 2020-2022 Parent Group Financial Services Framework Agreement.

Having considered that:

(i) the Agreed Sales provides a reliable customer base and stable income to the Group due to the long-established business relationship of the Group with the Parent Group;

(ii) the provision of the Deposit Services by the Finance Company to the Group provides the stability and reliability of the provision of the services to the Group due to the long-established business relationship of the Group with the Finance Company; and

(iii) the provision of the Loan Services to the Parent Group by the Finance Company provides a reliable customer base and stable income to the Group due to the long-established business relationship of the Finance Company with the Parent Group,

we concur with the Directors' view that entering into the Continuing Connected Transactions is in the ordinary and usual course of the business of the Company and is in the interests of the Company and the Shareholders as a whole.

3. Principal terms of the Continuing Connected Transactions

2020-2022 Master Sales Agreement

Principal terms of the 2020-2022 Master Sales Agreement

Please refer to the paragraph headed "2020-2022 Master Sales Agreement" in the Letter from the Board for the details of the terms.

Pricing basis of the products sold by the Group to the Parent Group

As stated in the Letter from the Board and advised by the representative of the Company, the products agreed to be 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; (iii) refrigeration machines, copper plates, gas compressors, and raw materials such as steel and gears; and (iv) software.

As stated in the Letter from the Board, the 2020-2022 Master Sales Agreement was entered into in the ordinary and usual course of business of the Group and the terms of the agreement were negotiated on arm's length basis and on normal commercial terms. The pricing or consideration under the 2020-2022 Master Sales Agreement will be determined with reference to:

(i) the market price obtained through prices quoted on websites for the industry (including the website of Alibaba (www.1688.com)) or enquiries for market prices from at least two independent third parties (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; and

(iii) if none of the above is applicable, cost plus a percentage mark-up (tax-inclusive), which is not less than 15% (i.e. price = cost x (1 + percentage mark-up)), whereas the 15% mark-up is determined based on the average gross margin of the Group in the past three years, except that the percentage mark-up for raw materials procured by Chongqing Shengpu and sold to the Parent Group will be approximately 1%, being the handling fee of the Group.

As advised by the representative of the Company, the pricing basis of cost plus a percentage mark-up (tax inclusive) applies to all connected persons, members of the Group as well as independent third parties, if applicable, although there was no transaction between the Group and the independent third parties under the cost plus a percentage mark-up (tax inclusive) model for the two years ended 31 December 2018 as all the products to independent third parties currently have market prices as the basis for price determination. The representative of the Company advised that after considering the duration of the 2020-2022 Master Sales Agreement, the Company used the average of the gross profit margin for the three years ended 31 December 2018 in the determination of the percentage mark-up (tax inclusive).

We noted from the 2017 Annual Report and the 2018 Annual Report that the gross profit margins were approximately 11.2% (restated), 12.2% (restated) and 23.6% for each of the years ended 31 December 2016, 2017 and 2018, respectively and the average gross margin of the Group for the three years ended 31 December 2018 was approximately 15.7%. As stated in the 2017 Annual Report, the Company has adopted the arrangement under Hong Kong Financial Report Standard 5 "Merger Accounting for Common Control Combinations" during the year ended 31 December 2017, the equities and interests of Chongqing Machinery & Electronic Intelligent Manufacturing Co., Ltd. and Chongqing Machinery & Electronic Equipment Technology Research Academy Co., Ltd. for the years of 2017 and 2016 have been included in the consolidated financial statements in the 2017 Annual Report. Thus the financial results of the Group for the year ended 31 December 2016 were restated in the consolidated financial statements in the 2017 Annual Report to reflect the accounting of the transaction under common control accordingly. And as stated in the 2018 Annual Report, according to the《有關接受在香港上市的內地註冊成立公司採用內地的會計及審計準則以及聘用內地會計師事務所的諮詢總結》(Consultation Conclusions on Acceptance of Mainland Accounting and Auditing Standards and Mainland Audit Firms for Mainland Incorporated Companies Listed in Hong Kong*), the Board decided on 29 March 2018 that the Group will prepare the interim and annual financial statements in accordance with the China Accounting Standards for Business Enterprises issued by the Ministry of Finance of the PRC and the relevant requirements since 2018. Therefore, the financial results of the Group for the year ended 31 December 2017 were restated in the consolidated financial statements in the 2018 Annual Report in accordance with the China Accounting Standards for Business Enterprises issued by the Ministry of Finance of the PRC.

As stated in the 2018 Annual Report, the significant increase of the gross profit margin in 2018 was mainly due to the improvement in the gross profit margin of clean energy equipment segment and high-end smart equipment segment, and termination of low-margin foreign trade business. Therefore, the Group decided to adjust the percentage mark-up (tax inclusive) for those products which do not have market price from no less than 10% for the period from 2016 to 2019 to no less than 15% for the period from 2020 to 2022. In addition, the representative of the Company advised that the gross profit margin of the Group for the three months ended 31 March 2019 was close to 15%.

Having consider that (i) the Group has adopted the average gross profit margins of the Group for the three years ended 31 December 2018 which was reasonably reflected the fluctuation in the gross profitability of the Company in the recent years and the period is consistent with the duration of the 2020-2022 Master Sales Agreement; (ii) the gross profit margin of the Group for the three months ended 31 March 2019 was close to 15% which is in line with the average gross profit margins of the Group for the three years ended 31 December 2018 and reflected the latest business performance of the Group; and (iii) the percentage mark-up (tax inclusive) of not less than 15% applies to all customers of the Group, we are of the view that the percentage mark-up (tax inclusive) of not less than 15% (including using the average gross margin in the past three years in the basis of the percentage mark-up (tax inclusive)) is determined fairly and reasonably.

As stated in the Letter from the Board, the pricing basis (i) and (ii) were and will be generally adopted in the Existing Master Sales Agreement and the 2020-2022 Master Sales Agreement, except that the 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), software (since they are customised in compliance with the need of different customers) and raw materials purchased by Chongqing Shengpu and sold to the Parent Group. We have conducted below works to assess the pricing basis of the sale of goods to the Parent Group by the Group according to the four groups of products as stated above.

(1) for control valves and parts for steering systems, we have obtained and reviewed the top three invoices between the Group and the Parent Group for each of the two years ended 31 December 2018. We have selected the ten largest amount items in each of the top three invoices between the Group and the Parent Group for each of the two years ended 31 December 2018 and compared with the market prices of the products with similar product specifications from two independent third parties obtained through prices quoted on websites for the industry. The selected items are principally the automotive parts. We noted that the prices of the selected items sold to the Parent Group were higher than the market prices of independent third parties;

(2) for wires and cables and the BV series of electric cables, we have obtained and reviewed the top three invoices between the Group and the Parent Group for each of the two years ended 31 December 2018. We have selected all or the ten largest amount (if more than ten products in the invoice) items in each of the top three invoices between the Group and the Parent Group for each of the two years ended 31 December 2018 and compared with the market prices of the products with similar product specifications from two independent third parties obtained through prices quoted on websites for the industry. The selected items are principally the copper strips, copper wires and cables and fire resistant cables. We noted that the prices of the selected items sold to the Parent Group were higher than market prices of independent third parties;

(3) for refrigeration machines, copper plates, gas compressors, and raw materials such as steel and gears, we have obtained and reviewed the top three contracts between the Group and the Parent Group for each of the two years ended 31 December 2018. We have selected the ten largest amount items in each of the top three contracts between the Group and the Parent Group for each of the two years ended 31 December 2018 and compared with the market prices of the products with similar product specifications from two independent third parties obtained through prices quoted on websites for the industry. The selected items are principally the steel products. We noted that the prices of the selected items sold to the Parent Group were higher than that of market prices of independent third parties or the product sold to independent third parties; and

(4) for software, as a new business started in 2018 between the Group and the Parent Group, we have obtained and reviewed the top three contracts associated with the cost breakdowns between the Group and the Parent Group for the year ended 31 December 2018. We noted that the cost structure for software project was principally determined with reference to (i) the hardware procurement cost; (ii) the research and development cost; and (iii) other related costs and expenses incurred during the project period, including but not limited to the logistic cost, the labour cost and the travelling expense. The percentage mark-up (tax inclusive) for the selected projects was not less than 10%, which is in line with the pricing basis of the Existing Master Sales Agreement.

Given that (i) the above selected items follow the pricing basis of the 2016-2019 Master Sales Agreement and the pricing basis of 2020-2022 Master Sales Agreement are in line with the pricing basis of 2016-2019 Master Sales Agreement, with the adjustment in the percentage of mark up in the pricing basis of cost plus a percentage mark-up to reflect the recent gross profitability of the Group; and (ii) various internal control measures will be put in place within the Group to ensure it complies with the terms under the 2020-2022 Master Sales Agreement (as further discussed in the section headed "Internal Control Measures" below), we are of the view that the terms offered to the Parent Group under the 2020-2022 Master Sales Agreement are on normal commercial terms, fair and reasonable and in the interests of the Company and its Shareholders as a whole.

Proposed annual caps

Set out below are (i) the historical transaction amount for the sale of products to the Parent Group by the Group for the three years ended 31 December 2018; and (ii) the proposed annual caps of the Agreed Sales for the three years ending 31 December 2022.

	Historical amount for the year ended 31 December			**Proposed annual caps for the year ending 31 December**		
	2016	**2017**	**2018**	**2020**	**2021**	**2022**
	RMB in million	*RMB in million*	*RMB in million*	*RMB in million*	*RMB in million*	*RMB in million*
Sale of products by the Group to the Parent Group/the Agreed Sales	68.6	117.9	296.5	344.7	330.0	336.2

The representative of the Company advised that the proposed annual caps of the Agreed Sales are determined mainly based on the below factors and a buffer of 10% for each of the three years ending 31 December 2022 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.

(1) The expected moderate growth of the control valves and parts for steering systems for automotive industry in the PRC

As advised by the representative of the Company, the Group recorded an increase of the sales of the automotive parts in 2018. The higher demand of automotive parts was mainly driven by (i) the implementation of China V emission standard, new regulations on control of overrun vehicles and other policies in 2017; and (ii) the increasing demand in the machinery industry and the automotive industry in 2018. The management of the Company consider that the sales of automotive parts to the Group will increase moderately for the three years ending 31 December 2022 due to the continuing improvement of the advanced automotive technology, but will be relatively stable for the period from 2020 to 2022 after the rapid growth of automotive industry in the 2017 and 2018. According to a notice namely 重慶市發展智能製造實施方案(2019-2022年)(The Implementation Plan for the Development of Intelligence Manufacturing in Chongqing (2019-2022)*) published by the Chongqing Municipal People's Government dated 20 December 2018, it indicates that the government dedicated to promoting the popularity of digitalisation and intelligent manufacturing in various industries in Chongqing, including the auto industry, with the target of more than 5,000 enterprises will be under intelligent transformation and exceed RMB40 billion of the industry output under intelligent manufacturing in 2022.

We have obtained and reviewed the documents provided by the Company, including, among others, (i) the sales amount of control valves and parts for steering systems between the Group and the Parent Group for the year ended 31 December 2018 of approximately RMB106.8 million; and (ii) the basis of the proposed annual caps of the control valves and parts for steering systems to the Parent Group for the period from 2020 to 2022. We noted that the proposed annual caps of the sales of control valves and parts for steering systems of approximately RMB130.0 million, RMB136.5 million and RMB141.5 million for the years ending 31 December 2020, 2021 and 2022 are determined based on the indicated procurement amount of control valves and parts for steering systems for the period from 2020 to 2022 from the Parent Group with reference to the estimated sales of control valves and parts for steering systems for 2019 which amounted to approximately RMB125.1 million.

The representative of the Company advised that the estimated sales amount of control valves and parts for steering systems between the Group and the Parent Group for the year ending 31 December 2019 is determined based on (i) the sales amount between the Group and the Parent Group for the first quarter of 2019 of approximately RMB41.1 million; (ii) the order amount received from the Parent Group for the second quarter of 2019 of approximately RMB20.0 million; and (iii) as communicated with the Parent Group, the demand for control valves and parts for steering systems from the Group in the second half year of 2019 would be at similar level as that in the first half year of 2019. Therefore, the expected sales of control valves and parts for steering systems for 2019 will be approximately RMB125.1 million.

The representative of the Company further advised that SAIC-IVECO, which contributed the majority amount in the procurement of control valves and parts for steering systems from the Group by the Parent Group for the year ended 31 December 2018, has indicated that it will maintain the procurement of control valves and parts for steering systems from the Group at a similar level for the period from 2020 to 2022 as compared with that in 2019 after considering the competition in the control valves and parts for steering systems. As such, the Company expected that the proposed annual caps of control valves and parts for steering systems would be at a similar level as compared with the expected sales of control valves and parts for steering systems to the Parent Group for the year ending 31 December 2019.

After considering (i) the positive market environment as supported by the above-mentioned plan issued by the Chongqing Municipal People's Government; (ii) the projected sales amount on control valves and parts for steering systems by the Group to the Parent Group in 2019; and (iii) the Parent Group's indication and consideration for the potential demand of control valves and parts for steering systems from the Group for the period from 2019 to 2022, we consider it is justifiable to expect that the sales of automotive parts to the Parent Group for the three years ending 31 December 2022 will be at similar level as compared with that in 2019.

(2) The business opportunities from the existing and potential railway projects in Chongqing for the sales of wires and cables to the Parent Group

As advised by the representative of the Company, the proposed annual caps of the wires and cables to the Parent Group by the Group for the three years ending 31 December 2022 are taken into account of the existing and potential railway projects in Chongqing. We noted that the proposed annual caps of the wires and cables to the Parent Group by the Group for the three years ending 31 December 2022 are determined based on (i) the outstanding sum of the existing railway project of 重慶軌道交通環線一期 (Phase I of loop line (Chongqing Rail Transit)*) ("**CRT Loop Line Phase 1**") of approximately RMB55.6 million for the period from 2020 to 2022 which is according to the existing contract, and the possibility of the delay or advance in the progress of the existing railway project; and (ii) the expected contract sum of a potential project of approximately RMB44.0 million with the Parent Group for the period from 2020 to 2022 and the possibility of the delay or advance in the progress of this new project which the National Development and Reform Commission announced on 21 November 2018 that the third round of Chongqing Rail Transit ("**CRT Round 3**") has been approved and the planning terms of the project will be from 2018 to 2023.

As such, we have obtained and reviewed the documents provided by the Company, including, among others, (i) the contract signed between 重慶鴿牌電線電纜有限公司 (Chongqing Pigeon Electric Wires & Cables Co. Ltd.*) ("**Chongqing Pigeon**"), a subsidiary of the Company, and the Parent Group in July 2017 in relation to the supply of wires and cables by Chongqing Pigeon to the Parent Group for the CRT Loop Line Phase 1; (ii) the sales amount of wires and cables between the Group and the Parent Group for the two years ended 31 December 2018; and (iii) the basis of the proposed annual caps of the wires and cables for the period from 2020 to 2022. We noted that the proposed annual caps of the wires and cables for 2020 was mainly determined with reference to (i) the outstanding amount of the wires and cables to be supplied by Chongqing Pigeon to the Parent Group as at 31 December 2018; and (ii) the possibility of delay in the progress of the existing project due to the unforeseen issues, including but not limited to shortage of labour and adverse weather conditions. As such, the sales of the wires and cables of approximately RMB50.0 million in relation to the project of the CRT Loop Line Phase 1 is expected to be completed at the end of 2020 and such amount is taken into in the determination of the proposed annual caps of the wires and cables for 2020. As stated in the Letter from the Board, during the period from 2020 to 2022, the Parent Group is expected to undertake a project with an amount of approximately RMB1,200.0 million. In such premises, Chongqing Pigeon will be expected to enter into a contract with the Parent Group of approximately RMB44.0 million for the supply of wires and cables which would be used by the Parent Group in the said rail transit project in 2021. The representative of the Company advised that completion for the potential project is expected to be 2/3 (i.e. approximately RMB30.0 million) and 1/3 (i.e. approximately RMB14.0 million) for the years ending 31 December 2021 and 2022, respectively and the Company has also considered the possibility of the delay in the progress of the potential project due to the unforeseen issues which would affect the sales of wires and cables in 2022. As such, the maximum annual amount for sales of wires and cables (i.e. approximately RMB30.0 million) is taken into account in the determination of the proposed annual caps of the wires and cables for 2021 and 2022 as a matter of prudence. We consider that it is justifiable to estimate the annual caps of the wires and cables based on the existing and potential railway projects and the possibility of the delay or advance in the progress of the projects for the period from 2020 to 2022.

(3) The sales amount of the bulk materials for the financial year ended 31 December 2018 and the expected increase in usage of centralised procurement platform of bulk materials of the Parent Group for the period from 2020 to 2022

As advised by the representative of the Company, Chongqing Shengpu has served as the centralised procurement platform of bulk materials, which is mainly related to the raw materials, for the Group and the Parent Group since 2012 in order to achieve synergy and reduce costs. The Company considered that the sales of the bulk materials to the Parent Group for the three years ending 31 December 2022 will be relatively stable with reference to the sales amount of bulk materials from the Group to the Parent Group in 2018. As further advised by the representative of the Company, since 2018, the Company has started cooperation with 重慶起重機廠有限責任公司 (Chongqing Crane Factory Co., Ltd.*) ("**Crane Factory**"), a wholly-owned subsidiary of the Parent Group, mainly for the sales of steels to Crane Factory in order to fulfill the requirements from the Parent Group for resource conformity, cost reduction and efficiency enhancement. The management of the Company consider that the relationship with Crane Factory will be continued for the three years ending 31 December 2022 and estimated the annual caps for the sales of steels to Crane Factory by the Group for the three years ending 31 December 2022 with reference to the transaction amount in the second half in 2018 and taking into account of the whole year effect in the period from 2020 to 2022.

We have obtained and reviewed the documents provided by the Company, including, among others, (i) the sales amount of bulk materials between the Group and the Parent Group for the two years ended 31 December 2018 (including the additional sales of steels to Crane Factory since August 2018); and (ii) the basis of the proposed annual caps of the bulk materials for the period from 2020 to 2022. As stated in the Letter from the Board, the total sales of products by the Group to the Parent Group was approximately RMB296.5 million, of which approximately RMB117.9 million was the sales of bulk materials for the year ended 31 December 2018. The representative of the Company advised that the sales of bulk materials in 2018 were mainly comprised of the sales of steels of approximately RMB95.7 million and the sales of refrigeration machines for the ventilation and air conditioning engineering parts of the CRT Loop Line Phase 1 of approximately RMB22.2 million. The representative of the Company further advised that the Parent Group intended to maintain the relationship with Chongqing Shengpu for the procurement of steel products for the period from 2020 to 2022 and expected the procurement of bulk materials will be approximately RMB110.0 million for the period from 2020 to 2022 which will be at similar level as compared with that in 2018 (together with the consideration of an annualised figure based on the sales of steels to Crane Factory of approximately RMB10.9 million for the five months ended 31 December 2018). In addition, as stated in the Letter from the Board, the Company is expected to be further engaged by the Parent Group to undertake the ventilation and air conditioning engineering for the CRT Round 3, with an amount of approximately RMB18.0 million, representing approximately RMB6.0 million annually for the period from 2020 to 2022. Therefore, the proposed annual caps of the bulk materials are approximately RMB116.0 million for the period from 2020 to 2022. We consider it is justifiable to estimate the annual caps for the sales of bulk materials to the Parent Group by the Group for the three years ending 31 December 2022 based on (i) the sales amount of bulk materials between the Group and the Parent Group for the year ended 31 December 2018, including the consideration of the annualised figure based on the sales to Crane Factory for the five months ended 31 December 2018; and (ii) the continuing usage of Chongqing Shengpu as the centralised procurement platform for the Parent Group for the period from 2020 to 2022.

(4) New business opportunities from the demand of information technology upgrade of the Parent Group

As advised by the representative of the Company, the Group provided the software development and deployment to the Parent Group starting from 2018 which includes the enhancement of production line (the "**Production Line Enhancement**"), asset management system, security system and the business intelligence system upgrade (the "**Software Enhancement**"). We have obtained and reviewed the documents provided by the Company, including, among others, (i) the top three software contracts signed by the Group and the Parent Group for the year ended 31 December 2018; (ii) the sales amount of software for the year ended 31 December 2018 of approximately RMB8.4 million; and (iii) the basis of the proposed annual caps of the software for the period from 2020 to 2022. We noted that the sales amount of software for the year ended 31 December 2018 was mainly derived from one Production Line Enhancement project and one Software Enhancement project and the representative of the Company advised that the proposed annual caps of the software are principally determined with reference to (i) the contract amount of the Production Line Enhancement project and the Software Enhancement project in 2018; (ii) the expectation of one Software Enhancement project for each of the three years ending 31 December 2022 as the Parent Group expects to engage the Group for the Software Enhancement once a year; and (iii) the expectation of three to four Production Line Enhancement projects for each of the three years ending 31 December 2022 with reference to (a) three potential Production Line Enhancement projects under negotiation in 2019; and (b) the continuity of the Production Line Enhancement among the members of the Parent Group for the period from 2020 to 2022 after the success of the Production Line Enhancement in 2018 and the consideration from the Parent Group that the Production Line Enhancement has broad applications among the members of the Parent Group. As such, the total expected sales of software are approximately RMB14.5 million for the period from 2020 to 2022. In light of the above, the Company estimated the annual caps for the provision of software development and deployment based on (i) the contract amount of the Production Line Enhancement project and Software Enhancement project provided to the Parent Group by the Group in 2018; and (ii) the intended number of projects for the period from 2020 to 2022. We consider that it is justifiable to estimate the annual caps of the software based on the potential new business opportunities with reference to the contract amount of the software projects signed in 2018 and the intended number of projects can be deployed to the Parent Group for the period from 2020 to 2022.

In light of the above, we are of the view that the proposed annual caps of the Agreed Sales for the three years ending 31 December 2022 are determined based on reasonable estimation after due and careful consideration and are fair and reasonable so far as the Company and the Independent Shareholders are concerned.

Shareholders should note that the proposed annual caps of the Agreed Sales are relating to future events and were estimated based on the assumptions as discussed above which may or may not remain valid for the entire period up to 31 December 2022, and they do not represent the forecasts of the sales by the Group to the Parent Group, we express no opinion as to how closely the Agreed Sales will correspond with the Proposed Annual Caps.

2020-2022 Group Financial Services Framework Agreement

Principal terms of the 2020-2022 Group Financial Services Framework Agreement

Please refer to the paragraph headed "2020-2022 Group Financial Services Framework Agreement" in the Letter from the Board for the details of the terms.

Pricing standard for the deposit services provided by the Finance Company to the Group

As stated in the Letter from the Board, the interests of deposits provided by the Finance Company will not be lower than the interest rates for deposits of similar nature and under similar terms provided to the Group by other independent commercial banks (at least two) in the PRC. The Company will obtain the interest rates for deposits of similar nature and under similar terms from at least two banks among the national commercial banks in China or local commercial banks in Chongqing that have business relations with the Company, and compare with the interest rates provided by the Finance Company to the Group for deposits of similar nature and under similar terms to ensure that the interests the Group will receive on its deposits are in compliance with the above pricing standards for the deposit services.

In order to assess the pricing standard of the deposit services provided by the Finance Company to the Group, we have obtained and reviewed the top five deposit contracts/records between the Group and the Finance Company for each of the two years ended 31 December 2017 and 31 December 2018 which were principally the seven-day call deposits and three-month time deposits against the then deposit rates with two independent commercial banks in the PRC (i.e. one national commercial bank in the PRC and one local commercial bank in Chongqing). We noted that the interest rates offered by the Finance Company for the deposits placed by the Group were no less favourable than the then interest rates provided to the Group by other independent commercial banks in the PRC for deposits of similar nature and under similar terms.

Given that (i) the interest rates offered by the Finance Company for the selected deposits placed by the Group for the two years ended 31 December 2018 were no less favourable than the then interest rates provided to the Group by other independent commercial banks in the PRC and the Deposit Services under the 2020-2022 Group Financial Services Framework Agreement follows the above pricing standard; and (ii) various internal control measures will be put in place within the Group to ensure it complies with the terms under the 2020-2022 Group Financial Services Framework Agreement (as further discussed in the section headed "Internal Control Measures" below), we consider that the terms of the Deposit Services under the 2020-2022 Group Financial Service Framework Agreement are on normal commercial terms, fair and reasonable and in the interests of the Company and its Shareholders as a whole.

Proposed annual caps

Set out below are (i) the historical maximum daily balance of the deposits placed by the Group at the Finance Company for the three years ended 31 December 2018; and (ii) the proposed maximum daily balance of the Deposit Services for the three years ending 31 December 2022.

	Historical amount for the year ended 31 December			**Proposed annual caps for the year ending 31 December**		
	2016	**2017**	**2018**	**2020**	**2021**	**2022**
	RMB in million	*RMB in million*	*RMB in million*	*RMB in million*	*RMB in million*	*RMB in million*
Maximum daily balance of deposits (including corresponding interests)	1,491.5	1,504.8	1,796.2	3,155.0	3,313.0	3,479.0

The representative of the Company advised that the proposed annual caps of the Deposit Services are determined mainly based on the (i) the cash and cash equivalents of the Group as at 31 December 2018 of approximately RMB1,980.5 million (excluding the funds of the Finance Company of approximately RMB184.2 million which are the difference of the deposits from and loans to the Parent Group); (ii) the new bank borrowings of approximately RMB800.0 million is expected to be raised in 2019 which will be in recurring basis for the repayment of the company bonds that will mature in September 2019 and the settlement of the consequential recurring liabilities for the period from 2020 to 2022; (iii) the expected interest rate offered to the Group by the Finance Company which is expected at similar level as to the interest rates of the top five deposits offered to the Group by the Finance Company in 2018; and (iv) the expected annual growth rate of 5% of the cash and cash equivalents of the Group from 2020 to 2022.

As stated in the Letter from the Board, the new bank borrowings will be deposited in the Finance Company for a short term (which is expected to be approximately one to two months in order to allow buffer time to ensure the sufficiency of funds for repayment before the maturity of the company bonds and other borrowings) as a transitional arrangement only to repay its liabilities as the Company would need to gather the funds in advance of the maturity of its company bonds and/or other borrowings and that the funds will be utilised to repay the company bonds and/or other borrowings shortly after. As the new bank borrowing deposited in the Finance Company would result in an instant increase of the daily balance of deposits of the Finance Company. Therefore, the temporary effect of the new bank borrowings on the maximum daily balance of deposits should be taken into consideration and we are of the view that it is justifiable as one of the factors for the determination of the proposed annual cap of the Deposit Services for each of the three years ending 31 December 2022.

As advised by the representative of the Company, the deposit rates offered by the Finance Company and the independent commercial banks in the PRC were relatively stable since October 2015. Therefore, the management of the Company consider that the expected interest rate from 2020 to 2022 would stay at similar level offered to the Group by the Finance Company in 2018. We have reviewed the deposit rates offered by each of the two banks in the PRC in the top five deposits between the Group and the Finance Company in 2018 and observed that, since October 2015, the deposit rates have been remained unchanged after the announcement of 中國人民銀行決定下調存貸款基準利率並降低存款準備金率 (The decision of People's Bank of China cutting the deposit and loan benchmark interest rate and reducing the deposit reserve ratio*) released by the People's Bank of China on 23 October 2015 which mentions the further cut of benchmark interest rate for RMB loans and deposits of financial institutions in order to lower the financing cost for the society. We consider that the expected interest rate of deposits offered to the Group by the Finance Company reflected the Company's expectation on the market rate to be offered by the independent commercial banks for the three years ending 31 December 2022 after considering the domestic monetary policy.

As advised by the representative of the Company, the expected annual growth rate of 5% for each of the three years ending 31 December 2022 is determined with reference to the improvement of the cash and cash equivalents (including the restricted cash because the restriction on the usage of such cash may be removed subsequently) of the Group for the period from 2016 to 2018. The representative of the Company advised that the restricted cash was pledged as security for the bills payable and the letters of credit. It will then become an unrestricted cash after such liabilities are settled within a year and be available to be deposited to the Finance Company. We noted that the total of cash and cash equivalents and restricted cash were approximately RMB1,800.6 million (restated), RMB1,658.7 million and RMB2,164.7 million as at 31 December 2016, 2017 and 2018 as stated in the 2017 Annual Report and the 2018 Annual Report, representing a compound annual growth rate ("**CAGR**") of not more than 10% from 2016 to 2018. The management of the Company conservatively adopted an expected annual growth rate of 5% for the period from 2020 to 2022 after considering the fluctuation of the cash and cash equivalents of the Group from 2016 to 2018.

In light of the above, we are of the view that the proposed annual caps of the Deposit Services for the three years ending 31 December 2022 are determined based on reasonable estimation after due and careful consideration and are fair and reasonable so far as the Company and the Independent Shareholders are concerned.

Shareholders should note that the proposed annual caps of the Deposit Services are relating to future events and were estimated based on the assumptions as discussed above which may or may not remain valid for the entire period up to 31 December 2022, and they do not represent the forecasts of the deposits placed by the Group at the Finance Company, we express no opinion as to how closely the deposit placed by the Group at the Finance Company will correspond with the Proposed Annual Caps.

2020-2022 Parent Group Financial Services Framework Agreement

Principal terms of the 2020-2022 Parent Group Financial Services Framework Agreement

Please refer to the paragraph headed "2020-2022 Parent Group Financial Services Framework Agreement" in the Letter from the Board for the details of the terms.

Pricing standard for the loan services provided by the Finance Company to the Parent Group

As stated in the Letter from the Board, the interest rates for loans provided to the Parent Group by the Finance Company will not be lower than the interest rates for loans of similar nature and under similar terms charging the Parent Group by other independent commercial banks (at least two) in the PRC. The Company will make inquiries to at least two banks among the national commercial banks in the PRC or the local commercial banks in Chongqing that have business relations with the Company in respect of the loan services of similar nature and under similar terms with reference to the credit characteristics of the relevant company with the Parent Group, and submit the results to the Finance Company. The Finance Company will then make the final assessments and determine the final interest rates provided to the Parent Group by reference to the Parent Group's business risks, comprehensive returns, capital cost of the Finance Company and regulatory indicators and others factors, so as to ensure that the interest of loans provided by the Finance Company to the Parent Group are in compliance with the above pricing standards for the loan services.

In order to assess the pricing standard of the loan services provided to the Parent Group by the Finance Company, we have obtained and reviewed (i) the top five loan contracts between the Parent Group and the Finance Company for each of the two years ended 31 December 2017 and 31 December 2018 covering the loan period from one month to 12 months; and (ii) the quotations with two independent commercial banks in the PRC (i.e. one national commercial bank in the PRC and one local commercial bank in Chongqing) for each loan of similar nature. We noted that the interests charged for the loan services provided to the Parent Group by the Finance Company were set at such rates not less than the rates offered by the independent third parties.

Given that (i) the interests charged for the selected loans by the Finance Company to the Parent Group for the two years ended 31 December 2018 were set at such rates not less than the rates offered by the independent third parties and the Loan Services under the 2020-2022 Parent Group Financial Services Framework Agreement follows the above pricing standard; and (ii) various internal control measures will be put in place within the Group to ensure it complies with the terms under the 2020-2022 Parent Group Financial Services Framework Agreement (as further discussed in the section headed "Internal Control Measures" below), we consider that the terms of the Loan Services under the 2020-2022 Parent Group Financial Service Framework Agreement are on normal commercial terms, fair and reasonable and in the interests of the Company and its Shareholders as a whole.

Proposed annual caps

Set out below are (i) the historical maximum daily balance for the loan services provided by the Finance Company to the Parent Group for the three years ended 31 December 2018; and (ii) the proposed maximum daily balance for the Loan Services for the three years ending 31 December 2022.

	Historical amount for the year ended 31 December			**Proposed annual caps for the year ending 31 December**		
	2016	**2017**	**2018**	**2020**	**2021**	**2022**
	RMB in million	*RMB in million*	*RMB in million*	*RMB in million*	*RMB in million*	*RMB in million*
Maximum daily loan balance (including corresponding interest)	1,502.8	1,351.9	1,288.2	2,350.0	2,474.0	2,754.0

The representative of the Company advised that the proposed annual caps of the Loan Services are determined mainly based on the below factors:

(1) The expectation of the Parent Group's capital needs for the three years ending 31 December 2022

As advised by the representative of the Company, the Company has been noticed by the Parent Company that the Parent Group's capital needs for each of the three years ending 31 December 2022 is currently estimated to be approximately RMB2,800.0 million (the "**Capital Needs**") which will be used for the projects and the business development of the Parent Group. However, as the renewal of the existing debt financing upon maturity of the subsidiaries of the Parent Company is uncertain and the centralisation of the debt financing provided by the Finance Company to the Parent Group may offer more favourable terms than the individual loan from several banks due to the scale of the loan, the Parent Group may need the loan from the Finance Company to satisfy the Capital Needs.

(2) The upper limit of the loans to the Parent Group from 2020 to 2022

As advised by the representative of the Company, the proportion of loans to the Parent Company by the Finance Company to the total loans has been approximately 50% (the "**Proportion**") for the past few years due to the capital need for the different stage of the projects or business development from the Group and the Parent Group. The management of the Company consider that the Proportion will not be significantly different for the three years ending 31 December 2022 as there is no material change on the business development of the Group and the Parent Group in the foreseeable future. Therefore, the management of the Company consider to maintain the Proportion as an upper limit for the loan services provided by the Finance Company to the Parent Group in order to reserve sufficient capital resource for the Group's future development.

As further advised by the representative of the Company, the expected maximum capital scale of the Finance Company from 2020 to 2022 is principally based on (i) the cash and cash equivalents of the Group with approximately 5% growth rate for each of the three years ending 31 December 2022; (ii) the cash and cash equivalents of the Parent Group with approximately 5% growth rate for each of the three years ending 31 December 2022 is determined with reference to the cash and cash equivalents of the Parent Group with a CAGR of approximately 3% from 2016 to 2018; and (iii) the possibility of entering into the interbank lending business by the Finance Company for the three years ending 31 December 2022.

According to 同業拆借管理辦法 (The Measures for the Administration of Interbank Lending*) enacted and promulgated by the People's Bank of China which was effective on 6 August 2007. We noted that the ratio of maximum amount of interbank lending transaction against the registered capital of the finance company of enterprise groups could not be higher than 100%. As such, the interbank lending transaction of the Finance Company would not be higher than RMB600.0 million (i.e. equivalent to the registered capital of the Finance Company as at 31 December 2018).

As stated in the Letter from the Board, the cash and cash equivalents of the Parent Group amounted to approximately RMB933.2 million and the total of cash and cash equivalents and restricted cash of the Group amounted to approximately RMB2,164.7 million as stated in the 2018 Annual Report. Thus, the size of existing available fund of the Finance Company will be approximately RMB3,097.9 million as at 31 December 2018. Together with the consideration of (i) the new bank borrowing of approximately RMB800.0 million will be raised in 2019; (ii) the possibility of entering into the interbank lending business by the Finance Company of not more than RMB600.0 million in 2019; and (iii) the expected growth rate of the cash and cash equivalents of the Group and the Parent Group at 5%, the estimated maximum capital scale will be around RMB4,500.0 million as at 31 December 2019. As such, the estimated maximum capital scale for each of the three years ending 31 December 2022 will be determined with the same consideration as stated above and the proposed annual caps of the Loan Services for the three years ending 31 December 2022 are estimated to be approximately RMB2,350.0 million, RMB2,474.0 million and RMB2,754.0 million based on the Proportion of approximately 50%.

In light of the above, in particular of the Capital Needs, the maintenance of the Proportion and the expected maximum capital scale of the Finance Company, we are of the view that the proposed annual caps of the Loan services for the three years ending 31 December 2022 are determined based on reasonable estimation after due and careful consideration and are fair and reasonable so far as the Company and the Independent Shareholders are concerned.

Shareholders should note that the proposed annual caps of the Loan Services are relating to future events and were estimated based on the assumptions as discussed above which may or may not remain valid for the entire period up to 31 December 2022, and they do not represent the forecasts of the loan services provided by the Finance Company to the Parent Group, we express no opinion as to how closely the loan services provided by the Finance Company to the Parent Group will correspond with the Proposed Annual Caps.

4. Internal Control Measures

As stated in the Letter from Board, the Group has adopted the internal control procedures and corporate governance procedures to monitor the status of the financial conditions of the Finance Company (in the case of deposit services). The audit and risk management committee of the Company will review the finance, operation, risk management system and regulatory compliance of the Company, particularly the implementation of connected transactions, monthly. Please refer to the paragraph headed "Internal Control and Risk Management" in the Letter from the Board for the details of internal control of the Group.

The Group has adopted 關聯交易實施細則 (the connected transaction implementation guideline*) (the "**Guidelines**") which stipulated the procedures to be complied with for conducting connected transactions. We noted that the Guidelines indicates that the related departments, including the sales department, legal department and audit department, will review and assess the terms and pricing of the connected transactions are in accordance with the connected transaction agreement and to ensure the connected transactions are (i) according to the principal of continuing connected transaction agreement; (ii) on normal commercial terms or better (iii) on terms no less favourable than terms available to or from independent third parties; and (iv) on terms that are fair and reasonable in accordance with the relevant agreements of the transactions governing them and in the interests of the Shareholders as a whole. In addition, the operation management department of the Company would monitor the levels of connected transactions to prevent from exceeding the respective annual caps.

As stated in the Letter from the board, the operation management department of the Company and the relevant subsidiaries will monitor monthly whether the pricing basis of the connected transactions have been complied with, and the operation management department of the Company will also review the implementation of the caps of the connected transactions monthly to ensure the annual caps have been fully complied with. As stated in the Letter from the Board, the operation management department of the Company and other subsidiaries in the Group will be reminded of the pricing terms under the 2020-2022 Master Sales Agreement and ensure that such pricing terms are complied with in every individual agreement entered into thereunder. In addition, the audit and risk management committee of the Company will review the implementation of the continuing connected transactions monthly. We consider that such measures regularly conducted by the Group are appropriate in place to ensure the adequacy of the internal control relating to the Continuing Connected Transactions.

As stated in the 2018 Annual Report, the independent non-executive Directors have reviewed the continuing connected transactions stated in the 2018 Annual Report and confirmed that, among others, the transactions were (i) fair and reasonable in respect of the proposed annual caps; (ii) entered into in the ordinary and usual course of business of the Group; (iii) on normal commercial terms or on terms no less favourable than terms available to or from (as the case may be) independent third parties; and (iv) in accordance with the relevant agreements governing them and on terms that are fair and reasonable and in the interests of the Shareholders as a whole.

In addition, as stated in the 2018 Annual Report, the auditor of the Group has issued an unqualified letter containing findings and conclusion in respect of the continuing connected transactions disclosed by the Group in the 2018 Annual Report in accordance with Rule 14A.56 of the Listing Rules. They conclude that, among others, (i) nothing has come to their attention that causes them to believe that the disclosed continuing connected transactions have not been approved by the Board of Directors; (ii) 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 all material respects, in accordance with the pricing policies of the Group; (iii) 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; and (iv) with respect to the aggregate amount of each of the continuing connected transactions, nothing has come to their attention that causes them to believe that the disclosed continuing connected transactions have exceeded the annual cap as set by the Company.

Having considered the internal control measures as stated above, we consider that there are appropriate measures in place to govern the Continuing Connected Transactions which will be conducted in accordance with the terms of the respective agreements.

RECOMMENDATION

Having considered the above principal factors and reasons, we are of the view that the Continuing Connected Transactions are entered in the ordinary and usual course of business of the Company, the terms of the Continuing Connected Transactions are on normal commercial terms and fair and reasonable insofar as the Independent Shareholders are concerned and the entering into the Continuing Connected Transactions is in the interests of the Company and the Shareholders as a whole and the Proposed 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 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 Securities and Futures Ordinance 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. FINANCIAL INFORMATION OF THE GROUP

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

The audited consolidated financial statements of the Group together with the relevant notes for the three years ended 31 December 2016, 2017 and 2018 have been set out in the annual reports of the Group for the years ended 31 December 2016, 2017 and 2018 dated 12 April 2017 (pages 129-309), 26 April 2018 (pages 145-336), 26 April 2019 (pages 149-476) respectively, which have been published on the websites of the Company (http://www.chinacqme.com) and the Stock Exchange (http://www.hkex.com.hk).

2. STATEMENT OF INDEBTEDNESS

Borrowings

As at the close of business on 30 April 2019, being the latest practicable date for the purpose of this indebtedness statement of the Group prior to the printing of this circular, the Group had outstanding borrowings of approximately RMB3,324.36 million, comprising (i) bank loans of RMB2,271.00 million; (ii) bonds payable of RMB799.52 million; and (iii) other interest-bearing borrowings of RMB 253.84 million (the aforesaid figures are unaudited).

Among the borrowings mentioned above, RMB412.66 million of bank loans and RMB799.52 million of bonds payable are guaranteed. Save as disclosed herein, none of the above outstanding borrowings are guaranteed or secured.

Disclaimer

Save as aforesaid, and apart from intra-group liabilities and normal trade payables, as at the close of business on 30 April 2019, the Group did not have any outstanding issued or agreed-to-be-issued loan capital, bank overdrafts, loans, or other similar borrowings, liabilities or liabilities under acceptance credit, debentures, mortgages, charges, hire purchase commitments, guarantees or other material contingent liabilities.

3. WORKING CAPITAL

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

4. FINANCIAL AND TRADING PROSPECTS

Looking ahead to 2019, the global economy will face the risk of slowing down after a mild recovery in the past two years. As more developed countries tighten monetary policy, the global interest rate hike cycle will raise capital costs, trade protectionism will lead to increased global economic uncertainty, geopolitical factors will continue to impact the pace of global economic recovery, and global GDP growth is expected to decline further. Regarding the US economy, the US economic growth rate will decline as a result of the impact of trade protectionism on its own economy and the FED's continued interest rate hike. Regarding the Eurozone economy, European economic growth will slow down due to factors such as the European Central Bank's end of the bond purchase plan, the uncertainty of the "Brexit" and the populist trend. Regarding the Japanese economy, due to the weakening of global market demand, its growth rate is weak.

In 2019, the Chinese government will firmly promote the structural reform of the enterprise's economic supply side, and the transformation of the economic growth mode from quantity to quality is gradually achieving practical results. The adjustment of national policies will promote the economic turnaround, and many policy measures such as the rural revitalization strategy will help the economy stabilize. The 19th strategic plan will actively promote the high-quality development of the manufacturing industry, and the macro-policy will make more vigorous and targeted adjustments, pay more attention to "stable growth", focus on "expanding domestic demand", replace "liquidity" with "defense debt risk", and changing the focus from "three deduction, one reduction and one supplement" to "one reduction and one supplement". It is expected that the fiscal policy will be more active than 2018, opening the "front door" and blocking the "back door". The deficit rate in a broad and a narrow sense will be raised again, and the tax reduction measures will be more vigorous; the monetary policy will continue the correction trend in the second half of 2018, and continue to be targeted. M2 will bottom out, and open market interest rates may be lowered. The exchange rate policy focuses on reducing volatility, cyclical forces continue to dominate exchange rate movements, and exchange rates may continue to reverse cycle management. Looking ahead, GDP growth is expected to be around 6.5% in 2019.

Looking forward to 2019, the Group will invest more in the areas of national clean energy, smart grid, environmental protection, urban rail transit construction, smart manufacturing, etc., and seize the opportunity of "One Belt, One Road" construction. Guided by the "1334" main line of work, the Group takes "one policy for one enterprise" as its starting point, and actively responds to work lines around the "external market, internal management, deepening reform, continuous innovation, and strict risk control", and impacts and risks brought about by complex external environmental and economic downward pressures, improve comprehensive analytical capabilities, precise application ability, and group operational capabilities, and carry out business operations in an orderly manner, strengthen the construction of talent teams, introduce high-end talents in shortage, optimize the compensation system, and enhance the core competitiveness of the enterprise, strengthen various risk prevention and control awareness, enhance the ability to resist risks, further refine the development plan, and do the actual work. Continuously deepening the changes in three major aspects of quality, efficiency and power, the Group has entered a fast track of benign development.

The Group expects that the business will continue to maintain a stable development in 2019.

5. EFFECT OF THE 2020-2022 GROUP FINANCIAL SERVICES FRAMEWORK AGREEMENT ON THE EARNINGS, ASSETS AND LIABILITIES OF GROUP

In respect of the 2020-2022 Group Financial Services Framework Agreement, (1) the capital deposited by the Group with the Finance Company will receive interest at a rate not lower than the interest rates for deposits of similar nature and under similar terms charging the Group by other independent commercial banks in the PRC. Such arrangement will enable the Group to increase its interest income more effectively; (2) the Group is able to obtain loans from the Finance Company at an interest rate not higher than the interest rates for loans of similar nature and under similar terms charging the Group by other independent commercial banks in the PRC, which could effectively lower its financing costs; and (3) the Company will be benefited from the profits of the Finance Company, through its direct equity interest of 70% in the Finance Company. In respect of the 2020-2022 Group Financial Services Framework Agreement, there has been no, and the Group does not expect there will be any, significant effect on the earnings, assets and liabilities of the Group.

6. EFFECT OF THE 2020-2022 PARENT GROUP FINANCIAL SERVICES FRAMEWORK AGREEMENT ON THE EARNINGS, ASSETS AND LIABILITIES OF THE GROUP

In respect of the 2020-2022 Parent Group Financial Services Framework Agreement, (1) the interest rate for loans provided by the Finance Company to the Parent Group will not be lower than the interest rates for loan of a similar nature and under similar terms charging the Parent Group by other independent commercial banks in the PRC. Such arrangement will enable the Group to increase its interest income more effectively; (2) it will help expand the business scale of the Finance Company, thus enhancing the development of the Finance Company, which in turn will facilitate the expansion of the Group's business scale; and (3) the Company will be able to share the profits of the Finance Company, through its direct equity interest of 70% in the Finance Company.

In respect of the 2020-2022 Parent Group Financial Services Framework Agreement, there has been no, and the Group does not expect there will be any, significant effect on the earnings, assets and liabilities of the Group.

CANDIDATES FOR DIRECTORS OF THE FIFTH SESSION OF THE BOARD

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

Name	Age	Position
Wang Yuxiang	57	Executive Director
Chen Ping	56	Executive Director
Yang Quan	54	Executive Director
Huang Yong	56	Non-executive Director
Dou Bo	49	Non-executive Director
Wang Pengcheng	51	Non-executive Director
Lo Wah Wai	55	Independent Non-executive Director
Ren Xiaochang	62	Independent Non-executive Director
Jin Jingyu	53	Independent Non-executive Director
Liu Wei	55	Independent Non-executive Director

Executive Directors

Mr. Wang Yuxiang (王玉祥), aged 57, has served as the Chairman, executive Director, chairman of the nomination committee and strategic committee of the Company since 18 June 2013. He joined the Parent Group and served as the chairman and Party Committee secretary since April 2013, and has also served as a director and chairman of Chongqing Machinery and Electronics Holding (Group) Finance Co., Ltd. since August 2013. Mr. Wang has over 30 years of experience in business and regional economic management. Mr. Wang served as the deputy director and a member of the Party Committee of Chongqing State-owned Assets Supervision and Administration Commission from June 2009 to April 2013 (and concurrently served as the Party Committee secretary of Chongqing Consultation Research Institute (重慶市諮詢研究院) from November 2011 to April 2013), the deputy director and a member of the Party Group of Chongqing Economic and Information Technology Commission (重慶市經濟和信息化委員會) from March 2009 to June 2009, the deputy director and a member of the Party Group of Chongqing Economic Commission (重慶市經濟委員會) from April 2004 to March 2009 (during which he was delegated by three ministries and commissions including the Organization Department of the CPC Central Committee to take a temporary post as the deputy director of the Marketing Department of China Southern Power Grid from March to October 2006), the secretary of the Disciplinary Inspection Committee of China National Erzhong Group Co. from July 2000 to April 2004 (and concurrently served as the Party Committee secretary of Deyang Heavy Industry Park (德陽重工園區) from November 2000 to April 2004 and took a temporary post as the deputy secretary of Enterprise Work Committee of Chongqing Municipal Party Committee and the deputy secretary of the Communist Party Committee of SASAC of Chongqing City successively), the secretary of the Communist Youth League, vice-section level inspector and section level inspector of the Disciplinary Inspection Committee, Party branch secretary of heavy machinery workshop, office director, deputy plant manager, general Party branch secretary and plant manager of the Heavy Machinery Branch Factory (重機分廠) of China National Erzhong Group Co. from November 1984 to July 2000, and a worker of No. 3 metal workshop and an officer of the Communist Youth League of China National Erzhong Factory (中國第二重型機械廠) from December 1979 to November 1984. Mr. Wang is a senior economist, a senior political scientist, and the Executive Vice President of the Second Council of Chongqing Enterprises Confederation (重慶市企業聯合會), Chongqing Entrepreneurs Association (重慶市企業家協會) and Chongqing Federation of Industrial Economics (重慶市工業經濟聯合會). He is also a member of the Leading Group Office for the Development of Creative Industries in Chongqing (重慶市創意產業發展領導小組辦公室), and a director of the Fourth Council of China Machinery Industry Federation (中國機械工業聯合會). Mr. Wang graduated from Sichuan Cadre Correspondence School (四川幹部函授學院) with an associate degree in Party policy in September 1988, the correspondence course of economic management of the Party School of Sichuan Provincial Committee in December 1995, the program of Master of Business Administration (MBA) of Chongqing University in December 1999 and the program of EMBA in Xiamen University in December 2011. He graduated from the Class of Chongqing Enterprise Leaders of Tsinghua University (one-year term) in December 2013.

Ms. Chen Ping (陳萍), aged 56, is the general manager of the Company. Ms. Chen engages in merger and reorganization of enterprises, equity investment, capital operations and other works, gaining extended experience in corporate management. She was the vice president and a member of the Party Committee of Chongqing Machinery and Electronic Holding (Group) Co., Ltd. from February 2004 to May 2016. She is the chairman of Chongqing Machinery and Electronic Holding Group Xinbo Investment Management Co., Ltd. (重慶機電控股集團信博投資管理有限公司) from January 2016 until now, the chairman of Chongqing Hi-tech Red Horse Capital Management Limited (重慶高新創投紅馬資本管理有限公司) from May 2015 until now. She has been the executive director (legal representative) of Chongqing Machinery and Electronic Holding Group Assets Management Co., Ltd. (重慶機電控股集團資產管理有限公司) from July 2009 to October 2014. She served as the assistant to the president of Chongqing Light Textile Holding (Group) Co., Ltd. and the manager of Chongqing Super Excellence Co., Ltd. from December 2002 to February 2004, a manager of assets operation department in Chongqing Light Textile Holding (Group) Co., Ltd. from March 2001 to December 2002, the deputy manager of assets operation department of Chongqing Light Textile Holding (Group) Co., Ltd. and president of Chongqing Longhua Printing Co., Ltd. (重慶龍華印務有限公司) from August 2000 to March 2001, the deputy section officer, section officer and assistant researcher of the enterprise management department of Chongqing Light Industry Bureau from October 1983 to August 2000. Ms. Chen is a senior economist with a Bachelor of Science after graduating with a major in biology from Yuzhou University in August 1983 and obtained a postgraduate degree in business administration from Chongqing Master College of Business Administration (重慶工商管理碩士學院) in July 2001 and a master degree in EMBA (Executive Master of Business Administration) from the school of business and economics of Chongqing University in December 2013.

Mr. Yang Quan (楊泉), aged 54, the executive Director and vice general manager of the Company, has served as a vice general manager of the Company since May 2012, and an executive director of the Company since December 2012. He concurrently serves as a director of Chongqing Shengong Machinery Manufacture Co., Ltd. since February 2018. He has been a director of Chongqing Youyan Smelting New Material Co., Ltd. (重慶有研重冶新材料有限公司) from July 2014 to October 2018. He concurrently serves as a director of Chongqing Hongyan Fangda Automotive Suspension Co., Ltd. (重慶紅巖方大汽車懸架有限公司) from June 2013 up to now and a director of Precision Technology Investment and Development Co., Ltd. (精密技術投資發展有限公司) from April 2012 up to now, a director of Chongqing Gas Compressor

Factory Co., Ltd. (重慶氣體壓縮機廠有限責任公司) from December 2011 to February 2018, and an executive director and general manager of Chongqing Shengpu Materials Co., Ltd. (重慶盛普物資有限公司) from December 2011 up to now. Mr. Yang has over 20 years of experience in enterprise management, once served as the manager of the business management department and assistant to general manager of the Company from August 2007 to May 2012, the head of the economic operation department and head of the business management department of the securities work steering team of Chongqing Machinery and Electronics Holding (Group) Co., Ltd. (重慶機電控股(集團)公司) from March 2004 to August 2007, the party branch secretary of the foundry workshop, deputy director of the "five-initiative" reform office, secretary and deputy director of the hot plate workshop, chief of the equipment division, managing factory director, and chief economist of Chongqing No. 2 Machine Tools Factory (重慶第二機床廠) from July 1987 to March 2004. Mr. Yang is an engineer, graduated from the College of Mechanical Engineering of Sichuan University with a bachelor's degree in foundry in July 1987, and studied for EMBA in Xiamen University from November 2011 to June 2013.

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

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

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

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

(b) the remuneration of Mr. Wang Yuxiang, Ms. Chen Ping and Mr. Yang Quan, would be fixed with reference to their respective duties and responsibilities with the Company as well as by reference to the remuneration standards for Directors as approved at the AGM.

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

Non-executive Directors

Mr. Huang Yong (黃勇), aged 56, joined the Parent Group in July 1984. Since July 2007, he has been a non-executive Director of the Company. Mr. Huang has been a director and the general manager of the Parent Company since 2004 to now. Since January 2011 to now, Mr. Huang has concurrently served as the chairman of Chongqing General Aviation Industry Group Co., Ltd. (重慶通用航空產業集團有限公司). He has also served as a director of Chongqing Jin Tong Scrap Car Recycling (Group) Co., Ltd. (重慶市金通報廢汽車回收處理(集團)有限公司) since March 2014 to now. Mr. Huang has over 20 years of experience in the automobile industry. Since January 2013 to June 2016, he has concurrently served as the chairman of Enstrom Helicopter Corporation (美國恩斯特龍直升機公司). He was the general manager of Chongqing General Aviation Industry Group Co., Ltd. (重慶通用航空產業集團有限公司) from January 2011 to May 2013 and the vice chairman and general manager of Chongqing Hongyan Motor Co., Ltd from 2003 to 2004. From 2000 to 2004, Mr. Huang was the general manager and thereafter the chairman of Chongqing Heavy Vehicle Group Co., Ltd. From 1984 to 2000, he worked in Sichuan Automobile Manufacturing Plant, and from 1996 to 2000, he served as the deputy plant manager in Sichuan Automobile Manufacturing Plant. Mr. Huang is a senior engineer and a tutor of postgraduate students of Chongqing University of Technology. He graduated from Hunan University with a bachelor's degree in automobile manufacturing in 1984 and obtained his master's degree in engineering from Chongqing University in 2000.

Mr. Dou Bo (竇波), aged 49, has more than 20 years of financial management experience. Mr. Dou has served as secretary of the board of Chongqing Construction Engineering Group Co., Ltd. (重慶建工集團股份有限公司) (stock code: 600939.SH) from April 2013 to now. He is concurrently the deputy chief economist and the officer of security department of Chongqing Construction Engineering Group Co., Ltd. from June 2017. He has been the securities general manager of Chongqing Construction Engineering Group Co., Ltd. (重慶建工集團股份有限公司) from February 2011 to June 2017, and has been the general manager of financial assets department of Chongqing Construction Engineering Group Co., Ltd. (重慶建工集團股份有限公司) from March 2008 to February 2011 during which he received his Master's degree in Business Administration in Chongqing University from March 2005 to December 2009. He was the chief financial officer of Chongqing Second Construction Co., Ltd. (重慶第二建設有限公司) from March 2007 to March 2008, the chief accountant of Chongqing Second Construction Co., Ltd. (重慶第二建設有限公司) from March 2003 to March 2007, the deputy chief accountant of Chongqing Second Construction Co., Ltd. (重慶第二建設有限公司) from July 2002 to March 2003 and the deputy director of finance department of Chongqing Second Construction Engineering Company (重慶第二建築工程公司) from July 1996 to July 2002 during which he graduated from accounting profession of Chongqing University in December 2001 through self-learning. From October 1988 to July 1996, he was appointed as cashier, accountant and financial officer of finance section in the fourth branch of Chongqing Construction Engineering Company (重慶第二建築工程公司四分公司). He graduated with the major in infrastructure finance in Chongqing Radio and Television University (重慶廣播電視大學) from September 1986 to July 1988.

Mr. Wang Pengcheng (王鵬程), aged 51, has an MBA degree at Chongqing University. He has served as the deputy general manager of the Chongqing office of China Huarong Asset Management Co., Ltd. from August 2012 up to now and a director of Chongqing Construction Engineering Group Co., Ltd. (重慶建工集團股份有限公司) (stock code: 600939. SH) from May 2010 up to now, and held the following positions at the Chongqing office of China Huarong Asset Management Co., Ltd.: 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.

Save as disclosed above, Mr. Huang Yong, Mr. Dou Bo and Mr. Wang Pengcheng did not hold any directorships in any other listed companies or any other major appointments and qualifications in the last three years. Other than the directorship in the Company and various subsidiaries of the Company, Mr. Huang Yong, Mr. Dou Bo and Mr. Wang Pengcheng do not hold other positions in the Company or other members of the Group.

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

Pursuant to the service agreement between the Group and each of Mr. Huang Yong, Mr. Dou Bo and Mr. Wang Pengcheng,

(a) the appointment of Mr. Huang Yong, Mr. Dou Bo and Mr. Wang Pengcheng as non-executive Directors is for a fixed term of three years commencing from the date of the AGM, subject to retirement by rotation and re-election at the annual general meeting of the Company in accordance with the Articles; and

(b) the remuneration of Mr. Huang Yong, Mr. Dou Bo and Mr. Wang Pengcheng, would be fixed with reference to their respective duties and responsibilities with the Company as well as by reference to the remuneration standards for Directors as approved at the AGM.

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

Independent Non-executive Directors

Mr. Lo Wah Wai (盧華威), aged 55, joined our Company in January 2008 and has been an independent non-executive Director of the Company and the chairman of the Company's Audit and Risk Management Committee since January 2008. He had more than eight years of experience in auditing and business consulting services in an international accounting firm, two years of which were spent in the United States. Mr. Lo was an independent non-executive director of Far East Pharmaceutical Technology Limited, a company listed on the Main Board of Stock Exchange (stock code: 399.HK) in September 2004. A petition was filed on 15 September 2004 to wind up Far East Pharmaceutical Technology Limited in respect of the default of a syndicated bank loan and since then, liquidators have been appointed. Mr. Lo was not involved in the arrangement of the syndicated bank loan and his appointment was made after the said default had occurred. Mr. Lo is currently the chairman of the board of directors of BMI Group. Mr. Lo is also an independent non-executive director of Tenfu (Cayman) Holdings Company Limited (stock code: 6868.HK). He is a practising member of the Hong Kong Institute of Certified Public Accountants and a member of the American Institute of Certified Public Accountants. Mr. Lo graduated from The Chinese University of Hong Kong with a bachelor's degree in business administration in 1986 and New Jersey Institute of Technology, the U.S., with a master's degree in science in 1992.

Mr. Ren Xiaochang (任曉常), aged 62, joined the Company in July 2007 and has been an independent non-executive Director of the Company and the chairman of our remuneration committee since then. Mr. Ren has over 30 years of experience in the automobile industry. Mr. Ren has been with Chongqing Research Institute of Automobile (renamed as China Automotive Engineering Research Institute Co., Ltd. (stock code: 601965.SH)) since January 1982 to December 2016 and had served as the deputy director of Car Design Department, vice chief, chief, the vice chairman, general manager (superintendent), deputy secretary to the Party Committee, and chairman of the company. He is in charge of operational management, strategic planning, human resources and assets management, etc. Mr. Ren is also currently an independent director of China Chang'an Automobile Group Co., Ltd. (stock code: 000625.SZ) in charge of matters relating to the board of directors. Mr. Ren graduated from Hunan University with a bachelor's degree in engineering in 1982 and the Management School of Wuhan University of Technology with a master's degree in business administration in 2004. Mr. Ren is a senior engineer of researcher's grade, an expert of Machinery Industrial Scientific Technology Specialist of the PRC and an expert with special allowance from the State Council.

Mr. Jin Jingyu (靳景玉), aged 53, joined the Company in June 2012 and has served as an independent non-executive Director of the Company since June 2012. He has been serving as a professor of finance and tutor of postgraduate students of the School of Finance of Chongqing Technology and Business University since March 2009. He has served as an independent non-executive director of Bank of Chongqing Co., Ltd.* (stock code: 1963.HK) since March 2014. Mr. Jin joined the Chongqing Technology and Business University (known as Chongqing Business School before 2003) since May 1997 and served as the deputy director of the Finance and Investment Department from March 2000 to March 2001 and an associate professor and professor of finance from November 2000 to November 2005. Mr. Jin studied in the Mathematics Department of Henan University from September 1988 to July 1992 as an undergraduate student; studied in the University of Science and Technology of China majoring in management science from September 1992 to July 1995 and received a master's degree in engineering; studied in the Southwest

Jiaotong University majoring in management science and engineering from March 2003 to January 2007 and received a doctorate degree in management. Mr. Jin held several concurrent posts as follows: from September 1997 to September 2002, a business director of the Financing Service Company (融資服務公司) and general manager of the 1st Business Department of Dapeng Securities Company Limited (大鵬證券有限責任公司); from July 2002 to June 2003, a director and secretary to the board of directors of Southwest Synthetic Pharmaceutical Co., Ltd. (西南合成製藥股份公司) (stock code: 000788.SZ); from January 2006 to March 2010, a director and secretary to the board of directors of Chongqing Wanli New Energy Co., Ltd. (stock code: 600847.SH, formerly known as Chongqing Wanli Storage Batteries Co., Ltd. (重慶萬里蓄電池股份有限公司)); from June 2005 to February 2010, the chairman of Chongqing Tiandi Pharmaceutical Co., Ltd. (重慶天地藥業有限公司). Mr. Jin served as an independent director of Chongqing Financial Assets Exchange Co. Ltd. from June 2015 to July 2017. Mr. Jin is now a member of Guiding Committee on Education of Financial Majors in Universities and Colleges of Ministry of Education (教育部高等學校金融學類專業教學指導委員會), a member of the China Investment Professional Construction Committee (中國投資專業建設委員會), a member of the Enterprises Operations Branch of the Operations Research Society of China, adjunct researcher of the Research Center of the Economy of the Upper Reaches of Yangtze River (a major research center of humanities and social science of the Ministry of Education), a member of the Evaluation Committee of Professional Titles, the Teaching Steering Committee and the School of Economics of Chongqing Technology and Business University.

Mr. Liu Wei (劉偉), aged 55, has served as an independent non-executive director of the Company since September 2014. He is currently the head, professor and PhD candidate supervisor of the Business Management Department of the School of Economics and Business Administration of Chongqing University, the vice head of Business Administration and Economics Development Research Centre of Chongqing University. He has concurrently served as an independent director of Chongqing Zheng Chuan Medicine Packaging Materials Co., Ltd. (重慶正川醫藥包裝材料股份有限公司 (stock code: 603976. SH), Chongqing Fuling Electric Power Industrial Co., Ltd. (重慶涪陵電力實業股份有限公司) (stock code: 600452.SH), and Chongqing Sanxia Paints Company Limited (重慶三峽油漆股份有限公司) (stock code: 000565.SZ), an external director of Chongqing Iron & Steel (Group) Company Limited and Chongqing Landscaping Construction Investment (Group) Company Limited (重慶園林綠化建設投資(集團)有限公司), and a member of Investment Decision-making Committee of Shanghai Zhongwei Venture Capital Fund (上海中衛創業風險投資基金). Mr. Liu served at Chongqing University since July 1990. He once served as the lecturer, associate professor and assistant to the head of department for Department of Mechanical Engineering, professor of College of Mechanical Engineering, and vice chief of the Industrial Engineering Research Institute. Mr. Liu graduated from Chongqing University with a bachelor's degree in Mining Machinery in July 1984, graduated from Chongqing University with a master's degree in Mechanics in July 1987, and graduated from Chongqing University with a doctorate degree in Mechanical Design and Theory in July 1990. He also conducted post-doctoral research at the University of Manchester Institute of Science and Technology from September 1996 to October 1997. He completed the training for independent directors of listed company by the Securities Association of China in December 2002.

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

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

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

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

(b) the remuneration of Mr. Lo Wah Wai, Mr. Ren Xiaochang, Mr. Jin Jingyu and Mr. Liu Wei, would be fixed with reference to their respective duties and responsibilities with the Company as well as by reference to the remuneration standards for Directors as approved at the AGM.

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

CANDIDATES FOR SUPERVISORS OF THE FIFTH SESSION OF THE SUPERVISORY COMMITTEE

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

Name	Age	Position
Sun Wenguang	52	Supervisor
Wu Yi	45	Independent Supervisor
Wang Haibing	40	Independent Supervisor

Note: According to Article 125 of the Articles: "appointment and removal of supervisors as staff representatives shall be subject to democratic election at the staff representative meetings, staff meetings or by other way", the Company will convene a staff meeting prior to 26 June 2019 at which the fifth session of Supervisors of staff representatives will be elected. The appointment of the fifth session of Supervisors of staff representatives is not subject to approval by the Shareholders at the AGM.

Mr. Sun Wenguang (孫文廣), aged 52, has been serving as the chairman of the Supervisory Committee of the Company since October 2018, and the chairman of the Supervisory Committee of Chongqing Machinery and Electronics Holding (Group) Finance Co., Ltd. since April 2018, and has been concurrently serving as the supervisor of Chongqing General Industry (Group) Co., Ltd. since August 2018. He concurrently served as the director of Chongqing Machine Tools (Group) Co., Ltd. from July 2016 to August 2018, concurrently served as the financial controller of Chongqing Power Transformer Co., Ltd. from July 2016 to November 2017, and concurrently served as the director of Precision Technologies Group (PTG) Limited, PTG Investment Development Company Ltd. and Chongqing ABB Power Transformer Co., Ltd. from February 2017 to August 2018. He served as the chief of the Reform and Property Rights Administration Division of Chongqing State-owned Assets Supervision and Administration Commission (Chongqing Enterprise Merger and Bankruptcy Office (重慶市企業兼併破產工作辦公室)) from July 2010 to June 2016. He served as the deputy chief of the Reform and Property Rights Administration Division of Chongqing State-owned Assets Supervision and Administration Commission (No. 2 corporate supervision department (企業監管二處)) from August 2005 to July 2010, and worked as the chairman and director of Chongqing Luzuofu Equity Fund Management Co., Ltd. (重慶盧作孚股權基金管理有限公司) from March 2010 to June 2016. He served as an assistant researcher of the Property Rights Administration Division of Chongqing State-owned Assets Supervision and Administration Commission (No. 2 corporate supervision department) from March 2004 to August 2005 and as a senior staff member of the Property Rights Administration Division of Chongqing State-owned Assets Supervision and Administration Commission (No. 2 corporate supervision department) from November 2003 to March 2004. He served as a senior staff member of the No. 2 corporate department of Chongqing Municipal Finance Bureau from January 1998 to March 2003. He worked as an office clerk, clerk and senior staff member of the No. 1 corporate department of Chongqing Municipal Finance Bureau from August 1987 to January 1998. Mr. Sun is an assistant accountant. He graduated from Sichuan Provincial Fiscal School majoring in corporate and finance in July 1987 with a technical secondary school education degree and graduated with a bachelor's degree in economic management from the Correspondence School of Party School of the CPC Central Committee in December 1999, and from the MBA Institute of Chongqing Technology and Business University (重慶工商大學工商管理碩士學院) with a master's degree in 2009.

Ms. Wu Yi (吳怡), aged 45, has been an independent supervisor of the Company since September 2014. She is currently the director of Chongqing Bestone Law Firm (重慶百事得律師事務所), a member of Chongqing Lawyers Association and the Specially-invited Member of the fourth Committee of Chinese People's Political Consultative Conference of Chongqing. Ms. Wu once served as a lawyer of Chongqing Dongfanglianhe Law Firm (重慶東方聯合律師事務所), Chongqing Zhongzhu Law Firm (重慶中柱律師事務所) and Chongqing Branch of Beijing Kaiwen Law Firm (北京凱文律師事務所重慶分所) from August 1997 to April 2008. Ms. Wu studied at the School of Economic Law of Southwest University of Political Science and Law from September 1993 to July 1997 and graduated with a bachelor's degree and at the Graduate School of Southwest University of Political Science and Law from September 2003 to July 2006 and graduated with a master's degree in law. She studied at Peking University HSBC School of Business from September 2008 to July 2009 and graduated with a master's degree in finance.

Mr. Wang Haibing, aged 40, is the independent director, chairman of the audit committee and member of the remuneration and appraisal committee of 重慶燃氣(集團)股份有限公司 since November 2018, the professor of the audit department of Chongqing University of Technology since December 2015, the deputy chief of the financial and accounting research and development center and the president of the Humanistic Internal Control Research Institute of the Key Research Base of Humanities and Social Sciences of Chongqing since March 2013. He has attended the business training at the Humanities and Technology University of Poland (波蘭人文科技大學) from July to October 2016, the backbone tutor training at Chongqing University of Technology at Zhejiang University in July 2015, the accounting leader talents training of Chongqing organized by Shanghai National Accounting Institute from March 2013 to March 2016. He has obtained the leader talent certificate issued by the Finance Bureau, the Municipal Party Committee Organization Department, the Municipal Human Resources and Social Security Bureau of Chongqing and Shanghai National Accounting Institute. He has been the deputy professor and distinguished professor of the audit department of Chongqing University of Technology from April 2011 to November 2015. He successively acted as the teaching assistant and tutor of Chongqing College of Technology (重慶工學院) from April 2004 to December 2010, the intern editor of the periodical office of Finance and Accounting Monthly from February to April 2004. He graduated from Wuhan University of Technology in April 2004 with a master's degree.

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

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

1. RESPONSIBILITY STATEMENT

This circular, for which the Directors 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 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
	36,528,000	H Shares	Beneficial owner	(1)	–	3.32 (L)	0.99
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
	36,528,000	H Shares	Interest in controlled corporation	(1)	–	3.32 (L)	0.99
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 (%)
The Bank of New York Mellon (formerly known as "**The Bank of New York**")	87,276,000(L)	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 the State-Owned Assets Supervision and Administration Commission of Chongqing Municipal Government, the State-Owned Assets Supervision and Administration Commission of Chongqing Municipal Government is deemed to be interested in 1,924,225,189 domestic shares, 36,528,000 H Shares and 232,132,514 domestic shares of the Company held by the two companies.

2. Chongqing Construction Engineering Group Co., Ltd. is held as to 96.18% by the State-Owned Assets Supervision and Administration Commission of Chongqing Municipal Government through its three wholly-owned subsidiaries and as to 3.82% by the Ministry of Finance of the People's Republic of China through China Huarong Asset Management Co., Ltd.* (中國華融資產管理股份有限公司) owned by it. Therefore, the State-Owned Assets Supervision and Administration Commission of Chongqing Municipal Government and the Ministry of Finance of the People's Republic of China are deemed to be interested in 232,132,514 domestic shares of the Company held by Chongqing Construction Engineering Group Co., Ltd.

3. China Huarong Asset Management Co., Ltd.* (中國華融資產管理股份有限公司) is directly held as to 63.36% by the Ministry of Finance of the People's Republic of China and indirectly held as to 4.22% by it through its wholly-owned China Life Insurance (Group) Company, therefore its interest in 195,962,467 domestic shares of the Company was deemed to be 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 2018, 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 2018, 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 2018, 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. MATERIAL CONTRACTS

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

(i) On 26 September 2017, the Company entered into the Equity Transfer Agreements with the Parent Company, pursuant to which, the Company shall transfer all of the 100% equity interest held by it in Qijiang Gear and 45% equity interest jointly held by it and its subsidiaries in

Microcredit (of which Qijiang Gear holds 10% of the equity interest of Microcredit, and the Company and its subsidiaries jointly hold 35% of the equity interest of Microcredit) to the Parent Company. Meanwhile, the Parent Company shall transfer 100% equity interest held by it in Intelligent Manufacturing and Equipment Research Institute to the Company. For details, please refer to the announcement on 26 September 2017 published on the websites of the Stock Exchange and the Company.

(ii) On 21 December 2017, the Company's wholly-owned subsidiary Machine Tools Group entered into a Finance Lease Agreement with Kunlun Leasing in relation to the leasing target with a total purchase price amount of RMB210,000,000.00 and the aggregate pre-leasing interest and rental payment amounting to approximately RMB244,379,114.58. For details, please refer to the announcement published on the websites of the Stock Exchange and the Company on 21 December 2017.

(iii) On 26 January 2018, the Company and its subsidiary Equipment Research Institute entered into the Equity Transfer Agreement with the Parent Company, pursuant to which the Company shall transfer 51% equity interest held by it in RSDA and 20% equity interest held by Equipment Research Institute in RSDA to the Parent Company at the consideration of RMB1, respectively. For details, please refer to the announcement published on the websites of the Stock Exchange and the Company on 26 January 2018.

(iv) 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 and RMB180 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.

11. MISCELLANEOUS

(i) The registered office and the principal place of business in the PRC of the Company are at No. 60, Middle Section of Huangshan Avenue, New North Zone, Chongqing City, the PRC.

(ii) The principal place of business of the Company in Hong Kong is Room 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.

12. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection at the office of Chiu & Co. (趙凱珊律師行) 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 26 June 2019:

(i) the Articles;

(ii) 2020-2022 Group Financial Services Framework Agreement;

(iii) 2020-2022 Parent Group Financial Services Framework Agreement;

(iv) 2020-2022 Master Sales Agreement;

(v) the letter from the Independent Board Committee to the Independent Shareholders, the text of which is set out in page 33 of this circular;

(vi) the letter from the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders, the text of which is set out in pages 34 to 54 of this circular;

(vii) the written consent from the Independent Financial Advisor;

(viii) the annual reports of the Company for the two financial years ended 31 December 2017 and 2018;

(ix) the material contracts referred to in the paragraph headed "Material Contracts" in this Appendix; and

(x) a copy of this circular.

CQME

Chongqing Machinery & Electric Co., Ltd.*

重慶機電股份有限公司

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

(Stock Code: 2722)

NOTICE OF THE ANNUAL GENERAL MEETING

NOTICE IS HEREBY GIVEN that an annual general meeting (the "**Meeting**" or "**AGM**") of Chongqing Machinery & Electric Co., Ltd.* (the "**Company**") will be held at the Conference Room, 16/F, Jidian Building, No. 60, Middle Section of Huangshan Avenue, New North Zone, Chongqing City, the PRC on Wednesday, 26 June 2019 at 9:00 a.m. (or any adjournment thereof) for the following purposes:

ORDINARY RESOLUTIONS

1. To consider and approve the report of the board of directors of the Company (the "**Board**") for the year ended 31 December 2018;

2. To consider and approve the report of the Supervisory Committee of the Company for the year ended 31 December 2018;

3. To consider and approve the audited financial statements of the Company and its subsidiaries and the auditor's report for the year ended 31 December 2018;

4. To consider and approve the profit appropriation proposal of the Company for the year ended 31 December 2018 and the declaration of the final dividend of RMB0.04 per share (tax inclusive);

5. To consider and approve the 2019 annual budget report of the Company;

6. To consider and approve the appointment of ShineWing Certified Public Accountants (Special General Partnership) as the auditor of the Company for the year 2019 to hold office until the conclusion of the next annual general meeting and the total review and audit fees of RMB3.00 million for the Company's 2019 interim financial statements and 2019 annual financial report;

7. To consider and approve the Master Sales Agreement entered into between the Company and Chongqing Machinery and Electric Holding (Group) Co., Ltd. on 1 April 2019 (the "**2020-2022 Master Sales Agreement**") and the proposed annual caps for such transactions for the three years ended 31 December 2022; and to authorize the directors of the Company to do all such further acts and things and execute all such further documents and take all such steps that

* *For identification purposes only*

are ancillary to the 2020-2022 Master Sales Agreement and of administrative nature which, in their absolute discretion, to implement and/or give effect to the matters contemplated under this resolution;

8. To consider and approve the transactions in respect of the deposit services under the financial services framework agreement entered into between the Company and Chongqing Machinery and Electric Holding (Group) Finance Co., Ltd. on 1 April 2019 (the "**2020-2022 Group Financial Services Framework Agreement**") and the proposed annual caps for such transactions for the three years ended 31 December 2022; and to authorize the directors of the Company to do all such further acts and things and execute all such further documents and take all such steps that are ancillary to the deposits services under the 2020-2022 Group Financial Services Framework Agreement and of administrative nature which, in their absolute discretion, to implement and/or give effect to the matters contemplated under this resolution;

9. To consider and approve the transactions in respect of the loan services under the financial services framework agreement entered into between Chongqing Machinery and Electronic Holding (Group) Co., Ltd. and Chongqing Machinery and Electric Holding (Group) Finance Co., Ltd. on 1 April 2019 (the "**2020-2022 Parent Group Financial Services Framework Agreement**") and the proposed annual caps for such transactions for the three years ended 31 December 2022 and to authorize the directors of the Company to do all such further acts and things and execute all such further documents and take all such steps that are ancillary to the loan services under the 2020-2022 Parent Group Financial Services Framework Agreement and of administrative nature which, in their absolute discretion, to implement and/or give effect to the matters contemplated under this resolution;

10. To consider and approve the appointment of Mr. Wang Yuxiang as an executive Director of the next session of the Board of the Company to hold office from the date of the AGM until expiry of the term of the next session of the Board and to authorize the Board to fix the remuneration of Mr. Wang Yuxiang pursuant to the remuneration standard for Directors passed at the 2018 annual general meeting and to enter into a service agreement with him on and subject to such terms and conditions as the Board shall think fit and to do all such acts and things to give effect to such matters;

11. To consider and approve the appointment of Ms. Chen Ping as an executive Director of the next session of the Board of the Company to hold office from the date of the AGM until expiry of the term of the next session of the Board and to authorize the Board to fix the remuneration of Ms. Chen Ping pursuant to the remuneration standard for Directors passed at the 2018 annual general meeting and to enter into a service agreement with her on and subject to such terms and conditions as the Board shall think fit and to do all such acts and things to give effect to such matters;

12. To consider and approve the appointment of Mr. Yang Quan as an executive Director of the next session of the Board of the Company to hold office from the date of the AGM until expiry of the term of the next session of the Board and to authorize the Board to fix the remuneration of Mr. Yang Quan pursuant to the remuneration standard for Directors passed at

the 2018 annual general meeting and to enter into a service agreement with him on and subject to such terms and conditions as the Board shall think fit and to do all such acts and things to give effect to such matters;

13. To consider and approve the appointment of Mr. Huang Yong as a non-executive Director of the next session of the Board of the Company to hold office from the date of the AGM until expiry of the term of the next session of the Board and to authorize the Board to fix the remuneration of Mr. Huang Yong pursuant to the remuneration standard for Directors passed at the 2018 annual general meeting and to enter into a service agreement with him on and subject to such terms and conditions as the Board shall think fit and to do all such acts and things to give effect to such matters;

14. To consider and approve the appointment of Mr. Zhang Yongchao as a non-executive Director of the next session of the Board of the Company to hold office from the date of the AGM until expiry of the term of the next session of the Board and to authorize the Board to fix the remuneration of Mr. Zhang Yongchao pursuant to the remuneration standard for Directors passed at the 2018 annual general meeting and to enter into a service agreement with him on and subject to such terms and conditions as the Board shall think fit and to do all such acts and things to give effect to such matters;

15. To consider and approve the appointment of Mr. Dou Bo as a non-executive Director of the next session of the Board of the Company to hold office from the date of the AGM until expiry of the term of the next session of the Board and to authorize the Board to fix the remuneration of Mr. Dou Bo pursuant to the remuneration standard for Directors passed at the 2018 annual general meeting and to enter into a service agreement with him on and subject to such terms and conditions as the Board shall think fit and to do all such acts and things to give effect to such matters;

16. To consider and approve the appointment of Mr. Wang Pengcheng as a non-executive Director of the next session of the Board of the Company to hold office from the date of the AGM until expiry of the term of the next session of the Board and to authorize the Board to fix the remuneration of Mr. Wang Pengcheng pursuant to the remuneration standard for Directors passed at the 2018 annual general meeting and to enter into a service agreement with him on and subject to such terms and conditions as the Board shall think fit and to do all such acts and things to give effect to such matters;

17. To consider and approve the appointment of Mr. Lo Wah Wai as an independent non-executive Director of the next session of the Board of the Company to hold office from the date of the AGM until expiry of the term of the next session of the Board and to authorize the Board to fix the remuneration of Mr. Lo Wah Wai pursuant to the remuneration standard for Directors passed at the 2018 annual general meeting and to enter into a service agreement with him on and subject to such terms and conditions as the Board shall think fit and to do all such acts and things to give effect to such matters;

18. To consider and approve the appointment of Mr. Ren Xiaochang as an independent non-executive Director of the next session of the Board of the Company to hold office from the date of the AGM until expiry of the term of the next session of the Board and to authorize the Board to fix the remuneration of Mr. Ren Xiaochang pursuant to the remuneration standard for Directors passed at the 2018 annual general meeting and to enter into a service agreement with him on and subject to such terms and conditions as the Board shall think fit and to do all such acts and things to give effect to such matters;

19. To consider and approve the appointment of Mr. Jin Jingyu as an independent non-executive Director of the next session of the Board of the Company to hold office from the date of the AGM until expiry of the term of the next session of the Board and to authorize the Board to fix the remuneration of Mr. Jin Jingyu pursuant to the remuneration standard for Directors passed at the 2018 annual general meeting and to enter into a service agreement with him on and subject to such terms and conditions as the Board shall think fit and to do all such acts and things to give effect to such matters;

20. To consider and approve the appointment of Mr. Liu Wei as an independent non-executive Director of the next session of the Board of the Company to hold office from the date of the AGM until expiry of the term of the next session of the Board and to authorize the Board to fix the remuneration of Mr. Liu Wei pursuant to the remuneration standard for Directors passed at the 2018 annual general meeting and to enter into a service agreement with him on and subject to such terms and conditions as the Board shall think fit and to do all such acts and things to give effect to such matters;

21. To consider and approve the appointment of Mr. Sun Wenguang as a supervisor of the next session of the Supervisory Committee of the Company to hold office from the date of the AGM until expiry of the term of the next session of the Supervisory Committee and to authorize the Supervisory Committee to fix the remuneration of Mr. Sun Wenguang pursuant to the remuneration standard for supervisors passed at the 2018 annual general meeting and to enter into a service agreement with him on and subject to such terms and conditions as the Supervisory Committee shall think fit and to do all such acts and things to give effect to such matters;

22. To consider and approve the appointment of Ms. Wu Yi as a supervisor of the next session of the Supervisory Committee of the Company to hold office from the date of the AGM until expiry of the term of the next session of the Supervisory Committee and to authorize the Supervisory Committee to fix the remuneration of Ms. Wu Yi pursuant to the remuneration standard for supervisors passed at the 2018 annual general meeting and to enter into a service agreement with her on and subject to such terms and conditions as the Supervisory Committee shall think fit and to do all such acts and things to give effect to such matters;

23. To consider and approve the appointment of Mr. Wang Haibing as a supervisor of the next session of the Supervisory Committee of the Company to hold office from the date of the AGM until expiry of the term of the next session of the Supervisory Committee and to authorize the Supervisory Committee to fix the remuneration of Mr. Wang Haibing pursuant to the remuneration standard for supervisors passed at the 2018 annual general meeting and to

enter into a service agreement with him on and subject to such terms and conditions as the Supervisory Committee shall think fit and to do all such acts and things to give effect to such matters;

24. To consider and approve the remuneration proposal for the fifth session of the Board and the Supervisory Committee;

25. To consider and approve the provision of guarantee by the Company for comprehensive financing of Holroyd of GBP21.00 million;

26. To consider and approve the provision of guarantee by the Company for comprehensive financing of PTG Development of USD50.00 million;

27. To consider and approve the provision of guarantee by the Company for comprehensive financing of PTG Development or Holroyd of USD84.50 million;

28. To consider and approve the provision of guarantee by the Company for loans of Chongqing General of RMB110.00 million;

29. To consider and approve the provision of guarantee by Chongqing General for loans of Chongtong Chengfei of RMB817.00 million;

SPECIAL RESOLUTION

30. To give a general mandate to the Board to allot, issue and deal with additional Domestic Shares and/or the H Shares and to make or grant offers, agreements and/or options in respect thereof (the "**General Mandate**"), subject to the following conditions:

"**THAT**

(A) (a) the General Mandate shall not extend beyond the Relevant Period save that the Board may during the Relevant Period make or grant offers, agreements and/or options which may require the exercise of such power after the end of the Relevant Period;

(b) the aggregate number of the Domestic Shares and the H Shares allotted and issued or agreed conditionally or unconditionally to be allotted and issued (whether pursuant to an option or otherwise) by the Board (otherwise than pursuant to any scrip dividend scheme (or similar arrangement providing for the allotment and issue of shares in lieu of the whole or part of a dividend), any share option scheme, rights issue or any separate approval of the shareholders of the Company) shall not exceed:

(i) 20% 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 resolution; and

(c) the Board will only exercise its power under the General Mandate in accordance with the Company Law of the PRC and the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (as each of them may be amended from time to time) and only if all necessary approvals from the China Securities Regulatory Commission and/or other relevant government authorities in the PRC are obtained;

and, for the purposes of this resolution:

"Domestic Share(s)"	mean domestic ordinary share(s) in the share capital of the Company which are subscribed and/or paid for in Renminbi;
"H Share(s)"	mean overseas listed foreign invested shares (being ordinary shares) in the share capital of the Company which are subscribed and/or paid for in Hong Kong dollars or foreign currency other than Renminbi;
"Relevant Period"	means the period from the date of passing this resolution until the earlier of: (a) the conclusion of the next annual general meeting of the Company following the passing of this resolution, unless, by special resolution passed at that meeting, the mandate is renewed, either unconditionally or subject to conditions; or (b) the expiry of the period within which the next annual general meeting is required by the Articles of Association of the Company or any applicable laws to be held; or (c) the passing of a special resolution of the Company at a general meeting revoking or varying the authority set out in this resolution;
"Rights Issue"	means the allotment or issue of shares or other securities of the Company which would or might require shares to be allotted and issued pursuant to an offer made to all the shareholders of the Company (excluding, as the Board may decide, for such purpose any shareholder who is resident in a place where such offer is not permitted under the law or

regulation of that place) entitled to such offer, pro rata (apart from fractional entitlements) to their then existing holdings of shares; and

(B) contingent on the Board resolving to exercise the General Mandate and/or issue shares pursuant to paragraph (a) of this resolution, the Board be and is hereby authorised:

(a) to approve, execute and do, and/or procure to be executed and done all such documents, deeds and matters which it may consider necessary in connection with the exercise of the General Mandate and/or the issue of shares, including but not limited to the time, price, quantity and place for such issue, to make all necessary applications to the relevant authorities, and to enter into underwriting agreement(s) or any other agreement(s);

(b) to determine the use of proceeds and to make all necessary filings and registration with the relevant authorities in the PRC, Hong Kong and/or any other places and jurisdictions (as appropriate); and

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

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

Chongqing, the PRC
10 May 2019

Notes:

1. A member of the Company ("**Member**") entitled to attend and vote at the Meeting is entitled to appoint a proxy or proxies to attend and vote in his stead. A proxy need not to be a Member. A form of proxy for use at the Meeting is enclosed herewith. Where two or more persons are registered as joint holders of any Share, only the person whose name appears first in the register of members shall be entitled to receive this notice, to attend and exercise all the voting powers attached to such Share at the Meeting, and this notice shall be deemed to be given to all joint holders of such Share.

2. To be valid, the form of proxy together with any power of attorney or other authority (if any) under which it is signed or a notarially certified copy of that power of attorney or authority must be deposited with the Company's H shares registrar Computershare Hong Kong Investor Services Limited, at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, and in case of holders of Domestic Shares, to the Company's mailing address at No. 60, Middle Section of Huangshan Avenue, New North Zone, Chongqing City, the PRC, not later than 24 hours before the

time appointed for holding the Meeting or the time appointed for passing the resolutions or any adjournment thereof. Delivery of the form of proxy shall not preclude a Member from attending and voting in person at the Meeting and, in such event, the instrument appointing a proxy shall be deemed to be revoked.

3. In order to determine the Members who are entitled to attend and vote at the Meeting, the register of Members will be closed from 27 May 2019 to 26 June 2019, both days inclusive, during which period no transfer of H shares of the Company will be effected. All transfer documents accompanied by the relevant share must be lodged with the Company's H share registrar Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17/F, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong not later than 4:30 p.m. on 24 May 2019.

4. In order to ascertain the shareholders who are entitled to receive the final dividend, the register of members of the Company will be closed from Wednesday, 3 July 2019 to Monday, 8 July 2019, 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 Shops 1712-1716, 17/F, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong for registration no later than 4:30 p.m. on Tuesday, 2 July 2019.

5. Whether the holders of H shares of the Company could attend the Meeting, please complete the enclosed reply slip for the Meeting and return it, by hand or by post, to the Company's H share registrar Computershare Hong Kong Investor Serviced Limited, at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, or by fax on or before Thursday, 6 June 2019.

6. Whether the holders of Domestic Shares of the Company could attend the Meeting, please complete the enclosed reply slip for the Meeting and return it by hand or by post, to the Company's mailing address at No. 60, Middle Section of Huangshan Avenue, New North Zone, Chongqing City, the PRC, or by fax on or before Thursday, 6 June 2019.

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