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 2021;
(2) REPORT OF THE SUPERVISORY COMMITTEE OF THE COMPANY IN 2021;
(3) AUDITED FINANCIAL STATEMENTS AND AUDITOR'S REPORT OF THE COMPANY AND ITS SUBSIDIARIES IN 2021;
(4) 2021 ANNUAL FINAL REPORT OF THE COMPANY;
(5) PROFIT APPROPRIATION PROPOSAL FOR THE YEAR OF 2021 OF THE COMPANY;
(6) 2022 ANNUAL BUDGET REPORT OF THE COMPANY;
(7) APPOINTMENT OF THE COMPANY'S AUDITOR IN 2022;
(8) CONTINUING CONNECTED TRANSACTIONS/MAJOR TRANSACTIONS AND CONTINUING CONNECTED TRANSACTIONS;
(9) RE-ELECTION OF DIRECTORS;
(10) CONTINUOUS APPOINTMENT OF INDEPENDENT NON-EXECUTIVE DIRECTORS WHO HAVE SERVED MORE THAN NINE YEARS;
(11) RE-ELECTION OF SUPERVISORS;
(12) ADMINISTRATIVE MEASURES ON DIRECTORS' AND SUPERVISORS' REMUNERATION OF THE COMPANY;
(13) PROVISION OF GUARANTEE BY THE GROUP FOR THE FINANCING OF ITS SUBSIDIARIES;
(14) PROPOSED GRANTING OF GENERAL MANDATE TO ISSUE NEW SHARES OF THE COMPANY; AND
(15) 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

Lego Corporate Finance Limited
力高企業融資有限公司

The letter from the Board of the Company is set out on pages 6 to 37 of this circular.

Notice convening the 2021 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 Thursday, 23 June 2022 at 9:00 a.m. is set out on pages 89 to 96 of this circular.

Enclosed is the form of proxy for use at the Annual General Meeting 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 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.

24 May 2022

* *For identification purposes only*

CONTENTS

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

"2023-2025 Master Sales Agreement"	means the master sales agreement entered into between the Company and the Parent Company on 7 April 2022, pursuant to which the Group has agreed to sell supplies, parts, components or materials, finished goods, electrical equipment and components for industrial use (including control valves, parts for steering systems, gears, clutch, the BV series of electric cables) to the Parent Group during 2023-2025
"2023-2025 Master Supplies Agreement"	means the master supplies agreement entered into between the Company and the Parent Company on 7 April 2022, pursuant to which the Parent Group has agreed to supply intelligent equipment, component parts (such as standard component, electric machine, control cabinet, component parts, etc.) and other relevant or similar products, industry services (such as transport and storage services, contract energy management services) to the Group during 2023-2025
"2023-2025 Master Leasing Agreement"	means the master leasing agreement entered into between the Company and the Parent Company on 7 April 2022, pursuant to which the Parent Group will lease land and buildings to the Group to be used as offices, production facilities, workshops and staff quarters during 2023-2025
"2023-2025 Group Financial Services Framework Agreement"	means the financial services framework agreement entered into between the Company and the Finance Company on 7 April 2022, pursuant to which the Finance Company will provide deposits, loans, guarantees and other financial services to the Group during 2023-2025
"2023-2025 Parent Group Financial Services Framework Agreement"	means the financial services framework agreement entered into between the Parent Company and the Finance Company on 7 April 2022, pursuant to which the Finance Company will provide deposits, loans, guarantees and other financial services to the Parent Group during 2023-2025
"Announcement"	means the announcement of the Company dated 7 April 2022 in relation to the 2023-2025 Master Sales Agreement, the 2023-2025 Master Supplies Agreement, the 2023-2025 Master Leasing Agreement, the 2023-2025 Group Financial Services Framework Agreement and the 2023-2025 Parent Group Financial Services Framework Agreement

"Annual General Meeting" or "AGM"	means the 2021 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 Thursday, 23 June 2022 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 89 to 96 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
"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
"Chongtong Chengfei Jiangsu Company"	means Chongtong Chengfei Wind Power Equipment Jiangsu Co., Ltd., a wholly-owned subsidiary of Chongtong Chengfei
"Chongqing Water Company"	means Chongqing Water Turbine Works Co., Ltd., a wholly-owned subsidiary of the Company
"Chongqing Machine Tools Group"	means Chongqing Machine Tools (Group) Co., Ltd., a wholly-owned subsidiary of the Company
"CBIRC"	means China Banking and Insurance Regulatory Commission
"CBRC"	means China Banking Regulatory Commission (中國銀行業監督管理委員會)
"Company"	means Chongqing Machinery & Electric Co., Ltd.* (重慶機電股份有限公司), a joint stock limited company incorporated in the PRC
"Controlling Shareholder"	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 1 April 2019, pursuant to which the Finance Company would provide deposits, loans, guarantees and other financial services to the Group during 2020-2022
"Existing Master Sales Agreement"	means the master sales agreement entered into between the Company and the Parent Company on 1 April 2019, pursuant to which the Group agreed to sell certain materials such as the steering tension rods, track bars, bumpers, the BV series of electric cables, wires and cables, refrigeration machines, copper plates, gas compressors, softwares and raw materials such as steel and gears to the Parent Group during 2020-2022
"Existing Master Supplies Agreement"	means master the supplies agreement entered into between the Company and the Parent Company on 1 April 2019, pursuant to which the Parent Group agreed to supply component parts, raw materials and industry services such as gears, component parts, YB2 series engines, electricity, water, gas and electrolytic copper, transport and storage services, contract energy management services to the Group during 2020-2022
"Existing Master Leasing Agreement"	means the master leasing agreement entered into between the Company and its Parent Company on 1 April 2019 for the leasing of land and buildings from the Parent Group to the Group as offices, production facilities, workshops and staff quarters during 2020-2022
"Existing 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 would provide deposits, loans, guarantees and other financial services to the Parent Group during 2020-2022
"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 by the Company and the Parent Company, 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

"Holroyd"	means Holroyd Precision Ltd., a wholly-owned subsidiary of PTG and a limited company incorporated in the United Kingdom
"H Shares"	means the overseas-listed foreign shares of the Company with a nominal value of RMB1.00 each, which are listed on the Stock Exchange
"HK$"	means Hong Kong dollars, the lawful currency of Hong Kong
"Hong Kong"	means the Hong Kong Special Administrative Region of the PRC
"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 "Lego Corporate Finance"	means Lego Corporate Finance Limited, a licensed corporation to carry on Type 6 (advising on corporate finance) regulated activities under the SFO, being the independent financial adviser to the Independent Board Committee and the Independent Shareholders in relation to the terms and conditions of the continuing connected transactions and the respective transactions contemplated thereunder (including their respective annual caps)
"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 20 May 2022, 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 Hong Kong, the Macau Special Administrative Region of the PRC and the Taiwan region
"PTG"	means Precision Technologies Group Limited, a wholly-owned subsidiary of the Company and a limited company incorporated in the United Kingdom
"PCL"	means Precision Components Ltd., a wholly-owned subsidiary of PTG and a limited company incorporated in the United Kingdom
"Promoter"	has the meaning ascribed to it under the Listing Rules
"Prospectus"	means the prospectus dated 30 May 2008 issued by the Company
"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)
"RMB"	means Renminbi, the lawful currency of the PRC
"SFO"	means the Securities and Futures Ordinance (Chapter 571 of the laws of Hong Kong)
"Shares"	means the Domestic Shares and/or the H Shares
"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

CQME

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

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

(Stock Code: 2722)

Executive Directors:
Mr. Zhang Fulun
Ms. Chen Ping
Mr. Yang Quan

Non-executive Directors:
Mr. Huang Yong
Mr. Dou Bo
Mr. Ma Aijun
Mr. Cai Zhibin

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

24 May 2022

To the Shareholders

Dear Sir or Madam,

**(1) REPORT OF THE BOARD OF DIRECTORS OF THE COMPANY IN 2021;
(2) REPORT OF THE SUPERVISORY COMMITTEE OF THE COMPANY IN 2021;
(3) AUDITED FINANCIAL STATEMENTS AND AUDITOR'S REPORT OF THE COMPANY AND ITS SUBSIDIARIES IN 2021;
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(5) PROFIT APPROPRIATION PROPOSAL FOR THE YEAR OF 2021 OF THE COMPANY;
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(8) CONTINUING CONNECTED TRANSACTIONS/MAJOR TRANSACTIONS AND CONTINUING CONNECTED TRANSACTIONS;
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(13) PROVISION OF GUARANTEE BY THE GROUP FOR THE FINANCING OF ITS SUBSIDIARIES;
(14) PROPOSED GRANTING OF GENERAL MANDATE TO ISSUE NEW SHARES OF THE COMPANY; AND
(15) 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 7 April 2022 in relation to the 2023-2025 Master Sales Agreement, the 2023-2025 Master Supplies Agreement, the 2023-2025 Master Leasing Agreement, the 2023-2025 Group Financial Services Framework Agreement and the 2023-2025 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 2023, 2024 and 2025.

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 2021

Details are set out in "Report of the Board of Directors" within the Company's 2021 Annual Report issued by the Company on the website of the Stock Exchange on 14 April 2022.

3. REPORT OF THE SUPERVISORY COMMITTEE OF THE COMPANY IN 2021

Details are set out in "Report of the Supervisory Committee" within the Company's 2021 Annual Report issued by the Company on the website of the Stock Exchange on 14 April 2022.

4. AUDITED FINANCIAL STATEMENTS AND AUDITOR'S REPORT OF THE COMPANY AND ITS SUBSIDIARIES IN 2021

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 2021 Annual Report issued by the Company on the website of the Stock Exchange on 14 April 2022.

5. 2021 ANNUAL FINAL REPORT OF THE COMPANY

Details are set out in "Management's Discussion and Analysis", "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 2021 Annual Report issued by the Company on the website of the Stock Exchange on 14 April 2022.

6. PROFIT APPROPRIATION PROPOSAL FOR THE YEAR OF 2021 OF THE COMPANY

The Board has recommended the payment of a final dividend of RMB0.03 per share (tax inclusive) for the year ended 31 December 2021, which is calculated based on the total share capital of 3,684,640,154 Shares for the year ended 31 December 2021, totaling RMB110,539,204.62. Subject to approval by

Shareholders at the Annual General Meeting to be convened on 23 June 2022, the proposed final dividend will be paid on 28 July 2022 to Shareholders whose names appear on the register of members of the Company on 29 June 2022 (the "**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, 29 June 2022 to Thursday, 7 July 2022 (both days inclusive), during which period no transfer of shares will be registered. All transfer documents accompanied by share certificates 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, 28 June 2022.

7. 2022 ANNUAL BUDGET REPORT OF THE COMPANY

In 2022, the Company's operating expenses are expected to be approximately RMB289.7 million.

8. APPOINTMENT OF THE COMPANY'S AUDITOR IN 2022

ShineWing Certified Public Accountants LLP is the PRC accountant of the Company engaged in 2021. During their engagement, they fully performed their duties to present unqualified audited report of 2021 for the Company which are objective and fair in accordance with independent accounting standards.

The Company proposed to reappoint ShineWing Certified Public Accountants LLP as the auditor of the Company in 2022. The review and audit fees are approximately RMB2.6 million for the 2022 interim financial report and annual financial report.

9. CONTINUING CONNECTED TRANSACTIONS/MAJOR TRANSACTIONS AND CONTINUING CONNECTED TRANSACTIONS

(I) CONTINUING CONNECTED TRANSACTION

Background

References are made to the announcement of the Company dated 1 April 2019 and the circular of the Company dated 6 June 2019 in relation to, among others, the Existing Master Sales Agreement, which constitute continuing connected transactions of the Company under Chapter 14A of the Listing Rules and which will expire on 31 December 2022.

2023-2025 Master Sales Agreement

On 1 April 2019, the Company entered into the Existing Master Sales Agreement, pursuant to which the Group agreed to sell certain materials such as the steering tension rods, track bars, bumpers, the BV series of electric cables, wires and cables, refrigeration machines, copper plates, gas compressors, softwares and raw materials such as steel and gears to the Parent Group.

As the Existing Master Sales Agreement will expire on 31 December 2022, the Company renewed the Existing Master Sales Agreement with the Parent Company under the same or similar terms by entering into the 2023-2025 Master Sales Agreement on 7 April 2022, details of which are set out as follows:

Date

7 April 2022

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 2023 and expiring on 31 December 2025.

Nature of transaction

The Group sells supplies, parts, components or materials, finished goods, electrical equipment and components for industrial use (including control valves, parts for steering systems, gears, clutch assemblies and the BV series of electric cables) 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. The payment terms generally vary from 30 days to 90 days depending on the type and nature of the project, and will make reference to the prevalent payment terms of similar projects in the same industry. Before signing a particular contract under the 2023-2025 Master Sales Agreement by any member of the Company, the financial department, the legal department and the business department, will strictly assess the terms of the contract and make sure the term adhere to the principal terms under the 2023-2025 Master Sales Agreement, are fair and reasonable and are in the interest of the Company and its shareholders as a whole. If there is no objection to the signing of the contract by the said departments, the contract will be approved according to the decision-making procedure of the Company.

Pricing Basis for the 2023-2025 Master Sales Agreement

The 2023-2025 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 2023-2025 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 for similar products of the Group in the past three years.

For the pricing basis (i), normally the Group would obtain market price through the prices quoted on websites for the industry. If such prices are not available, the Group would enquire for market prices from at least two independent third parties.

For pricing basis (iii), the minimum mark-up of 15% is determined mainly based on the gross profit margin for similar products of the Group in the past 3 years. According to the previous annual reports of the Company, (1) the Group's segment gross profit margin of (a) electrical wire and cable; (b) general machinery; (c) machinery tools; and (d) material sales for the year ended 31 December 2019 was approximately 11.9% on average; (2) the Group's segment gross profit margins of (a) electrical wire and cable; (b) general machinery; (c) machinery tools; and (d) material sales for the year ended 31 December 2020 was approximately 14.7% on average; and (3) the Group's segment gross profit margins of (a) electrical wire and cable; (b) general machinery; (c) machinery tools; and (d) material sales for the year ended 31 December 2021 was approximately 13.9% on average. The Company is of the view that the historical gross profit margin for similar products of the Group is an appropriate indicator of a fair and reasonable mark-up and the 15% mark-up, being within the range of and above the average of the relevant segment gross profit margins of the Group for each of the three years ended 31 December 2021, is fair, reasonable and in the interest of the Company and its Shareholders as a whole.

All the products sold to the Parent Group are 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 2023-2025 Master Sales Agreement, except that pricing basis (iii) was and will be adopted for the price of gas compressors (since they are produced for military use and market price is not available) and software (since they are customized in compliance with the need of different customers).

After reviewing the relevant basis, the Directors (including the independent non-executive Directors) are of the view that the terms of the 2023-2025 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:

	For the year ended 31 December 2019 *RMB in million*	**For the year ended 31 December 2020** *RMB in million*	**For the year ended 31 December 2021** *RMB in million*
Annual cap amount	360.0	344.7	330.0
Historical transaction record	230.1	221.0	178.4
Utilization rate	63.9%	64.1%	54.1%

The proposed annual cap for each of the three years ending 31 December 2025 under the 2023-2025 Master Sales Agreement is set out below:

	For the year ending 31 December 2023 *RMB in million*	**For the year ending 31 December 2024** *RMB in million*	**For the year ending 31 December 2025** *RMB in million*
Proposed annual cap amount	227.00	220.0	250.0

The proposed annual cap for the 2023-2025 Master Sales Agreement is determined with reference to:

(i) the estimated demand for the production and sales of commercial vehicle parts, power equipment and general machinery. As illustrated in paragraphs (vi) and (vii) below, in addition to the products for the Parent Group's ordinary course of business, the Parent Group would also require ventilation and air-conditioning of RMB53 million and cables of RMB50 million for various projects, and would have a higher demand for parts and components for commercial vehicle in 2023-2025.

(ii) the estimated sales volume of the Group for each of the three fiscal years ending 31 December 2025. According to the 14th Five-Year Plan which was actively implemented by the Company, the Company expects that the total scale of production and sales of commercial vehicle parts will increase by 50% at the end of the 14th Five-Year Plan period (i.e.2025) as compared with the 13th Five-Year Plan period (i.e. 2016-2020), reaching a total scale of RMB3 billion, the sales volume shall also increase by 100% by the end of 2025 as compared with the 2016-2020 period. As for the production and sales of power equipment, the Company expects that the total operating revenue will reach RMB2.8 to 3 billion by the end of 2025. As for the general machinery, during the 14th

Five-Year Plan period, the annual demand for centrifugal compressors is expected to be 80-100 sets, which worth about RMB3 billion. The average market for centrifugal refrigeration units is about RMB3 billion, accounting for 25% to 35% of the industry. The average annual growth rate of the industry is expected to be 8 to 15%;

(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 for the fiscal year ended 31 December 2021;

(v) the increase in price of raw materials such as coppers and steels affected by market environment and other external factors. It is noted that the commodity prices increased significantly in 2021 as compared with that in 2019 and 2020, and are expected to keep rising in view of the rising inflation. According to the comprehensive steel price index of the PRC in 2021 published by the China Iron and Steel Association (http://www.chinaisa.org.cn/) on 29 March 2022, it is noted that the average price of steel products increased by approximately 27.8% from January 2020 to December 2021. It is expected the trend will continue in 2023 to 2025;

(vi) according to the 14th Five-Year Plan of Chongqing Rail Transit, it is estimated that by 2025, Chongqing will have a rail transit operation network of about 600 kilometers, and accelerate the construction of 7 rail transit projects with a total of 123 kilometers under construction, including Line 9 Phase II and Line 18. The Parent Group is expected undertake certain parts of the said rail transit projects. For the carrying out of the said projects, from 2023 to 2025, it is estimated that Chongqing General, a subsidiary of the Group, will undertake from the Parent Group the project of ventilation and air conditioning in the stations, with an estimated contract amount of approximately RMB53 million, and Pigeon Company, a subsidiary of the Group, will undertake from the Parent Group the cable project of the track construction project, with an estimated contract amount of approximately RMB30 million; and

(vii) CAFF Company, a subsidiary of the Group, maintained a long-term stable cooperative relationship with SAIC-IVECO Hongyan Commercial Vehicle Co. Ltd. ("**SAIC Hongyan**"), the subsidiary of the Parent Group, and continued to sell parts and components for commercial vehicle to SAIC Hongyan; meanwhile, SAIC Hongyan, in actively response to the policy of upgrade and updating of the latest national vehicle pollutant emission standard, developed in a rapid manner in the heavy truck industry and accelerated the continuous exploration of commercial vehicles towards new energy and intelligence. This is in line with the direction of services provided by Chongqing Machinery & Electronic Intelligent Manufacturing Co., Ltd., a subsidiary of the Group, to customers. The two parties will strengthen business cooperation to achieve a win-win situation. It is estimated that the business will continue to grow steadily from 2023 to 2025.

The global outbreak of the new COVID-19 variant is an unprecedented challenge. Although its impacts and duration are not fully known yet and has created considerable negative sentiment and uncertainty in global economy, with the effective control measure of the PRC government, the Company expects that the impact to be brought on the Master Sales Agreement in 2023-2025 would be limited.

The Directors (including the independent non-executive Directors) are of the opinion that the proposed annual caps are fair and reasonable and that the transactions contemplated under the 2023-2025 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 2023-2025 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 2023-2025 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 2023-2025 Master Sales Agreement are complied with in 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 at the Latest Practicable Date, as the Parent Company is the Controlling Shareholder of the Company, holding 54.74% 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 2023-2025 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 2023-2025 Master Sales Agreement exceed 5% and such annual caps exceed HK$10,000,000, the 2023-2025 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.

(II) CONTINUING CONNECTED TRANSACTIONS AND MAJOR TRANSACTIONS

Background

References are made to the announcements of the Company dated 1 April 2019 as well as the circular of the Company dated 6 June 2019, 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 2022.

2023-2025 Group Financial Services Framework Agreement

On 7 April 2022, the Company and the Finance Company entered into the 2023-2025 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 loan services, guarantee services and other financial services under the 2023-2025 Group Financial Services Framework Agreement have been disclosed in the announcement pursuant to Chapter 14A of the Listing Rules, and the relevant percentage ratios of these transactions have not reached the level required to be submitted to the Independent Shareholders for approval. The resolution in relation to the deposit services submitted to the general meeting will be voted separately. As such, even if the resolution is voted down by the Independent Shareholders, the implementation of other financial services under the 2023-2025 Group Financial Services Framework Agreement will not be affected.

The major terms of deposit services under the 2023-2025 Group Financial Services Framework Agreement are set out below:

Date:

7 April 2022

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 2023-2025 Group Financial Services Framework Agreement will become effective from 1 January 2023 and expire on 31 December 2025. The terms of loan services, guarantee services and other financial services under the 2023-2025 Group Financial Services Framework Agreement will become effective from 1 January 2023 and expire on 31 December 2025.

Services:

Pursuant to the 2023-2025 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 2023-2025 Group Financial Services Framework Agreement that the terms of any financial services to be provided by the Finance Company to the Group will not be 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 same nature and under same 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 same nature and under same 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 same nature and under same 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 2023-2025 Group Financial Services Framework Agreement

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

	For the year ended 31 December 2019 *RMB in million*	**For the year ended 31 December 2020** *RMB in million*	**For the year ended 31 December 2021** *RMB in million*
Annual cap amount (including corresponding interest)	3,500.0	3,155.0	3,313.0
Daily balance of deposits (including corresponding interest)	1,719.1	1,664.5	2,005.2
Utilization rate	49.1%	52.8%	60.5%

The proposed annual cap for the deposit services for each of the three years ending 31 December 2025 under the 2023-2025 Group Financial Services Framework Agreement is set out below:

	For the year ending 31 December 2023 *RMB in million*	**For the year ending 31 December 2024** *RMB in million*	**For the year ending 31 December 2025** *RMB in million*
Proposed annual cap amount (including corresponding interest)	3,320.0	3,433.0	3,552.0

Due to the sustained recovery of domestic economy, the Group seized the opportunity of market recovery to actively expand its business, adjust its product structure, transform and upgrade its products, and strengthen its cash flow management. It is estimated that the amount of cash and cash equivalents of the Group will be RMB2,247 million in 2022, with an annual growth rate of 5% at the end of 2023-2025. During the period from 2019 to 2021, the overall growth rate of the Group's monetary funds is calculated by dividing the average annual growth rate of the period by 3 years, with an annual average rate of 6%. Therefore, based on the historical data and conservative calculations, the annual growth rate is expected to be 5% from 2023-2025. Although the proposed annual cap under the 2023-2025 Master Sales Agreement is lower than the annual cap under the Existing Master Sales Agreement, the monetary funds of the 2023-2025 Group's Financial Services

Framework Agreement include funds from various third-parties who are not counterparties under the 2023-2025 Master Sales Agreement. As such, the cash and cash equivalents of the Company will not be simply affected by the reduced sales transactions amount. At the same time, the Group referred to the highest proportion (being 95.8%) of the historical maximum amount of deposits to cash and cash equivalents of the Group in the year from 2019 to 2021 (81.72% in 2019, 95.80% in 2020 and 90.19% in 2021). The monetary funds of the Company and its subsidiaries in 2019, 2020 and 2021 were RMB2.095 billion, 1.738 billion and 2.223 billion respectively; the peak deposits of the Company and its subsidiaries in 2019, 2020 and 2021 were RMB1.719 billion, 1.665 billion and 2.005 billion respectively. Therefore, the proportions are 81.72%, 95.80% and 90.19% respectively. In addition, the Group expects that the bank loan of approximately RMB1,060 million will be due every year from 2022 to 2025, and at that time, the Group may prepare to raise cash in advance and temporarily deposit such cash in the finance company. It is estimated that the maximum amount of deposits in 2023 will reach approximately RMB3,320.0 million.

The proposed annual caps for the deposit services under the 2023-2025 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 2025; (c) the financial ability of the Finance Company; and (d) the historical transaction records of the deposit services under the Group Financial Services Framework Agreement.

Between 2019 and 2021, the average monetary funds of the Group was approximately RMB2 billion per year. In addition, the Group expects that approximately RMB1.06 billion of bank loans will become mature each year from 2022 to 2025, and the Group may deposit the repayment amount in the Finance Company for repayment before the loans mature. Therefore, the annual caps from 2022 to 2023 (i.e. approximately RMB3.32 billion, RMB3.433 billion and RMB3.552 billion) are approximately the sum of general monetary funds and repayment funds, and the annual growth rate is also determined based on historical data. In addition, the Finance Company will gradually become the fund settlement center, fund management center, financing support center, capital operation center and information service center of the Group, which will improve the Group's financial management and control level, reduce operational risks and integrate internal resources.

Based on the above and the actual repayment requirements of the Group, the Directors (including the independent non-executive Directors) are of the opinion that the proposed annual caps and pricing under the 2023-2025 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.

2023-2025 Parent Group Financial Services Framework Agreement

On 7 April 2022, the Parent Company and the Finance Company entered into the 2023-2025 Parent Group Financial Services Framework Agreement, pursuant to which, the Finance Company will provide financial services to the Parent Group, including deposit services, loan 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 deposit services, guarantee services and other financial services under the 2023-2025 Parent Group Financial Services Framework Agreement have been disclosed in the announcement pursuant to Chapter 14A of the Listing Rules, and the relevant percentage ratios of these transactions have not reached the level required to be submitted to the Independent Shareholders for approval. The resolution in relation to the loan services submitted to the general meeting will be voted separately. As such, even if the resolution is voted down by the Independent Shareholders, the implementation of other financial services under the 2023-2025 Parent Group's Financial Services Framework Agreement will not be affected.

The major terms of the loan services contemplated under the 2023-2025 Parent Group Financial Services Framework Agreement are set out below:

Date:

7 April 2022

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 2023-2025 Parent Group Financial Services Framework Agreement will become effective from 1 January 2023 and expire on 31 December 2025. The terms of deposit services, guarantee services and other financial services under 2023-2025 Parent Group Financial Services Framework Agreement will become effective from 1 January 2023 and expire on 31 December 2025.

Services:

Pursuant to the 2023-2025 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 loan services provided by the Finance Company are as follows:

The interest rates for loans provided to the Parent Group by the Finance Company will not be lower than the interest rates for loans of similar nature and under similar terms being charged on 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 and 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 (although no such other factors are anticipated currently, the Finance Company may take into other factors due to change in the business environment affecting the Finance Company in the future), 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 Loan Services under the 2023-2025 Parent Group Financial Services Framework Agreement

Loan services

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

	For the year ended 31 December 2019 *RMB in million*	**For the year ended 31 December 2020** *RMB in million*	**For the year ended 31 December 2021** *RMB in million*
Annual cap amount (including corresponding interest)	3,000.0	2,350.0	2,474.0
Daily balance of loans (including corresponding interest)	1,206.5	1,044.1	1,031.4
Utilization rate	40.2%	44.4%	41.7%

The proposed annual caps for the loan services under the 2023-2025 Parent Group Financial Services Framework Agreement for each of the three years ending 31 December 2025 are set out below:

	For the year ending 31 December 2023 *RMB in million*	**For the year ending 31 December 2024** *RMB in million*	**For the year ending 31 December 2025** *RMB in million*
Proposed annual cap amount (including corresponding interest)	2,842.0	2,946.0	3,056.0

As of 31 December 2022, it is expected that the cash and cash equivalents of the Parent Group will amount to RMB3,967 million and the Parent Group in 2023-2025 will grow gradually at the growth rate of 5% every year. Considering the increase in registered capital of the Finance Company, it is expected that the maximum inter-bank borrowings (no more than the registered capital) of the Finance Company in 2023-2025 will be RMB1,500 million. As a conclusion, it is estimated that maximum size of funds of the Finance Company in 2023-2025 will be approximately RMB5,665 million, RMB5,874 million and RMB6,092 million. Furthermore, the proportion of loans to the Parent Group by the Finance Company to the total loans has been approximately 48% for the period between 2019 to 2022. The said 48% is the ratio of the average daily loans issued by the Finance Company to the Parent Group to the total average daily loans during the said period. Based on the historical data and the fact that the Company does not expect other factors causing significant fluctuations to the loan ratio, the Board considers the relevant data to be fair and reasonable.

The proposed annual caps for the loan services under the 2023-2025 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 2025; (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 2023-2025 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 for 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 2023-2025 Group Financial Services Framework Agreement and the 2023-2025 Parent Group Financial Services Framework Agreement monthly. The operation management department of the Company and other subsidiaries in the Group will ensure that the pricing terms under the 2023-2025 Group Financial Services Framework Agreement and the 2023-2025 Parent Group Financial Services Framework Agreement are complied with in every individual agreement entered into thereunder. For details, please refer to the section headed "Internal Control" under the section of the 2023-2025 Master Sales Agreement in this circular.

Measures specific to 2023-2025 Group Financial Services Framework Agreement and 2023-2025 Parent Group Financial Services Framework Agreement

(a) Capital requirement of the Finance Company

Pursuant to the relevant regulations set by the CBRC, financial institutions in the PRC have to comply with certain requirements, which include, among other things, the minimum total capital requirement of a capital adequacy ratio of not less than 10% as set out by the CBRC. Based on the registered capital of RMB600,000,000 of the Finance Company and that the Finance Company shall provide the financial services not exceeding the proposed annual caps, the Finance Company sets its capital adequacy ratio for the period of 2017 to 2019 at not less than 10%, which is in compliance with relevant provisions of the CBRC. The minimum registered capital of the Finance Company is RMB300,000,000. The expected capital adequacy ratio for the period of 2023 to 2025 shall be approximately 26% to 28%. The Finance Company has complied with the relevant provisions of the CBRC.

(b) Internal control of the Finance Company

The establishment of the Finance Company as a non-bank financial institution was authorized by the CBRC, 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 CBRC on a monthly basis.

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

The Group has adopted the internal control procedures and corporate governance procedures to monitor the status of the financial conditions of the Finance Company (in the case of deposit services, loan services, guarantee services and other financial services). The audit and 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. The vice chairman of the Board, the chairman of the board of supervisors, and the chief financial officer of the Finance Company are appointed by the Company to effectively supervise and manage the daily operation of the Finance Company. The Finance Company is a non-banking financial institution approved by the China Banking and Insurance Regulatory Commission and the People's Bank of China. It is also under the centralized supervision and guidance of the office of the Board of the Company, the risk control, legal and audit department, the planning department, the marketing department, and the finance department to ensure its stable operation. If any omissions are found, the Finance Company will be urged to rectify and comply with the standards.

(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, 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. The loan approval committee of the Finance Company adopts the method of collective decision-making to provide decision-making suggestions for the development of the credit business of the Finance Company. The main function of the loan approval committee is to listen to the business department's review opinions on the enterprise's credit plan as well as the review opinions of the risk review department. Five committee members with backgrounds in finance, risk control and compliance, finance, and law independently will express their opinions, comprehensively evaluate the operating conditions, default risk, rationality of capital needs, and the risk management and control measures of the Finance Company. Each plan shall be submitted to the general manager for approval.

Reasons and benefit of entering into 2023-2025 Group Financial Services Framework Agreement

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

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

(c) the capital deposited by the Group with the Finance Company will receive interest at a rate not lower than the interest rates for deposits of same nature and under same terms being charged on the 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 same nature and under same terms being charged on the Group by other independent commercial banks in the PRC, which could effectively lower its financing costs.

Reasons and benefit of entering into 2023-2025 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 obtained from the provision of loan services and guarantee services under the 2023-2025 Parent Group Financial Services Framework Agreement.

Implications Under the Listing Rules

2023-2025 Group Financial Services Framework Agreement

As at the Latest Practicable Date, as the Parent Company is the Controlling Shareholder of the Company, holding 54.74% 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 an associate of the Parent Company. Therefore, the transactions contemplated under the 2023-2025 Group Financial Services Framework Agreement constitute continuing connected transactions of the Company.

As one or more of the applicable percentage ratios calculated in accordance with the Listing Rules in respect of the maximum daily amount of the deposit services exceed 5% and the annual caps exceeds HK$10,000,000, the deposit services under the 2023-2025 Group Financial Services Framework Agreement are subject to the reporting, annual review, announcement and Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules. Furthermore, as one or more of the applicable percentage ratios calculated in respect of the maximum daily deposit amount exceed 25%, such transactions also constitute major transactions of the Company under Rule 14.06(3) of the Listing Rules and are subject to the notification, announcement and Shareholders' approval requirements for major transactions under Chapter 14 of the Listing Rules.

2023-2025 Parent Group Financial Services Framework Agreement

As at the Latest Practicable Date, as the Parent Company is the Controlling Shareholder of the Company, holding 54.74% 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. Pursuant to the Listing Rules, the Parent Group is a connected person of the Company. Therefore, the transactions contemplated under the 2023-2025 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 2023-2025 Parent Group Financial Services Framework Agreement are subject to the reporting, annual review, announcement and Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules. Furthermore, as one or more of the applicable percentage ratios calculated in respect of the maximum daily loan amount exceed 25%, such transactions also constitute major transactions of the Company under Rule 14.06(3) of the Listing Rules and are subject to the notification, announcement and Shareholders' approval requirements for major transactions under Chapter 14 of the Listing Rules.

General Information

The Group is principally engaged in manufacturing, sales and services of clean energy equipment, high-end smart manufacturing 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 CBRC. It is subject to the regulation of the PBOC and the CBRC. 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.

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 2023-2025 Master Sales Agreement, the terms of deposit services under the 2023-2025 Group Financial Services Framework Agreement, and the terms of loan services under the 2023-2025 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, and whether the said continuing connected transactions are on normal commercial terms and in the ordinary and usual course of business of the Company.

In relation to the guarantee services and other financial services under the 2023-2025 Group Financial Services Framework Agreement, the Independent Board Committee will monitor the pricing mechanism of the Finance Company and ensure that the fee charged by the Finance Company in relation to the guarantee services and other financial services provided to the Group will not be higher than the fees charged by the independent third parties (at least two) for similar services provided to the Group, and the transaction amount and transaction terms are fair and reasonable and in the interests of the Company and its Shareholders as a whole.

In relation to the guarantee services and other financial services under the 2023-2025 Parent Group Financial Services Framework Agreement, the Independent Board Committee will monitor the pricing mechanism of the Finance Company and ensure that the fee charged by the Finance Company in relation to the guarantee services and other financial services provided to the Parent Group are in compliance with the pricing standards of the Parent Group with reference to its business risks, comprehensive returns, capital cost of the Finance Company and other regulatory indicators, and the transaction amount and transaction terms are fair and reasonable and in the interests of the Company and its 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 2023-2025 Master Sales Agreement, the transactions contemplated under the deposit services under the 2023-2025 Group Financial Services Framework Agreement and the loan services under the 2023-2025 Parent Group Financial Services Framework Agreement and their respective proposed annual caps for the three years ending 31 December 2025. The Parent Company and its associates will abstain from voting on the relevant resolutions to be proposed at the AGM.

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 2023-2025 Master Sales

Agreement, the 2023-2025 Group Financial Services Framework Agreement and the 2023-2025 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

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

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 Wednesday, 25 May 2022 to Monday, 13 June 2022, 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. CONTINUOUS APPOINTMENT OF INDEPENDENT NON-EXECUTIVE DIRECTORS WHO HAVE SERVED MORE THAN NINE YEARS

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 smart manufacturing 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.

Mr. Jin Jingyu has been appointed as an independent non-executive Director since 18 June 2012 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. Jin 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. Jin 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. His knowledge in capital operation and corporate governance 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. Jin shall continue to act as an independent non-executive Director.

12. 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, Central, Hong Kong within the period from Wednesday, 25 May 2022 to Monday, 13 June 2022, 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.

13. ADMINISTRATIVE MEASURES ON DIRECTORS' AND SUPERVISORS' REMUNERATION OF THE COMPANY

In order to further regulate the remuneration management of the Directors and Supervisors of the Company and improve its effectiveness of operation and management, the Company formulated the Administrative Measures on Directors' and Supervisors' Remuneration in accordance with the provisions of the Company Law of the People's Republic of China and other laws and regulation and the Articles. A certain amount of remuneration will be paid according to the position and job nature of Directors and Supervisors, efforts contributed as well as responsibilities and risks borne by them, etc. The specific standards are as follows:

(1) The remuneration of executive Director and the chairman of the Supervisory Committee will be determined according to the management rules for the remuneration of senior management of the Company;

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

(3) The remuneration of each independent non-executive Director in Mainland China is RMB7,000 per month;

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

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

(6) The remuneration of each employee Supervisor is RMB3,000 per month;

(7) When the Company holds a regular on-site meeting of the Board, it will pay allowance of travelling expenses and overtime meal of RMB2,000 in total for each external directors and supervisors attending the meeting; when the Company holds a temporary on-site meeting of the Board, it will pay allowance of travelling expenses and overtime meal of RMB1,000 in total for each external directors and supervisors attending the meeting;

(8) The remuneration of each non-executive Director, independent non-executive Director, independent Supervisor and employee Supervisor is pre-tax, and the individual income tax payabale shall be withheld by the Company in accordance with relevant laws.

The administrative measures are effective from the date of the approval at the Annual General Meeting of the Company in 2021.

14. PROVISION OF GUARANTEE BY THE GROUP FOR THE FINANCING OF ITS SUBSIDIARIES

14.1 Provision of Guarantee by the Company for Comprehensive Financing of PTG or Holroyd or PCL of GBP38.00 million (or USD equivalent)

PTG or Holroyd or PCL jointly requested the Company to provide guarantee for their comprehensive financing totaling GBP38.00 million (or USD equivalent) ("**Comprehensive Financing I of PTG Group**). Holroyd and PCL are wholly-owned subsidiaries 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 I of PTG Group

Considering the optimistic business prospect of PTG, Holroyd and PCL, their continuous and stable development will facilitate the Company's expansion into overseas markets.

Terms of the Guarantee

The guarantee for the Comprehensive Financing I of PTG Group is for a term of one year commencing from the date of approval by the Shareholders and completion of relevant formalities by PTG, Holroyd and PCL, and shall be specified based on the actual term of the contract. The Board is of the opinion that the terms of provision of guarantee for the Comprehensive Financing I of PTG Group 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, Holroyd and PCL are not connected persons of the Group and the guarantee to be provided for PTG or Holroyd or PCL 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 ratios of PTG, Holroyd and PCL exceed 70%, the provision of guarantee by the Company for PTG or Holroyd or PCL is subject to consideration and approval at the general meeting according to requirements of the Articles.

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

14.2 Provision of Guarantee by the Company for Comprehensive Financing of PTG or Holroyd or PCL of USD44.50 million (or GBP equivalent)

PTG or Holroyd or PCL jointly requested the Company to provide guarantee for their comprehensive financing totaling USD44.50 million (or GBP equivalent) ("**Comprehensive Financing II of PTG Group**). Holroyd and PCL are wholly-owned subsidiaries 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 II of PTG Group

Considering the optimistic business prospect of PTG, Holroyd and PCL, their continuous and stable development will facilitate the Company's expansion into overseas markets.

Terms of the Guarantee

The guarantee for the Comprehensive Financing II of PTG Group is for a term of one year commencing from the date of approval by the Shareholders and completion of relevant formalities by PTG, Holroyd and PCL, and shall be specified based on the actual term of the contract. The Board is of the opinion that the terms of provision of guarantee for the Comprehensive Financing II of PTG Group 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, Holroyd and PCL are not connected persons of the Group and the guarantee to be provided for PTG or Holroyd or PCL 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 ratios of PTG, Holroyd and PCL exceed 70%, the provision of guarantee by the Company for PTG or Holroyd or PCL is subject to consideration and approval at the general meeting according to requirements of the Articles.

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

14.3 Provision of Guarantee by the Company for Comprehensive Financing of Chongqing Machine Tools Group of RMB520.00 million

Chongqing Machine Tools Group requested the Company to provide guarantee for its comprehensive financing totaling RMB520.00 million ("**Financing of Chongqing Machine Tools Group**). Chongqing Machine Tools Group is a wholly-owned subsidiary of the Company.

Reasons for and Benefits of the Provision of Guarantee for the Financing of Chongqing Machine Tools Group

Considering that the future CNC machine tools and other businesses of Chongqing Machine Tools Group continue to improve, its continuous and stable development will facilitate the Company's further improvement of operation quality.

Terms of the Guarantee

The guarantee for the Financing of Chongqing Machine Tools Group is for a term of one year commencing from the date of approval by the Shareholders and completion of relevant formalities by Chongqing Machine Tools Group, and shall be specified based on the actual term of the contract. The Board is of the opinion that the terms of provision of guarantee for the Financing of Chongqing Machine Tools Group 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 Machine Tools Group is not a connected person of the Group and the guarantee to be provided for the Financing of Chongqing Machine Tools Group 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 Machine Tools Group exceeds 70%, the provision of guarantee for the Financing of Chongqing Machine Tools Group 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 Financing of Chongqing Machine Tools Group is subject to approval by the Shareholders at the general meeting.

14.4 Provision of Guarantee by the Company for Comprehensive Financing of Chongqing Water Company of RMB580.00 million

Chongqing Water Company requested the Company to provide guarantee for its comprehensive financing totaling RMB580.00 million ("**Financing of Chongqing Water Company**"). Chongqing Water Company is a wholly-owned subsidiary of the Company.

Reasons for and Benefits of the Provision of Guarantee for the Financing of Chongqing Water Company

The Company is of the view that the prospect of hydropower business of Chongqing Water Company will be promising in the future, its continuous and stable development will facilitate the Company's further improvement of operation quality.

Terms of the Guarantee

The guarantee for the Financing of Chongqing Water Company is for a term of one year commencing from the date of approval by the Shareholders and completion of relevant formalities by Chongqing Water Company, and shall be specified based on the actual term of the contract. The Board is of the opinion that the terms of provision of guarantee for the Financing of Chongqing Water Company 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 Water Company is not a connected person of the Group and the guarantee to be provided for the Financing of Chongqing Water Company 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 Water Company exceeds 70%, the provision of guarantee for the Financing of Chongqing Water Company 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 Financing of Chongqing Water Company is subject to approval by the Shareholders at the general meeting.

14.5 Provision of Guarantee by the Company for Comprehensive Financing of Chongqing General and Chongtong Chengfei of RMB150.00 million

Chongqing General and Chongtong Chengfei jointly requested the Company to provide guarantee for their comprehensive financing totaling RMB150.00 million ("**Comprehensive Financing of Chongtong**"). Chongtong Chengfei is a subsidiary controlled by Chongqing General, 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 Chongtong

The Company is of the view that the prospect of general machinery and wind power businesses of Chongqing General and Chongtong Chengfei will be promising in the future, their continuous and stable development will facilitate Company's further improvement of operation quality.

Terms of the Guarantee

The guarantee for the Comprehensive Financing of Chongtong is for a term of one year commencing from the date of approval by the Shareholders and completion of relevant formalities by Chongqing General and Chongtong Chengfei, and shall be specified based on the actual term of the contract. The Board is of the opinion that the terms of provision of guarantee for the Comprehensive Financing of Chongtong 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 and Chongtong Chengfei are not connected persons of the Group and the guarantee to be provided for the Comprehensive Financing of Chongtong 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 ratios of Chongqing General and Chongtong Chengfei exceed 70%, the provision of guarantee by the Company for the Comprehensive Financing of Chongtong 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 Chongtong is subject to approval by the Shareholders at the general meeting.

14.6 Provision of Guarantee by Chongqing General for Comprehensive Financing of Chongtong Chengfei of RMB893.00 million

Chongtong Chengfei requested Chongqing General to provide guarantee for its comprehensive financing totaling RMB893.00 million ("**Financing of Chongtong Chengfei**"). Chongtong Chengfei is a subsidiary controlled by Chongqing General, which in turn is a wholly-owned subsidiary of the Company. Based on the needs of the wind power business development, the Group may carry out internal reorganization in the future, and thus the Company may directly hold portion of shareholdings of Chongtong Chengfei. In such case, the guarantor may become Chongqing General and the Company.

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

The Company is of the view that the prospect of wind power business of Chongtong Chengfei will be promising in the future, its continuous and stable development will facilitate the Company's further improvement of operation quality.

Terms of the Guarantee

The guarantee for the Financing 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, and shall be specified based on the actual term of the contract. The Board is of the opinion that the terms of provision of guarantee for the Financing 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.

Chongqing General and Chongtong Chengfei are not connected persons of the Group and the guarantee to be provided for 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 ratios of Chongqing General and Chongtong Chengfei exceed 70%, the provision of guarantee by Chongqing General for 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 Financing of Chongtong Chengfei is subject to approval by the Shareholders at the general meeting.

14.7 Provision of Guarantee for Comprehensive Financing of Chongtong Chengfei Jiangsu Company of RMB20.00 million

Chongtong Chengfei Jiangsu Company requested Chongtong Chengfei to provide guarantee for its comprehensive financing totaling RMB20.00 million ("**Financing of Chongtong Chengfei Jiangsu Company**"). Chongtong Chengfei Jiangsu Company is a wholly-owned subsidiary of Chongtong Chengfei, which in turn is a subsidiary controlled by Chongqing General (which is a wholly-owned subsidiary of the Company).

Terms of the Guarantee

The guarantee for the Financing of Chongtong Chengfei Jiangsu Company is for a term of one year commencing from the date of approval by the Shareholders and completion of relevant formalities by Chongtong Chengfei Jiangsu Company, and shall be specified based on the actual term of the contract. The Board is of the opinion that the terms of provision of guarantee for the Financing of Chongtong Chengfei Jiangsu Company 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 and Chongtong Chengfei Jiangsu Company are not connected persons of the Group and the guarantee to be provided by Chongtong Chengfei for the Financing of Chongtong Chengfei Jiangsu Company 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 ratios of Chongtong Chengfei and Chongtong Chengfei Jiangsu Company exceed 70%, the provision of guarantee by Chongtong Chengfei for the Financing of Chongtong Chengfei Jiangsu Company 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 Chongtong Chengfei for the Financing of Chongtong Chengfei Jiangsu Company is subject to approval by the Shareholders at the general meeting.

15. 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.

16. ANNUAL GENERAL MEETING AND PROXY ARRANGEMENT

The notice of the Annual General Meeting is set out on pages 89 to 96 of this circular. At the Annual General Meeting, resolutions will be proposed to approve, inter alia, (1) report of the Board of Directors of the Company in 2021; (2) report of the Supervisory Committee of the Company in 2021; (3) audited financial statements and auditor's report of the Company and its subsidiaries in 2021; (4) 2021 annual final report of the Company; (5) profit appropriation proposal for the year of 2021 of the Company; (6) 2022 annual budget report of the Company; (7) appointment of the Company's auditor in 2022; (8) continuing connected transactions/major transactions and continuing connected transactions; (9) re-election of Directors; (10) continuous appointment of independent non-executive Directors who have served more than nine years; (11) re-election of Supervisors; (12) Administrative Measures on Directors' and Supervisors' Remuneration of the Company; (13) provision of guarantee by the Group for the financing of its subsidiaries; and (14) proposed granting of general mandate to issue new shares of the Company.

The form of proxy for use at the Annual General Meeting is enclosed in this circular, and such form of proxy is also published on the websites of the Stock Exchange (www.hkex.com.hk) and the Company (www.chinacqme.com). Whether or not you intend to attend the Annual General Meeting, you are requested to complete and return 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 2023-2025 Master Sales Agreement; (ii) deposit services under the 2023-2025 Group Financial Services Framework Agreement; and (iii) loan services under the 2023-2025 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.

17. 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.

18. 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.*
Zhang Fulun
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)

24 May 2022

To the Independent Shareholders

Dear Sir or Madam,

Reference is made to the circular issued by the Company to the Shareholders dated 24 May 2022 (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 2023-2025 Master Sales Agreement, the terms of the deposit services under the 2023-2025 Group Financial Services Framework Agreement and the terms of loan services under the 2023-2025 Parent Group Financial Services Framework Agreement. Lego Corporate Finance 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 39 to 67 of the Circular and the additional information is set out in the appendices thereto.

Having considered the 2023-2025 Master Sales Agreement, the terms of deposit services under the 2023-2025 Group Financial Services Framework Agreement and the terms of loan services under the 2023-2025 Parent Group Financial Services Framework Agreement, and taking into account the independent advice of Lego Corporate Finance, in particular the principal factors, reasons and recommendations set out in its letter on pages 39 to 67 of the Circular, we consider that the 2023-2025 Master Sales Agreement, the terms of deposit services under the 2023-2025 Group Financial Services Framework Agreement and the terms of loan services under the 2023-2025 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 to approve the annual caps for such transactions for the year ending 31 December 2025.

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

* *For identification purposes only*

The following is the full text of the letter of advice from Lego Corporate Finance, the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders, which have been prepared for the purpose of inclusion in this circular, setting out its advice to the Independent Board Committee and the Independent Shareholders in respect of the 2023-2025 Master Sales Agreement, the 2023-2025 Group Financial Services Framework Agreement, the 2023-2025 Parent Group Financial Services Framework Agreement and the respective transactions contemplated thereunder (including their proposed annual caps).

Lego Corporate
Finance Limited
力高企業融資有限公司

24 May 2022

To the Independent Board Committee and the Independent Shareholders

Dear Sirs or Madams,

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

INTRODUCTION

We refer to our appointment as the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders in relation to (i) the sale of goods (the "**Agreed Sales**") under the 2023-2025 Master Sales Agreement; (ii) the deposit services (the "**Deposit Services**") under the 2023-2025 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 2023-2025 Parent Group Financial Services Framework Agreement and the respective transactions contemplated thereunder (including their proposed annual caps for the three years ending 31 December 2025 (the "**Proposed Annual Caps**")), details of which are set out in the "Letter from the Board" (the "**Letter from the Board**") contained in the circular issued by the Company to the Shareholders dated 24 May 2022 (the "**Circular**"), of which this letter forms part. Terms used in this letter shall have the same meanings as defined in the Circular unless the context otherwise requires.

On 1 April 2019, the Company entered into the Existing Master Sales Agreement, pursuant to which the Group agreed to sell certain materials such as the steering tension rods, track bars, bumpers, the BV series of electric cables, wires and cables, refrigeration machines, copper plates, gas compressors, softwares and raw materials such as steel and gears to the Parent Group. As the Existing Master Sales Agreement will expire on 31 December 2022, the Company renewed the Existing Master Sales Agreement with the Parent Company under the same or similar terms by entering into the 2023-2025 Master Sales Agreement on 7 April 2022.

On 7 April 2022, the Company and the Finance Company entered into the 2023-2025 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.

On 7 April 2022, the Parent Company and the Finance Company entered into the 2023-2025 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.

As the Parent Company is the Controlling Shareholder of the Company, holding 54.74% 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 and 70% by the Company, is an associate of the Parent Company and a subsidiary of the Company, respectively. Therefore, the transactions contemplated under the 2023-2025 Master Sales Agreement, the 2023-2025 Group Financial Services Framework Agreement and the 2023-2025 Parent Group Financial Services Framework 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 2023-2025 Master Sales Agreement exceed 5% and such annual caps exceed HK$10,000,000, the 2023-2025 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 (i) the Deposit Services; and (ii) the Loan Services exceed 5% and their respective annual caps exceed HK$10,000,000, the Deposit Services and Loan Services 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 and 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.

The Independent Board Committee, comprising all of the independent non-executive Directors, namely Mr. Lo Wah Wai, Mr. Ren Xiaochang, Mr. Jin Jingyu and Mr. Liu Wei, has been established to advise the Independent Shareholders as to (i) whether the 2023-2025 Master Sales Agreement, the 2023-2025 Group Financial Services Framework Agreement and the 2023-2025 Parent Group Financial Services Framework Agreement (the "**CCT Agreements**") have been entered into in the ordinary and usual course of business of the Group based on normal commercial terms; and (ii) whether the terms of the CCT Agreements and the respective transactions contemplated thereunder, as well as the Proposed Annual Caps, are fair and reasonable so far as the Independent Shareholders are concerned, and are in the interests of the Company and the Shareholders as a whole, and to advise the Independent Shareholders as to whether to vote in favour of the relevant resolutions to be proposed at the AGM to approve the CCT Agreements and the respective transactions contemplated thereunder (including the Proposed Annual Caps). As the Independent Financial Adviser, our role is to give an independent opinion to the Independent Board Committee and the Independent Shareholders in such regard.

As at the Latest Practicable Date, Lego Corporate Finance did not have any relationships or interests with the Company or any other parties that could reasonably be regarded as relevant to the independence of Lego Corporate Finance. In the last two years, there was no engagement between the Group and Lego Corporate Finance. Apart from normal professional fees paid or payable to us in connection with this appointment as the Independent Financial Adviser, no arrangement exists whereby we had received or will receive any fees or benefits from the Company or any other party to the transactions. Accordingly, we consider that we are eligible to give independent advice on the CCT Agreements and the respective transactions contemplated thereunder (including the Proposed Annual Caps).

BASIS OF OUR OPINION

In formulating our opinion and advice, we have relied on (i) the information and facts contained or referred to in the Circular; (ii) the information supplied by the Group and its advisers; (iii) the opinions expressed by and the representations of the Directors and the management of the Group (the "**Management**"); and (iv) our review of the relevant public information. We have assumed that all the information provided and representations and opinions expressed to us or contained or referred to in the Circular were true, accurate and complete in all respects as at the date thereof and may be relied upon. We have also assumed that all statements contained and representations made or referred to in the Circular are true at the time they were made and continue to be true as at the date of the Circular and all such statements of belief, opinions and intention of the Directors and the Management and those as set out or referred to in the Circular were reasonably made after due and careful enquiry. We have no reason to doubt the truth, accuracy and completeness of the information and representations provided to us by the Directors and/or the Management. We have also sought and received confirmation from the Directors that no material facts have been withheld or omitted from the information provided and referred to in the Circular and that all information or representations provided to us by the Directors and the Management are true, accurate, complete and not misleading in all respects at the time they were made and continued to be so until the date of the AGM.

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

PRINCIPAL FACTORS AND REASONS CONSIDERED

In arriving at our recommendation in respect to the Continuing Connected Transactions and the Proposed Annual Caps, we have taken into consideration the following principal factors and reasons.

1. Background of the parties involved

a) Background information of the Group

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

The following table sets out a summary of the recent financial performance of the Group based on the annual report of the Company for the year ended 31 December 2020 (the "**2020 Annual Report**") and the annual report of the Company for the year ended 31 December 2021 (the "**2021 Annual Report**"), respectively.

	For the year ended 31 December		
	2019	**2020**	**2021**
	RMB' million	*RMB' million*	*RMB' million*
	(audited)	(audited)	(audited)
Total operating revenue	5,516.8	6,367.0	7,410.6
Net profit attributable to the Shareholders	184.8	183.0	296.5

For the years ended 31 December 2019 and 2020

The Group's total operating revenue amounted to approximately RMB6,367.0 million for the year ended 31 December 2020, which represents an increase of approximately 15.4% as compared with approximately RMB5,516.8 million for the year ended 31 December 2019. As disclosed in the 2020 Annual Report, such increase was mainly attributable to (i) the increase in the operating revenue generated from the sale of clean energy equipment due to the rising domestic demand for the wind power blades, industrial pumps, and gas compressors; and (ii) the increase in the operating revenue generated from the sale of high-end smart equipment due to the expansion into new markets and news customers for its electronic communications business, which was partially offset by the decrease in the operating revenue generated from the industrial services segment.

For the years ended 31 December 2020 and 2021

The Group's total operating revenue amounted to approximately RMB7,410.6 million for the year ended 31 December 2021, which represents an increase of approximately 16.4% as compared with approximately RMB6,367.0 million for the year ended 31 December 2020. As disclosed in the 2021 Annual Report, such increase was mainly attributable to (i) the increase in the operating revenue generated from the sale of clean energy equipment, which was primarily driven by the acceleration of the dual-carbon economy and the increase in the construction of infrastructure projects; and (ii) the increase in the operating revenue generated from the sale of high-end smart equipment, which was primarily driven by the rapid development of the domestic intelligent manufacturing industry and the expansion of customer base, while it was partially offset by the decrease in operating revenue generated from the industrial services.

The following table sets out a summary of the recent financial position of the Group as extracted from the 2021 Annual Report.

	As at 31 December	
	2020	**2021**
	RMB' million	*RMB' million*
	(audited)	(audited)
Non-current assets	5,885.9	5,885.7
Current assets	10,738.3	10,849.7
Total assets	16,624.2	16,735.4
Non-current liabilities	2,054.5	2,332.0
Current liabilities	7,094.0	6,589.6
Total liabilities	9,148.5	8,921.7
Net assets attributable to the Shareholders	7,021.8	7,348.9

As at 31 December 2021, the Group had (i) non-current assets of approximately RMB5,885.7 million, which mainly comprised (a) property, plant and equipment of approximately RMB2,562.1 million; (b) long-term equity investments of approximately RMB1,207.7 million; and (c) intangible assets of approximately RMB562.0 million; (ii) current assets of approximately RMB10,849.7 million, which mainly comprised (a) accounts receivables of approximately RMB2,517.9 million; (b) cash and cash equivalents of approximately RMB2,178.9 million; and (c) inventories of approximately RMB2,129.1 million; (iii) current liabilities of approximately RMB6,589.6 million, which mainly comprised (a) accounts payable of approximately RMB1,846.6 million; and (b) notes payable of approximately RMB1,176.7 million; and (iv) non-current liabilities of approximately RMB2,332.0 million, which mainly comprised long-term loans of approximately RMB1,968.3 million.

b) Background information of the Parent Group

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

c) Background information of the Finance Company

The Finance Company is a non-bank financial institution established in January 2013 under the PRC laws and with the approval of the CBRC. It is subject to the regulation of the PBOC and the CBRC. 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. 2023-2025 Master Sales Agreement

a) Reasons for and benefits of entering into the 2023-2025 Master Sales Agreement

The Group is principally engaged in manufacturing, sales and services of clean energy equipment, high-end smart manufacturing and industrial services. As disclosed in the 2021 Annual Report, the clean energy equipment and high-end smart equipment included, among others, electrical wires and cables, general machinery and steering systems. We have discussed with the Management and were given to understand that the Group has been supplying these products to the Parent Group since 2008.

As disclosed in the Letter from the Board, from the perspective of the Group, 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.

Taking into consideration that (i) the products procured by the Parent Group are the same or similar products that the Group manufactures and sells to other customers, which are the Group's principal business and the Group has been selling the products to the Parent Group historically; (ii) the Group is familiar with the Parent Group's product specifications and has been able to respond quickly and in a cost-efficient manner to any new requirements that the Parent Group may request; (iii) the mutual beneficial relationship between the Group and the Parent Group, which the Agreed Sales provides a reliable customer base and stable income to the Group; and (iv) the Parent Group has proven to have a good track record in settling the trade payables to the Group in a timely manner, we concur with the Management's view that the entering into the 2023-2025 Master Sales Agreement was within the ambit of the businesses currently run by the Group and is therefore conducted 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.

b) Principal terms of the 2023-2025 Master Sales Agreement

The principal terms of the 2023-2025 Master Sales Agreement are set out as follows:

Date:

7 April 2022

Parties:

(i) the Company, as supplier; and

(ii) the Parent Company, as purchaser

Term:

Subject to the approval being obtained from the Independent Shareholders, commencing from 1 January 2023 and expiring on 31 December 2025.

Nature of transaction:

The Group sells supplies, parts, components or materials, finished goods, electrical equipment and components for industrial use (including control valves, parts for steering systems, gears, clutch assemblies and the BV series of electric cables) 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. The payment terms generally vary from 30 days to 90 days depending on the type and nature of the project, and will make reference to the prevalent payment terms of similar projects in the same industry. Before signing a particular contract under the 2023-2025 Master Sales Agreement by any member of the Group, the financial department, the legal department and the business department, will strictly assess the terms of the contract and make sure the term adhere to the principal terms under the 2023-2025 Master Sales Agreement, are fair and reasonable and are in the interest of the Company and its Shareholders as a whole. If there is no objection to the signing of the contract by the said departments, the contract will be approved according to the decision-making procedure of the Company.

Pricing Basis for the 2023-2025 Master Sales Agreement

As disclosed in the Letter from the Board, the 2023-2025 Master Sales Agreement was entered into in the ordinary and usual course of business of the Group. The terms of the agreement were negotiated on arm's length basis and on normal commercial terms. The pricing or consideration under the 2023-2025 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; 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 for similar products of the Group in the past three years.

Apart from the percentage mark-up as stated in the pricing basis (iii) above (which the percentage mark-up for raw materials procured by Chongqing Shengpu Materials Co., Ltd.* (重慶盛普物資有限公司)("**Chongqing Shengpu**") and sold to the Parent Group of 1%, being the handling fee of the Group, was removed in the 2023-2025 Master Sales Agreement due to the business transformation of Chongqing Shengpu), all other principal terms of 2023-2025 Master Sales Agreement are basically the same as the Existing Master Sales Agreement.

As disclosed in the Letter from the Board, all the products sold to the Parent Group are 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 2023-2025 Master Sales Agreement, except that pricing basis (iii) was and will be adopted for the price of gas compressors (since they are produced for military use and market price is not available) and software (since they are customised in compliance with the need of different customers).

We have discussed with the Management and were given to understand that 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. We noted from the 2020 Annual Report and 2021 Annual Report that (1) the Group's segment gross profit margins of (a) electrical wire and cable; (b) general machinery; (c) machinery tools; and (d) material sales amounted to approximately 14.3%, 9.1%, 18.1% and 6.1% for the year ended 31 December 2019, respectively, with an average of approximately 11.9%; (2) the Group's segment gross profit margins of (a) electrical wire and cable; (b) general machinery; (c) machinery tools; and (d) material sales amounted to approximately 15.0%, 19.8%, 19.9% and 4.0% for the year ended 31 December 2020, respectively, with an average of approximately 14.7% ; and (3) the Group's segment gross profit margins of (a) electrical wire and cable; (b) general machinery; (c) machinery tools; and (d) material sales amounted to approximately 7.3%, 21.7%, 17.4% and 9.2% for the year ended 31 December 2021, respectively, with an average of approximately 13.9%.

Having considered that (i) the Group has adopted the 15% mark-up for the three years ended 31 December 2021 and the period is consistent with the duration of the 2023-2025 Master Sales Agreement; (ii) the percentage mark-up (tax inclusive) of not less than 15% applies to all customers of the Group; and (iii) the 15% mark-up is within the range of and above the average of the relevant segment gross profit margins of the Group for each of the three years ended 31 December 2021, we are of the view that the percentage mark-up (tax inclusive) of not less than 15% (including using the average relevant gross margin in the past three years in the basis of the percentage mark-up (tax inclusive)), we are of the view that the percentage mark-up (tax inclusive) of not less than 15% is fairly and reasonably determined.

We have conducted below works to assess the pricing basis of the Agreed Sales according to the four main categories of products.

(a) for control valves and parts for steering systems, we have randomly selected and reviewed three invoices between the Group and the Parent Group for each of the three years ended 31 December 2021. We have 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;

(b) for wires and cables and the BV series of electric cables, we have randomly selected and reviewed three invoices between the Group and the Parent Group for each of the three years ended 31 December 2021. We have 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;

(c) for refrigeration machines, copper plates, gas compressors, and raw materials such as steel and gears, we have randomly selected and reviewed three invoices between the Group and the Parent Group for each of the three years ended 31 December 2021. We have 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 market prices of independent third parties or the product sold to independent third parties; and

(d) for software, which are customised in compliance with the need of different customers, there are no directly comparable sample contracts entered into with other customers. As such, we have randomly selected and reviewed three contracts associated with the cost breakdowns between the Group and the Parent Group for each of the three years ended 31 December 2021. 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. As advised by the Management, the percentage mark-up (tax inclusive) for the selected projects was not less than 15%, which is in line with the pricing basis of the Existing Master Sales Agreement.

We have selected all kinds of items under the 2023-2025 Master Sales Agreement, and have randomly selected and reviewed three invoices between the Group and the Parent Group (the "**Selected Sales Samples**") for each of the three years ended 31 December 2021. We have also reviewed the cost schedules of the Selected Sales Samples provided by the Company, and noted that the percentage mark-up of the Selected Sales Samples were not less than 15% for the three years ended 31 December 2021. We also noted that the prices of the Selected Sales Samples were higher than market prices of the products with similar product specifications of independent third parties quoted from the website of Alibaba (www.1688.com). We consider such review covering the historical period under the Existing Master Sales Agreement on a random sampling basis on all main categories of products of the Group to be sufficient from the independent financial adviser's perspective and nothing has come to our attention that causes us to believe that such invoices did not follow the internal control measures.

In respect of the samples selected in categories (a), (b) and (c) above, we have compared the market prices with similar product specification quoted on the website of Alibaba (www.1688.com), which is a reputable e-commerce platform operated by Alibaba Group Holding Limited. Alibaba Group Holding Limited is a company incorporated in the Cayman Islands with its American depositary shares listed on the New York Stock Exchange (Stock Symbol: BABA) and ordinary shares listed on the Main Board of the Stock Exchange (stock code: 9988). As such, we considered the price quotes from the website of Alibaba can provide a reliable reference for prevailing market prices of products, and is fair and representable.

Given that (i) the above selected items follow the pricing basis of the Existing Master Sales Agreement and the pricing basis of 2023-2025 Master Sales Agreement are in line with the pricing basis of the Existing Master Sales Agreement; and (ii) various internal control measures will be put in place within the Group to ensure it complies with the terms under the 2023-2025 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 2023-2025 Master Sales Agreement are on normal commercial terms, fair and reasonable and in the interests of the Company and the Shareholders as a whole.

c) Proposed Annual Caps of the Agreed Sales

The table below illustrates the historical transaction amount for the sale of products to the Parent Group by the Group for the three years ended 31 December 2021.

	For the year ended 31 December		
	2019	**2020**	**2021**
The annual cap *(RMB in million)*	360.0	344.7	330.0
The actual transaction amount *(RMB in million)*	230.1	221.0	178.4
Utilisation rate *(%)*	63.9	64.1	54.1

The table below illustrates the proposed annual caps of the Agreed Sales for the three years ending 31 December 2025.

	For the year ending 31 December		
	2023	**2024**	**2025**
The proposed annual cap *(RMB in million)*	227.0	220.0	250.0
The Agreed Sales *(Note)* *(RMB in million)*	206.3	199.0	226.8
- the sales of control valves and parts for steering systems for automotive industry	128.5	135.3	159.3
- the sales of wires, cables, refrigeration machines, copper plates, gas compressors, and raw materials and services for railway projects	44.6	47.2	51.0
- the sales of software development and systems	33.2	16.5	16.5

Note: The Agreed Sales is for illustrative purpose only and is estimated by the Management based on the factors below.

We have discussed with the Management and were given to understand that the proposed annual caps of the Agreed Sales are determined mainly based on, among others, the below factors:

(i) The historical transaction amount of the sales transactions

As illustrated in the above table, the actual transaction amount of the sale of products by the Group to the Parent Group were approximately RMB230.1 million, RMB221.0 million and RMB178.4 million for the three years ended 31 December 2021, respectively, with an average transaction amount of approximately RMB209.8 million (the "**Average Historical Amount**"). The relatively low utilisation rate of the annual cap of the Agreed Sales for the year ended 31 December 2021 was mainly due to the decrease in transaction amount for infrastructure projects and railway projects of the Parent Group of approximately RMB25.0 million as a result of different projects' construction phases. We noted that the Average Historical Amount represents approximately 92.4%, 95.4% and 83.9% of the proposed annual caps of the Agreed Sales for the three years ending 31 December 2025, which implied that the Company has taken a reasonable approach in estimating the transaction amounts for the three years ending 31 December 2025.

(ii) The prospects of the Parent Group's automotive industry

We have discussed with the Management and were given to understand that the proposed annual caps of the sale of control valves and parts for steering systems of approximately RMB128.5 million, RMB135.3 million and RMB159.3 million for the three years ending 31 December 2025, respectively, are determined with reference to the sale of control valves and parts for steering systems for the year ended 31 December 2021 which amounted to approximately RMB120.7 million.

As advised by the Management, SAIC-Hongyan, a subsidiary of the Parent Group 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 2021, has indicated that it will steadily increase the procurement of control valves and parts for steering systems from the Group for the period from 2023 to 2025 so as to actively respond to the policy of upgrade and updating of the latest national vehicle pollutant emission standard, develop in a rapid manner in the heavy truck industry and accelerate the continuous exploration of commercial vehicles towards new energy.

According to a notice namely 重慶市人民政府辦公廳關於印發重慶市推動製造業高品質發展重點專項實施方案的通知[渝府辦發〔2021〕80號] (The Key Implementation Plan for Promoting High Quality Development of Manufacturing Industry*) published by the Chongqing Municipal People's Government dated 20 August 2021, it indicates that the government is dedicated to promote and accelerate the development of six strategic emerging industries, including digitalisation, advanced energy and intelligent automotive, high-end equipment, new materials, biotechnology and green environment, with the target to reach a total industrial scale of RMB3 trillion by 2025. In view of the above and taking into consideration of the continuing improvement of the advanced automotive technology and the market growth opportunities brought by new energy vehicles, we concur with the Management's view that it is justifiable that the sale of control valves and parts for steering systems to the Parent Group will increase moderately for the three years ending 31 December 2025.

(iii) The opportunities from the existing and potential railway and infrastructure projects for the sale of wires, cables, refrigeration machines, copper plates, gas compressors, and raw materials and services to the Parent Group

We have discussed with the Management and were given to understand that the proposed annual caps of the sale of wires, cables, refrigeration machines, copper plates, gas compressors, and raw materials and services of approximately RMB44.6 million, RMB47.2 million and RMB51.0 million for the three years ending 31 December 2025 have taken into account of, among others, the existing and potential railway projects, including CQ Railway Projects (as defined below).

As disclosed in the Letter from the Board, according to the 14th Five-Year Plan of Chongqing Rail Transit, it is estimated that by 2025, Chongqing will have a rail transit operation network of approximately 600 kilometers, and accelerate the construction of 7 rail transit projects with a total of 123 kilometers under construction, including 重慶軌道交通9號線二期 (Phase II of Chongqing Rail Transit Line 9*) ("**Line 9**") and 重慶軌道交通18號線 (Chongqing Rail Transit Line 18*) ("**Line 18**"). We have discussed with the Management and were given to understand that the Parent Group is expected to undertake projects of Line 9 and Line 18. For carrying out of the said projects, from 2023 to 2025, it is estimated that Chongqing General Industry (Group) Co., Ltd. (the "**CQGI**"), a subsidiary of the Group, will undertake from the Parent Group the project of ventilation and air conditioning in the stations (the "**VAC Project**") for both Line 9 and Line 18, with an estimated contract amount of approximately RMB53 million, and 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 Group, will undertake from the Parent Group the cable project of the track construction project (the "**TC Project**", collectively, the "**CQ Railway Projects**") for both Line 9 and Line 18, with an estimated contract amount of approximately RMB30 million.

We have obtained and reviewed the documents provided by the Company, including, among others, the contracts entered into between (a) CQGI and the Parent Group; and (b) Chongqing Pigeon and the Parent Group in November 2021 and December 2021, respectively, in relation to the VAC Project and the TC Project for Line 9 with a total contract sum of approximately RMB37 million which have already commenced in February 2022. We have discussed with the Management and were given to understand that (a) CQGI and the Parent Group; and (b) Chongqing Pigeon and the Parent Group are expected to enter into the contracts in mid-2022 in relation to the VAC Project and the TC Project for other Chongqing Rail Transit Line(s), which are expected to commence in late 2022 with a total contract sum of approximately RMB90 million. We noted that the total estimated contract sum of the abovementioned projects amounts to approximately RMB127 million and as advised by the Management, the expected contract sum shall be apportioned over 3 to 5 years, depending on the capital of the county and the actual work recognised each year.

Taking into consideration of the aforementioned projects and other upcoming railway and infrastructure opportunities, we concur with the Management's view that, the proposed annual caps of the sale of wires, cables, refrigeration machines, copper plates, gas compressors, and raw materials and services of approximately RMB44.6 million, RMB47.2 million and RMB51.0 million for the three years ending 31 December 2025 are justifiable.

(iv) Business opportunities from the sale of software

We noted that 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 maintenance and upgrade (the "**Software Enhancement**").

We have discussed with the Management and were given to understand that the proposed annual caps of the software of approximately RMB33.2 million, RMB16.5 million and RMB16.5 million for the three years ending 31 December 2025, respectively, are mainly determined with reference to, among others, (i) the transaction amount of the software of approximately RMB23.4 million for the year ended 31 December 2021; (ii) the expectation of three Software Enhancement projects with aggregate contract sum of approximately RMB16.2 million for the year ending 31 December 2023; and (iii) the expectation of three Production Line Enhancement projects with aggregate contract sum of approximately RMB17.0 million for the year ending 31 December 2023.

(v) The increase in price of raw materials

The supply of raw materials had been disturbed by the pandemic. Following by stimulus policies of the global central bank and the accelerated COVID-19 vaccine rollout, the global economy recovered in line with forecasts and inflation expectations rose along with the implementation of both monetary easing policy and fiscal easing policy in the United States, we noted from the Commodity Market Outlook published by the World Bank Group in October 2021 that, the commodity prices increased significantly in 2021 as compared with that in 2019 and 2020, and are expected to remain volatile due to the impact of expected rising inflation. According to the comprehensive steel price index of the PRC* (中國鋼材價格指數) in 2021 published by the China Iron and Steel Association (中國鋼鐵工業協會) (http://www.chinaisa.org.cn/) on 29 March 2022, we noted that the average price of steel products increased by approximately 27.8% from January 2020 to December 2021.

After considering (i) the historical transaction amount of the sale of products from the Group to the Parent Group for the three years ended 31 December 2021; (ii) the positive market environment as supported by the above-mentioned plan issued by the Chongqing Municipal People's Government; (iii) the Parent Group's indication for the potential demand of control valves and parts for steering systems from the Group for the period from 2023 to 2025; (iv) the projected amount of the Agreed Sales for the three years ending 31 December 2025; and (v) the expected increase in prices of cooper and steel, we are of the view that the proposed annual caps of the Agreed Sales for the three years ending 31 December 2025 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 three years ending 31 December 2025, 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 amount of Agreed Sales will correspond with the proposed annual caps of the Agreed Sales.

3. 2023-2025 Group Financial Services Framework Agreement

a) Reasons for and benefits of entering into the 2023-2025 Group Financial Services Framework Agreement

As disclosed in the Letter from the Board, (a) the Finance Company will gradually become the capital settlement center, capital management center, financing support center, capital operation center and information service center of the Group, which would be able to enhance the financial management and control practices, reduce operational risk and consolidate internal resources of the Group; (b) the Finance Company is regulated by the PBOC and the CBRC and is required to provide its services in accordance with the rules and operational requirements of these regulatory authorities. In addition, capital risk could be reduced through the risk management measures; (c) the capital deposited by the Group with the Finance Company will receive interest at a rate not lower than the interest rates for deposits of same nature and under same terms being charged on the 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 same nature and under same terms being charged on the Group by other independent commercial banks in the PRC, which could effectively lower its financing costs.

We have discussed with the Management and were given to understand that the Group requires Deposit Services from time to time for the depository of cash to earn interest for the facilitation of its business operations. Having considered that (i) the provision of the Deposit Services by the Finance Company to the Group provides the stability and reliability to the Group in view of the long-established business relationship between the Group and the Finance Company; (ii) the terms offered by the Finance Company to the Group shall be no less favourable than those offered by independent third party financial services providers; (iii) the Finance Company is regulated by the PBOC and the CBIRC, which is required to comply with relevant rules and regulations; (iv) the 2023-2025 Group Financial Services Framework Agreement does not preclude the Group from choosing other financial services providers; (v) the mutual beneficial relationship between the Group and the Finance Company; and (vi) the Group may continue to regulate current and future transactions contemplated under a clear framework agreement, we are of the view that the entering into the 2023-2025 Group Financial Services Framework Agreement is fair and reasonable and in the interests of the Company and the Shareholders as a whole.

b) Principal terms of the 2023-2025 Group Financial Services Framework Agreement

The principal terms of the 2023-2025 Group Financial Services Framework Agreement are set out as follows:

Date:

7 April 2022

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 2023-2025 Group Financial Services Framework Agreement will become effective from 1 January 2023 and expire on 31 December 2025. The terms of loan services, guarantee services and other financial services under the 2023-2025 Group Financial Services Framework Agreement will become effective from 1 January 2023 and expire on 31 December 2025.

Services:

Pursuant to the 2023-2025 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 2023-2025 Group Financial Services Framework Agreement that the terms of any financial services to be provided by the Finance Company to the Group will not be 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 Deposit Services provided by the Finance Company are as follows:

Deposit services

The interests of deposits provided by the Finance Company will not be lower than the interest rates for deposits of same nature and under same 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 same nature and under same 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 same nature and under same terms to ensure that the interests the Group will receive on its deposits are in compliance with the above pricing standards for 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 three deposit contracts/records with highest deposit amount between the Group and the Finance Company for each of the three years ended 31 December 2021. All nine deposit contracts/records obtained covered all types of deposits that the Group had during the three years ended 31 December 2021, being the seven-day call deposits, three-month time deposits, six-month time deposit, twelve-month time deposit and three-year time deposit. We have compared such deposit contracts/records against the then deposit rates with at least two independent commercial banks in the PRC (i.e. one national commercial bank in the PRC and one local commercial bank in Chongqing). We consider such review covering the historical period under the Existing Group Financial Services Framework Agreement on a typical case sampling basis on all kinds of deposits of the Group to be sufficient from the independent financial adviser's perspective and nothing has come to our attention that causes us to believe that such contracts/records did not follow the internal control measures.

We have also reviewed the standard deposit rates promulgated by PBOC, which are set out below:

	Standard deposit rates of PBOC
	% per annum
Call deposits	
7-day	1.35
Time deposits	
3-month	1.10
6-month	1.30
12-month	1.50
3-year	2.75

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 and the standard deposit rates promulgated by PBOC 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 three years ended 31 December 2021 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 2023-2025 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 2023-2025 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 2023-2025 Group Financial Service Framework Agreement are on normal commercial terms, fair and reasonable and in the interests of the Company and the Shareholders as a whole.

c) Proposed Annual Caps of the Deposit Services

The table below illustrates (i) the actual historical maximum daily balance of the Group's deposits placed at the Finance Company for the three years ended 31 December 2021; and (ii) the proposed annual caps of the Deposit Services for the three years ending 31 December 2025 under the 2023-2025 Group Financial Services Framework Agreement.

	For the year ended/ending 31 December					
	2019	**2020**	**2021**	**2023**	**2024**	**2025**
The annual cap *(RMB in million)*	3,500.0	3,155.0	3,313.0	3,320.0	3,433.0	3,552.0
Maximum daily deposit balance (including corresponding interest) *(RMB in million)*	1,719.1	1,664.5	2,005.2	–	–	–
Utilisation rate *(%)*	49.1	52.8	60.5	–	–	–

As disclosed in the Letter from the Board, due to the sustained recovery of domestic economy, the Group seized the opportunity of market recovery to actively expand its business, adjust its product structure, transform and upgrade its products, and strengthen its cash flow management. It is estimated that the amount of cash and cash equivalents of the Group will be approximately RMB2,247 million in 2022, with an annual growth rate of 5% at the end of 2023-2025. At the same time, the Group referred to the highest proportion (being 95.8%) of the historical maximum amount of deposits to cash and cash equivalents of the Group in the year from 2019 to 2021 (81.72% in 2019, 95.80% in 2020 and 90.19% in 2021). The monetary funds of the Company and its related enterprises in 2019, 2020 and 2021 were RMB2,095 million, RMB1,738 million and RMB2,223 million respectively; the peak deposits of the Company and its related enterprises in 2019, 2020 and 2021 were RMB1,719 million, RMB1,665 million and RMB2,005 million respectively. In addition, the Group expects that the bank loan of approximately RMB1,060 million will be due every year from 2022 to 2025, and at that time, the Group may prepare to raise cash in advance and temporarily deposit such cash in the Finance Company. It is estimated that the maximum amount of deposits in 2023 will reach approximately RMB3,320.0 million.

We have discussed with the Management and were given to understand that the proposed annual caps of the Deposit Services are determined with reference to (i) the information set out in the Letter from the Board; (ii) the expectation of the Group's capital needs for the period from now up to 31 December 2025; (iii) the financial ability of the Finance Company; and (iv) the historical transaction records of the Deposit Services under the Existing Group Financial Services Framework Agreement.

As advised by the Management, the new funds of approximately RMB1,060 million may 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 bank 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 bank and/or other borrowings and that the funds will be utilised to repay the borrowings shortly after. As the new funds 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 funds 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 caps of the Deposit Services for the three years ending 31 December 2025.

As disclosed in the 2020 Annual Report and the 2021 Annual Report, we noted that the total cash and cash equivalents were approximately RMB2,094.6 million, RMB1,737.5 million and RMB2,178.9 million as at 31 December 2019, 2020 and 2021, respectively, with an average of approximately RMB2,003.7 million (the "**Average Cash Balance**"). Based on the Average Cash Balance and the expected new funds of approximately RMB1,060 million to be raised and deposited to the Finance Company to settle the bank loan which will be due every year from 2022 to 2025, we concur with the Management's view that the proposed annual caps of the Deposit Services of approximately RMB3,320.0 million, RMB3,433.0 million and RMB3,552.0 million for the three years ending 31 December 2025, respectively, are justifiable.

We also noted that total operating revenue of the Group increased from approximately RMB5,516.8 million for the year ended 31 December 2019 to approximately RMB6,367.0 million for the year ended 31 December 2020, representing an increase of approximately 15.4%, and further increased to approximately RMB7,410.6 million for the year ended 31 December 2021, representing an increase of approximately 16.4%, indicating a steady improvement in the business operation of the Company which is believed to be a result of the gradual recovery of the economic situation in the PRC after combating the COVID-19 outbreak. With the effective control of the COVID-19 outbreak, the downstream demands for the Group's products are expected to increase. Accordingly, the Management anticipated that the cash and consequential Deposit Services will increase. In view of the historical growth in the revenue of the Group, we consider that the conservatively estimated annual growth rate of the proposed annual caps of the Deposit Services of 5% for the three years ending 31 December 2025 are justifiable and not excessive.

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 2025 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 assumptions which may or may not remain valid for the entire three years ending 31 December 2025, and they do not represent forecasts of balance of the Deposit Services. Consequently, we express no opinion as to how closely the actual balance of the Deposit Services will correspond with proposed annual caps of the Deposit Services.

4. 2023-2025 Parent Group Financial Services Framework Agreement

a) Reasons for and benefits of entering into the 2023-2025 Parent Group Financial Services Framework Agreement

As disclosed in the Letter from the Board, (a) the entering into the 2023-2025 Parent Group Financial Services Framework Agreement 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 utilisation 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 obtained from the provision of Loan Services and guarantee services under the 2023-2025 Parent Group Financial Services Framework Agreement.

Having considered that (i) the provision of the Loan Services by the Finance Company to the Parent Group provides the revenue stream to the Group; (ii) the terms offered by the Finance Company to the Parent Group shall be no less favourable than those offered by independent third party financial services providers; and (iii) the mutual beneficial relationship between the Parent Group and the Finance Company as well as the Group, we are of the view that the entering into the 2023-2025 Parent Group Financial Services Framework Agreement is fair and reasonable and in the interests of the Company and the Shareholders as a whole.

b) Principal terms of the 2023-2025 Parent Group Financial Services Framework Agreement

The principal terms of the 2023-2025 Parent Group Financial Services Framework Agreement are set out as follows:

Date:

7 April 2022

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 2023-2025 Parent Group Financial Services Framework Agreement will become effective from 1 January 2023 and expire on 31 December 2025. The terms of deposit services, guarantee services and other financial services under 2023-2025 Parent Group Financial Services Framework Agreement will become effective from 1 January 2023 and expire on 31 December 2025.

Services:

Pursuant to the 2023-2025 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 Loan Services provided by the Finance Company are as follows:

The interest rates for loans provided to the Parent Group by the Finance Company will not be lower than the interest rates for loans of similar nature and under similar terms being charged on 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 and 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 (although no such other factors are anticipated currently, the Finance Company may take into other factors due to possible changes in the business environment affecting the Finance Company in the future), 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.

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) three loan contracts with highest loan amount between the Parent Group and the Finance Company for each of the three years ended 31 December 2021 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 consider such review covering the historical period under the Existing Parent Group Financial Services Framework Agreement on a typical case sampling basis on the major kinds of loan of the Group to be sufficient from the independent financial adviser's perspective and nothing has come to our attention that causes us to believe that such contracts/ records did not follow the internal control measures. We noted that the interests charged for the Loan Services provided to the Parent Group by the Finance Company were set at such rates equal or 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 three years ended 31 December 2021 were set at such rates not less than the rates offered by the independent third parties and the Loan Services under the 2023-2025 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 2023-2025 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 2023-2025 Parent Group Financial Service Framework Agreement are on normal commercial terms, fair and reasonable and in the interests of the Company and the Shareholders as a whole.

c) Proposed Annual Caps of the Loan Services

The table below illustrates (i) the actual historical maximum daily balance for the Loan Services provided by the Finance Company for the three years ended 31 December 2021; and (ii) the proposed annual caps of the Loan Services for the three years ending 31 December 2025 under the 2023-2025 Parent Group Financial Services Framework Agreement.

	For the year ended/ending 31 December					
	2019	**2020**	**2021**	**2023**	**2024**	**2025**
The annual cap *(RMB in million)*	3,000.0	2,350.0	2,474.0	2,842.0	2,946.0	3,056.0
Maximum daily loan balance (including corresponding interest) *(RMB in million)*	1,206.5	1,044.1	1,031.4	–	–	–
Utilisation rate *(%)*	40.2	44.4	41.7	–	–	–

We have discussed with the Management and were given to understand that the proposed annual caps of the Loan Services are determined with references to: (a) the data set out in the Letter from the Board; (b) the expectation of the Parent Company's capital needs for the period from now up to 31 December 2025; (c) the financial ability of the Finance Company; and (d) the historical transaction records of the Loan Services.

(i) The expectation of the Parent Group's capital needs for the three years ending 31 December 2025

As advised by the Management, the Company has been informed by the Parent Company that the Parent Group's capital needs for each of the three years ending 31 December 2025 is currently estimated to be approximately RMB4,100 million, RMB5,000 million and RMB6,000 million (the "**Capital Needs**"), respectively, which will be used for the projects and 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.

(ii) The upper limit of the loans to the Parent Group for the three years ending 31 December 2025

We have reviewed the historical data of the Parent Company and the Finance Company from 1 January 2019 to 31 December 2021 (the "**Period**") provided by the Company, and noted that the ratio of average daily loans granted to the Parent Company by the Finance Company to the total average daily loans granted by the Finance Company has been approximately 50.0%, 47.1% and 45.6%, with an average of approximately 47.6% (the "**Ratio**") for the three years ended 31 December 2021, respectively. The Parent Company required Loan Services from the Finance Company to cater the capital need for different stages of the projects or business development. The Management considers that the Ratio for the three years ending 31 December 2025 will not be significantly different from the Period as there is no foreseeable material change on the business development and structure of the Group and Parent Group. Therefore, the Management considers to maintain the Ratio as an upper limit for the Loan Services in order to reserve sufficient capital resource for the Group's future projects and business development.

(iii) The expected maximum capital scale of the Finance Company

As disclosed the Letter from the Board, as of 31 December 2022, it is expected that the cash and cash equivalents of the Parent Group will amount to approximately RMB3,967 million and the cash and cash equivalents of the Parent Group will grow gradually at the growth rate of 5% every year in 2023-2025. Considering the increase in registered capital of the Finance Company, it is expected that the maximum inter-bank borrowings (no more than the registered capital) of the Finance Company in 2023-2025 will be RMB1,500 million.

According to 同業拆借管理辦法 (The Measures for the Administration of Interbank Lending*) enacted and promulgated by the PBOC 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 RMB1,500.0 million, subject to the increase in registered capital of the Finance Company.

The expected maximum capital capacity of the Finance Company is determined on the basis of assuming the expected cash and cash equivalents of the Parent Group will be fully deposited in the Finance Company and the Finance Company will utilise the maximum inter-bank borrowings of the Finance Company available in 2023- 2025 and based on the above, it is estimated that maximum size of funds of the Finance Company in 2023-2025 will be approximately RMB5,665 million, RMB5,874 million and RMB6,092 million, respectively, and the proposed annual caps of the Loan Services for the three years ending 31 December 2025 are estimated to be approximately RMB2,719.2 million, RMB2,819.5 million and RMB2,924.2 million, respectively, based on the Ratio of approximately 48%.

(iv) The actual historical loan amounts of the Parent Group

Notwithstanding that the utilisation rates of annual caps of the Loan Services were ranged from 40.2% to 44.4% for the three years ended 31 December 2021, we have discussed with the Management and were given to understand that the total maximum daily loan balance of the Parent Group (irrespective of loan services provided by the Finance Company or other independent third parties) had reached as high as approximately RMB5,101 million, RMB6,577 million and RMB7,283 million for the three years ended 31 December 2021, respectively, which represented approximately 170.0%, 279.9% and 294.4% of the corresponding utilisation rates of the annual caps of the Loan Services.

In light of the above, in particular (i) the expected maximum capital scale of the Finance Company; (ii) the capital needs for future projects and business development of the Parent Group; (iii) the maintenance of the Ratio; and (iv) the maximum daily loan balance of the Parent Group (irrespective of loan services provided by the Finance Company or other independent third parties), we are of the view that the proposed annual caps of the Loan Services for the three years ending 31 December 2025 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 for Loan Services under the 2023-2025 Parent Group Financial Services Framework Agreement are relating to future events and were estimated based on assumptions which may or may not remain valid for the entire three years ending 31 December 2025, and they do not represent forecasts of balance of the Loan Services. Consequently, we express no opinion as to how closely the actual balance of the Loan Services will correspond with proposed annual caps of the Loan Services.

5. Internal Control Measures

(A) Internal Control of the 2023-2025 Master Sales Agreement

As disclosed in the Letter from the Board, the Company has implemented the following measures regarding its internal control system for the connected transactions to ensure the prices of products sold to the Parent Group by the Group are fair and reasonable:

1. 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;

2. the operation management department of the Company and other subsidiaries in the Group will ensure that the pricing terms and annual caps under the 2023-2025 Master Sales Agreement are complied with in every individual agreement entered into thereunder;

3. 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

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

In this connection, we have obtained and reviewed the relevant monthly records of the operation management department and the audit and risk management committee of the Company, which ensured the prices of products sold to the Parent Group by the Group are fair and reasonable, and complied with the annual caps. We have further reviewed the annual reports of the Company for each of the three years ended 31 December 2021 and noted that (i) the independent non-executive Directors had reviewed the continuing connected transactions of the Company, including the transactions contemplated under the Existing Master Sales Agreement, and confirmed, among other things, such transactions were conducted on normal commercial terms; and (ii) the independent auditors of the Company had also reported on such transactions. Accordingly, we understand the Group has a positive track record in respect of compliance with the Listing Rules.

In view of the above, and the aforementioned internal control procedures will continue to be reviewed by the audit committee of the Company and the auditors of the Group to ensure full compliance with the Listing Rules, we concur with the Management's view that there are adequate internal control procedures and external supervision measures to ensure that the connected transactions will be conducted on normal commercial terms and not prejudicial to the interests of the Company and the Shareholders as a whole.

(B) Internal Control and Risk Management of 2023-2025 Group Financial Services Framework Agreement and 2023-2025 Parent Group Financial Services Framework Agreement

As disclosed in the Letter from the Board, in order to safeguard the interests of the Shareholders, the Group and the Finance Company provide for 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 2023-2025 Group Financial Services Framework Agreement and the 2023-2025 Parent Group Financial Services Framework Agreement monthly. The operation management department of the Company and other subsidiaries in the Group will ensure that the pricing terms under the 2023-2025 Group Financial Services Framework Agreement and the 2023-2025 Parent Group Financial Services Framework Agreement are complied with in every individual agreement entered into thereunder.

Measures specific to 2023-2025 Group Financial Services Framework Agreement and 2023-2025 Parent Group Financial Services Framework Agreement

(a) Capital requirement of the Finance Company

Pursuant to the relevant regulations set by the CBRC, financial institutions in the PRC have to comply with certain requirements, which include, among other things, the minimum total capital requirement of a capital adequacy ratio of not less than 10% as set out by the CBRC. Based on the current registered capital of RMB600,000,000 of the Finance Company and that the Finance Company shall provide the financial services not exceeding the proposed annual caps, the Finance Company sets its capital adequacy ratio for the period of 2017 to 2019 at not less than 10%, which is in compliance with relevant provisions of the CBRC. The Finance Company shall maintain the minimum registered capital of RMB300,000,000 in order to satisfy the proposed annual caps. The expected capital adequacy ratio for the period of 2023 to 2025 shall be approximately 26% to 28%. The Finance Company has complied with the relevant provisions of the CBRC.

(b) Internal control of the Finance Company

The establishment of the Finance Company as a non-bank financial institution was authorised by the CBRC, 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 CBRC on a monthly basis.

The Finance Company has established its own credit policies and credit approval procedures for the loan applications, bills discounting services and bills acceptance services, which are designed in accordance with the relevant PBOC and CBRC regulations. Such measures are able to ensure that 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. The vice chairman of the Board, the chairman of the board of supervisors, and the chief financial officer of the Finance Company are appointed by the Company to effectively supervise and manage the daily operation of the Finance Company. The Finance Company is a non-banking financial institution approved by the CBIRC and the PBOC. It is also under the centralized supervision and guidance of the office of the Board, the risk control, legal and audit department, the planning department, the marketing department, and the finance department to ensure its stable operation. If any omissions are found, the Finance Company will be urged to rectify and comply with the standards.

(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, 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. The loan approval committee of the Finance Company adopts the method of collective decision-making to provide decision-making suggestions for the development of the credit business of the Finance Company. The main function of the loan approval committee is to listen to the business department's review opinions on the enterprise's credit plan as well as the review opinions of the risk review department. Five committee members with backgrounds in finance, risk control and compliance, finance, and law will independently express their opinions, comprehensively evaluate the operating conditions, default risk, rationality of capital needs, and the risk management and control measures of the Finance Company. Each plan shall be submitted to the general manager for approval.

In respect of the internal control measures for the transactions contemplated under the 2023-2025 Group Financial Services Framework Agreement and the 2023-2025 Parent Group Financial Services Framework Agreement, we noted that the Group has the right, but not an obligation, to use the services of the Finance Company, and the Group has full discretion to use the financial services provided by other financial institutions.

We have also obtained and reviewed the relevant internal control policies which stipulate the procedures to be complied with in conducting connected transactions. We considered that there are adequate internal control measures in place to monitor and ensure that (i) the interest rate for the Group's deposits shall not be lower than the interest rate offered by other independent commercial banks for comparable deposits in the PRC; and (ii) the interest rates for the Parent Group's loans to be charged by the Finance Company shall not be lower than those charged by other independent commercial banks for providing comparable services in the PRC.

Furthermore, we noted that the external auditors of the Group will conduct an annual review on the pricing and the annual caps of the financial services transactions under the 2023-2025 Group Financial Services Framework Agreement and the 2023-2025 Parent Group Financial Services Framework Agreement. The independent non-executive Directors will also conduct an annual review of the implementation and enforcement of the financial services transactions under the 2023-2025 Group Financial Services Framework Agreement and the 2023-2025 Parent Group Financial Services Framework Agreement.

According to Article 34 of the Administrative Measures for Enterprise Group Finance Companies, finance companies operating business shall comply with the following requirements for the ratio of assets to liabilities (the "**Requirements**"):

(1) The capital adequacy ratio shall not be lower than 10%;

(2) The balance of borrowed funds shall not be higher than the total capital;

(3) The guarantee balance shall not be higher than the total capital;

(4) The ratio of short-term securities investment to total capital shall not exceed 40%;

(5) The ratio of long-term investment to total capital shall not be higher than 30%; and

(6) The ratio of self-owned fixed assets to total capital shall not be higher than 20%.

For our due diligence purpose, we have obtained and reviewed the financial statements of the Finance Company as at 31 December 2019 and 2020 and 31 December 2021 provided by the Management, and noted that the financial ratios of the Finance Company were in compliance to the Requirements as follows.

	As at 31 December		
	2019	**2020**	**2021**
Capital adequacy ratio	27.4%	32.4%	30.5%
Balance of borrowed funds ratio	5.8%	–	–
Guaranteed balance ratio	35.7%	49.3%	43.9%
Ratio of short-term securities investment to total capital	–	1.1%	0.1%
Ratio of long-term investment to total capital	–	–	–
Ratio of own fixed assets to total capital	0.3%	0.3%	0.2%

Taking into consideration that the Finance Company has historically complied with the Requirements and risk monitoring indicators prescribed by the CBIRC, we are of the view that the aforementioned internal control measures can jointly and effectively safeguard the interests of the Company, ensure recoverability of the deposits to be placed with the Finance Company.

RECOMMENDATIONS

Having considered the principal factors and reasons as discussed above, we consider that (i) the 2023-2025 Master Sales Agreement, the 2023-2025 Group Financial Services Framework Agreement and the 2023-2025 Parent Group Financial Services Framework Agreement have been entered into in the ordinary and usual course of business of the Group based on normal commercial terms; and (ii) the terms of the 2023-2025 Master Sales Agreement, the 2023-2025 Group Financial Services Framework Agreement and the

2023-2025 Parent Group Financial Services Framework Agreement and the transactions contemplated thereunder, as well as the Proposed Annual Caps, are fair and reasonable so far as the Independent Shareholders are concerned, and are in the interests of the Company and Independent Shareholders as a whole.

Accordingly, we recommend the Independent Shareholders to vote in favour of the relevant resolutions to be proposed at the AGM to approve the 2023-2025 Master Sales Agreement, the 2023-2025 Group Financial Services Framework Agreement and the 2023-2025 Parent Group Financial Services Framework Agreement and the transactions contemplated thereunder (including the Proposed Annual Caps).

Yours faithfully,
For and on behalf of
Lego Corporate Finance Limited
Stanley Ng
Managing Director

Mr. Stanley Ng is a licensed person registered with the Securities and Futures Commission and a responsible officer of Lego Corporate Finance Limited to carry out Type 6 (advising on corporate finance) regulated activity under the Securities and Futures Ordinance (Chapter 571 of the laws of Hong Kong). He has over 15 years of experience in the accounting and investment banking industries.

1. FINANCIAL INFORMATION OF THE GROUP

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

The audited consolidated financial statements of the Group together with the relevant notes for each of the three years ended 31 December 2019, 2020 and 2021 have been set out in the annual reports of the Group ended 31 December 2019, 2020 and 2021 dated 15 April 2020 (pages 148-488), 15 April 2021 (pages 160-472), 14 April 2022 (pages 141-432) 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 2022, being the latest practicable date for the purpose of this indebtedness statement prior to the printing of this circular, the Group had outstanding borrowings of approximately RMB2,843.74 million, comprising (i) bank loans of RMB2,694.24 million; (ii) other interest-bearing borrowings of RMB149.50 million (the aforesaid figures are unaudited).

Among the borrowings mentioned above, RMB505.24 million of bank loans are guaranteed, of which RMB63.4 million are secured. 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 2022, 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 forward to 2022, the global economy will continue its uneven and unstable recovery. The repeated fluctuations of the COVID-19 epidemic will remain the main factor affecting the global economy, and will have an impact on the operation and expectations of the global economy. In 2022, geopolitics will face challenges such as the outbreak of war between Russia and Ukraine, international sanctions against Russia, intense fluctuations in energy and commodity prices, bottlenecks in the global industrial chain, and mismatch between labor supply and demand in developed countries. The tightening of international monetary policies and the interest rate hike by the Federal Reserve will become adverse factors restricting the recovery of the global economy. Faced with the triple challenges of shrinking demand, supply shock, and weakening expectations, the Chinese government will adhere to the general work principle of maintaining stability while seeking progress, fully implement the new development concept, accelerate the construction of a new development pattern, comprehensively deepen reform and opening up, adhere to innovation-driven development, and promote high quality development. It will continue the main task of supply-side structural reform, coordinate epidemic prevention and control and economic and social development, and continue to implement a proactive fiscal policy and a prudent monetary policy. It will unclog the national economic cycle, continue to properly carry out "six stabilities" and "six guarantees", continue to improve people's livelihood, focus on stabilizing the macro economy, and keep the economy operating within a reasonable range.

Looking back at 2021, with the spread of the highly contagious Delta and Omicron variants of the COVID-19 epidemic, the world economic recovery stutter-stepped. Major developed economies in the world launched easy monetary policies and active fiscal policies to promote economic recovery, but the growth of the economies diverged, and economic growth rate lowered. Within China, faced with complicated international situation as well as the domestic challenges such as rising prices of raw materials, logistics and energy, supply chain shortages, and intensified adjustments in some industries, the Chinese government responded calmly. It coordinated both domestic and international situations, adhered to the general work principle of seeking progress while maintaining stability, balanced epidemic prevention and control and economic and social development, and strengthened cross-cycle adjustment of the macro economy. China became the world leader in terms of economic development and epidemic prevention and control, took new steps in actively building a new development pattern, achieved new results in high-quality development, and got off to a good start for the "14th Five-Year Plan". The GDP growth rate for the Year was 8.1%, and the total economic output was approximately RMB114.37 trillion.

Looking forward to 2022, there are still great uncertainties in the development of the international epidemic. The normal operation of overseas projects of the hydroelectric generation equipment business will face great challenges. Affected by the expiration of offshore wind power subsidies, the growth of the wind power blade business will be under great pressure. However, with the effective control of the COVID-19 epidemic and the support of macro policies in China, the domestic economic quality will maintain a stable and upward momentum, and businesses such as electrical wires and cables and materials, industrial pump, industry blowers, and gas compressor will achieve stable growth, driving the stability of the segment throughout the year.

The Group expects that the business will continue to maintain a stable development in 2022.

5. EFFECT OF THE 2023-2025 GROUP FINANCIAL SERVICES FRAMEWORK AGREEMENT ON THE EARNINGS, ASSETS AND LIABILITIES OF GROUP

In respect of the 2023-2025 Group Financial Services Framework Agreement, (1) The interests of deposits provided by the Finance Company will not be lower than the interest rates for deposits of same nature and under same 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; (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 same nature and under same terms charged to the Group and its subsidiaries 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 2023-2025 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 2023-2025 PARENT GROUP FINANCIAL SERVICES FRAMEWORK AGREEMENT ON THE EARNINGS, ASSETS AND LIABILITIES OF THE GROUP

In respect of the 2023-2025 Parent Group Financial Services Framework Agreement, (1) 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 being charged on 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 when providing loan and guarantee services to the Parent Group.

In respect of the 2023-2025 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 SIXTH SESSION OF THE BOARD

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

Name	Age	Position
Zhang Fulun	52	Executive Director
Chen Ping	59	Executive Director
Yang Quan	57	Executive Director
Huang Yong	59	Non-executive Director
Wang Tingting	36	Non-executive Director
Dou Bo	53	Non-executive Director
Cai Zhibin	49	Non-executive Director
Lo Wah Wai	58	Independent Non-executive Director
Ren Xiaochang	65	Independent Non-executive Director
Jin Jingyu	56	Independent Non-executive Director
Liu Wei	57	Independent Non-executive Director

Executive Directors

Mr. Zhang Fulun (張福倫), aged 52, served as the Chairman, executive Director, chairman of the nomination committee and strategic committee and the secretary of the Party Committee of the Company. He served as a vice chairman and director of Knorr-Bremse Systems for Commercial Vehicles (Chongqing) Ltd., and a director of the board of directors of Chongqing Cummins Engine Co., Ltd. from April 2021 up to now. He has been the secretary of the Party Committee of the Company since July 2020 up to now and the Chairman and executive Director of the Company since June 2020 up to now. Mr. Zhang successively acted as the general manager and the chairman of Chongqing Machinery & Electronic Intelligent Manufacturing Co., Ltd., the chairman of Chongqing Unication Technology Co., Ltd. (重慶盟訊科技有限公司), the general manager of Chongqing Industry Empower Innovation Center Co., Ltd. and the deputy general manager of Chongqing Mechanical & Electrical Engineering Technology Co., Ltd. from August 2016 to June 2020. He served as the general manager of Chongqing Mechanical & Electrical Engineering Technology Co., Ltd. and Chongqing Industry Empower Innovation Center Co., Ltd. from September 2015 to August 2016. He served as the office director and the head of the overseas business department of Chongqing Machinery and Electronics Holding (Group) Co., Ltd. (重慶機電控股(集團)公司) from February 2014 to September 2015; he served as the deputy director of the Foreign Economic Affairs and Liaison Service Division of the Chongqing State-owned Assets Supervision and Administration Commission from July 2010 to February 2014; he served as a researcher of the Reform Division of the Chongqing State-owned Assets Supervision and Administration Commission from February 2008 to July 2010, and a researcher at the Complaints and Appeal Division of the Chongqing State-owned Assets Supervision and Administration Commission from December 2007 to February 2008. He served as the team leader of the Second Team of Postgraduate Management Team of Logistics Engineering College of PLA from March 2006 to July 2007; he successively served as a teaching assistant, engineer and deputy director of the Education and Security Department of the Logistics Engineering College of the PLA from January 1995 to March 2006; he successively served as a technician, assistant engineer and teaching assistant in the Oil Storage and Transportation Teaching and

Research Section of the Oil Machinery Engineering Department of Logistics Engineering College of the PLA from July 1991 to January 1995. Mr. Zhang is a senior engineer; he studied in the Oil and Gas Storage and Transportation Engineering Major at the Logistics Engineering College of the PLA from September 2006 to June 2012, and obtained a doctorate degree in engineering. He studied at the Oil Depot Automation Department of the Logistics Engineering College of the PLA from September 1987 to July 1991 and obtained a bachelor's degree in engineering.

Ms. Chen Ping (陳萍), aged 59, is the general manager and deputy secretary of the Party Committee of the Company. Ms. Chen is a senior economist and engages in merger and reorganization of enterprises, equity investment, capital operations and other works, gaining extended experience in corporate management. She has been the deputy secretary of the Party Committee of the Company since July 2020. She was elected as a deputy in the 5th Chongqing Municipality People's Congress of the Communist Party of China in May 2017. She also served as a vice chairman and director of Knorr-Bremse Systems for Commercial Vehicles (Chongqing) Ltd. from October 2016 to April 2021. She also served as the vice chairman and director of Chongqing Machinery and Electronics Holding (Group) Finance Co., Ltd. from August 2016 up to now. She served as the general manager and executive director of Chongqing Machinery & Electric Co., Ltd. from June 2016 up to now. She served as the chairman of Chongqing Cummins Engine Co., Ltd. from June 2016 up to 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 was the vice president and a member of the Party Committee of Chongqing Machinery and Electronics Holding (Group) Co., Ltd. from February 2004 to May 2016. She has been the chairman of Chongqing Machinery and Electronic Holding Group Xinbo Investment Management Co., Ltd. (重慶機電控股集團信博投資管理有限公司) from January 2016 to July 2016, 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 Textle 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. She obtained a master degree in EMBA (Executive Master of Business Administration) from the school of business and economics of Chongqing University in December 2013; she 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 obtained a Bachelor of Science after graduating with a major in biology from Yuzhou University in August 1983.

Mr. Yang Quan (楊泉), aged 57, is an executive Director, Vice General Manager and the member of the Party Committee of the Company. He has been the chairman and director of Precision Technologies Group (PTG) Limited since September 2019 and concurrently serves as a director of Precision Technology Investment and Development Co., Ltd. (精密技術投資發展有限公司) (PTG Hong Kong) since September 2019; he serves as a vice general manager of the Company since May 2012, and an executive Director of the Company since December 2012, 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 serves as a director of Chongqing Hongyan

Fangda Automotive Suspension Co., Ltd. (重慶紅岩方大汽車懸架有限公司) since June 2013; he served as 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. He serves as an executive director of Chongqing Shengpu Materials Co., Ltd. (重慶盛普物資有限公司) from December 2011 up to now and a general manager of Chongqing Shengpu Materials Co., Ltd. (重慶盛普物資有限公司) from December 2011 to December 2020. 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, studied for EMBA in Xiamen University from November 2011 to June 2013 and graduated from the College of Mechanical Engineering of Sichuan University with a bachelor's degree in foundry in July 1987.

Save as disclosed above, Mr. Zhang Fulun, 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. Zhang Fulun, 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. Zhang Fulun, 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. Zhang Fulun, 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. Zhang Fulun, Ms. Chen Ping and Mr. Yang Quan,

(a) the appointment of Mr. Zhang Fulun, 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. Zhang Fulun, 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 Administrative Measures on Directors' and Supervisors' Remuneration as approved at the AGM.

The Board is not aware of any other matters in relation to the appointment of Mr. Zhang Fulun, 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 59, 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. From January 2011 to June 2021, Mr. Huang 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 2005, Mr. Huang was the general manager, deputy 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 obtained his master's degree in engineering from Chongqing University in 2000; and graduated from Hunan University with a bachelor's degree in automobile manufacturing in 1984.

Ms. Wang Tingting (王婷婷), aged 36, has been serving as the general manager of the investment and operation department of Chongqing Yufu Capital Operation Group Co., Ltd. since August 2021. She served as head of the investment banking department of Chongqing Yufu Investment Co., Ltd. (重慶渝富投資有限公司) from March 2021 to July 2021 and senior director of the investment banking department of Chongqing Yufu Investment Co., Ltd. from January 2019 to March 2021, and she worked as a staff of the investment banking department of Chongqing Yufu Investment Co., Ltd. from July 2016 to December 2018. She worked as a staff of industry business department of Chongqing Yufu Assets Management Group Co., Ltd. from April 2016 to July 2016. She served as the chief of strategy management division of the group investment and development department of Chongqing Wujiang Industry (Group) Co., Ltd. from July 2013 to April 2016, a clerk of strategy management division of the group investment and development department of Chongqing Wujiang Industry (Group) Co., Ltd. from May 2012 to July 2013, and a clerk of project verification division of the industrial expansion department of Chongqing Wujiang Industry (Group) Co., Ltd. from July 2011 to May 2012. She studied as a graduate student in the Technical Economic and Management Major at the School of Economics and Business Administration of Chongqing University from September 2008 to June 2011 and obtained a master's degree in management. She studied in the Computer Science and Technology Major of the Chongqing Jiaotong University from September 2004 to June 2008, and obtain a bachelor's degree in engineering.

Mr. Dou Bo (竇波), aged 53, 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 has been the deputy general economist and director of securities department of Chongqing Construction Engineering Group Co., Ltd. (重慶建工集團股份有限公司) from June 2017 up to now. He served as the general manager of securities department 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. He was the chief financial officer of Chongqing Second Construction Co., Ltd. (重慶第二建設有限公司) from March 2007 to March 2008, was appointed as the chief accountant of Chongqing Second Construction Co., Ltd. (重慶第二建設有限公司) from March 2003 to March 2007, was appointed as deputy chief accountant of Chongqing Second Construction Co., Ltd. (重慶第二建設有限公司) from July 2002 to March 2003 and was appointed as deputy director of finance department of Chongqing Second Construction Engineering Company (重慶第二建築工程公司) from July 1996 to July 2002. 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). Mr. Dou studied at the Business Administration Department of Chongqing University from March 2005 to December 2009 and obtained a master's degree. He graduated from Chongqing University in December 2001 through self-learning, majoring in accounting, and obtained a bachelor's degree. 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. Cai Zhibin (蔡志濱), aged 49, has been the assistant to general manager at the Chongqing office of China Huarong Asset Management Co., Ltd. since May 2020 up to now. He has been concurrently the member of the Party Committee of the Chongqing office of China Huarong Asset Management Co., Ltd. since December 2019 up to now. Mr. Cai is a senior economist and engineer. He served as the senior manager of planning and finance department and risk management department of the Anhui office of China Huarong Asset Management Co., Ltd. from December 2017 and December 2019. He successively served as the senior manager of planning and finance department of the Anhui office of China Huarong Asset Management Co., Ltd. from August 2016 to December 2017; the senior manager of planning and finance department and office deputy director of the Anhui office of China Huarong Asset Management Co., Ltd. from November 2014 to August 2016; the deputy senior management of planning and finance department and office deputy director of the Anhui office of China Huarong Asset Management Co., Ltd. from September 2013 to November 2014; and the office deputy director of the Anhui office of China Huarong Asset Management Co., Ltd. from October 2012 to September 2013. Mr. Cai successively acted as the deputy manager of No. 4 Asset Operation Division, manager of the leasing affairs department, office manager and office deputy director of the Hefei Office of China Huarong Asset Management Co., Ltd. from September 2005 to October 2012; he worked in Dazhonglou Sub-branch, Hefei Branch, China Merchants Bank from June 2005 to August 2005; he acted as a clerk of Saobagou Office, Tongling Sub-branch, ICBC and science and technology division, Tongling Branch, ICBC and deputy general manager of Business Department of Tonglong Branch, ICBC from July 1993 to May 2005. Mr. Cai graduated from the Electronic Engineering and Information Technology Department of Anhui University majoring in Radio Technology with a bachelor's degree in engineering in July 1993.

Save as disclosed above, Mr. Huang Yong, Ms. Wang Tingting, Mr. Dou Bo and Mr. Cai Zhibin 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, Ms. Wang Tingting, Mr. Dou Bo and Mr. Cai Zhibin do not hold other positions in the Company or other members of the Group.

Save as disclosed above, Mr. Huang Yong, Ms. Wang Tingting, Mr. Dou Bo and Mr. Cai Zhibin 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, Ms. Wang Tingting, Mr. Dou Bo and Mr. Cai Zhibin do not hold Shares of the Company.

Pursuant to the service agreement between the Group and each of Mr. Huang Yong, Ms. Wang Tingting, Mr. Dou Bo and Mr. Cai Zhibin,

(a) the appointment of Mr. Huang Yong, Ms. Wang Tingting, Mr. Dou Bo and Mr. Cai Zhibin 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, Ms. Wang Tingting, Mr. Dou Bo and Mr. Cai Zhibin, would be fixed with reference to their respective duties and responsibilities with the Company as well as by reference to the Administrative Measures on Directors' and Supervisors' Remuneration as approved at the AGM.

The Board is not aware of any other matters in relation to the appointment of Mr. Huang Yong, Ms. Wang Tingting, Mr. Dou Bo and Mr. Cai Zhibin 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 58, 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 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), Shandong Xinhua Pharmaceutical Company Limited (stock code: 719 HK) and Holly Futures Co., Ltd. (弘業期貨股份有限公司) (stock code: 3678 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 New Jersey Institute of Technology, the U.S., with a master's degree in science in 1992 and The Chinese University of Hong Kong with a bachelor's degree in business administration in 1986.

Mr. Ren Xiaochang (任曉常), aged 65, 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 Chongqing Changan Automobile Co., Ltd. (stock code: 000625.SZ) and Chongqing Zongshen Power Machinery Co., Ltd. (stock code: 001696.SZ), and is responsible for matters relating to the Board. Mr. Ren graduated from the Management School of Wuhan University of Technology with a master's degree in business administration in 2004 and Hunan University with a bachelor's degree in engineering in 1981. 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 56, 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 director of PKU HealthCare Corp., Ltd. (000788) since May 2021, an independent director of Chongqing Tourism Investment Group Co., Ltd. (重慶旅遊投資集團有限公司) since November 2019 and an independent non-executive director of Bank of Chongqing Co., Ltd.* (stock code: 1963.HK) from March 2014 to December 2019. 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 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 Board of the Financial and Technology Special Committee of China Technology and Economy Association (中國技術經濟學會金融科技專業委員會理事會), 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. He 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; 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; and studied in the Mathematics Department of Henan University from September 1988 to July 1992 as an undergraduate student.

Mr. Liu Wei (劉偉), aged 57, has served as an independent non-executive Director of the Company since September 2014. He is currently a professor and PhD candidate supervisor 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), and Chongqing Jianshe Vehicle System Co., Ltd. (重慶建設汽車系統股份有限公司) (stock code: 200054. SZ), an external director of Chongqing Iron & Steel (Group) Company Limited, 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 completed the training for independent directors of listed company by the Securities Association of China in December 2002. Mr. Liu conducted post-doctoral research at the University of Manchester Institute of Science and Technology from September 1996 to October 1997; graduated from Chongqing University with a doctorate degree in Mechanical Design and Theory in July 1990; graduated from Chongqing University with a master's degree in Mechanics in July 1987; and graduated from Chongqing University with a bachelor's degree in Mining Machinery in July 1984.

Save as disclosed above, as at the Latest Practicable Date, 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 Administrative Measures on Directors' and Supervisors' Remuneration 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 SIXTH SESSION OF THE SUPERVISORY COMMITTEE

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

Name	Age	Position
Sun Wenguang	55	Supervisor
Wu Yi	48	Independent Supervisor
Wang Haibing	43	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 23 June 2022 at which the sixth session of Supervisors of staff representatives will be elected. The appointment of the sixth session of Supervisors of staff representatives is not subject to approval by the Shareholders at the AGM.

Mr. Sun Wenguang (孫文廣), aged 55, currently served as the chairman of the Supervisory Committee and the member of the Party Committee of the Company, and has been serving as the chairman of the Supervisory Committee of the Company since August 2018. He has been serving as a supervisor of Chongqing General Industry (Group) Co., Ltd. since August 2018 and the chairman of the Supervisory Committee of Chongqing Machinery and Electronics Holding (Group) Finance Co., Ltd. since April 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 vice general manager of the Company from June 2016 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 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 University (重慶工商管理碩士學院) with a master's degree in 2009.

Ms. Wu Yi (吳怡), aged 48, has been an independent supervisor of the Company since September 2014. She is currently the director of Chongqing Bestone Law Firm (重慶百事得律師事務所), a member of Chongqing Lawyers Association and the Specially-invited Member of the fourth Committee of Chinese People's Political Consultative Conference of Chongqing. Ms. Wu once served as the lawyer of Chongqing Dongfanglianhe Law Firm (重慶東方聯合律師事務所), Chongqing Zhongzhu Law Firm (重慶中柱律師事務所) and Chongqing Branch of Beijing Kaiwen Law Firm (北京凱文律師事務所重慶分所) from August 1997 to April 2008. Ms. Wu studied at the School of Economic Law of Southwest University of Political Science and Law from September 1993 to July 1997 and graduated with a bachelor's degree and at the Graduate School of Southwest University of Political Science and Law from September 2003 to July 2006 and graduated with a master's degree in law. She studied at Peking University HSBC School of Business from September 2008 to July 2009.

Mr. Wang Haibing (王海兵), aged 43, was elected as the high-level creative talent of the Fourth "Elite Program" of Banan District, Chongqing in December 2021. He has been the consultant to the Internal Control Standard Committee of the Ministry of Finance since April 2019. He has been the independent director, chairman of the audit committee and member of the remuneration and appraisal committee of Chongqing Gas Group Corporation Ltd. (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 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 jointly 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 graduated from Southwestern University of Finance and Economics as a postgraduate in 2011 and was awarded a doctorate degree in management (financial Management). He successively acted as the teaching assistant and tutor of the Accounting Department of Chongqing College of Technology (重慶工學院) from April 2004 to December 2010.

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 last 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 Administrative Measures on Directors' and Supervisors' Remuneration as approved at the AGM.

1. RESPONSIBILITY STATEMENT

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

2. DISCLOSURE OF INTERESTS

As at the Latest Practicable Date, none of the Directors, chief executive 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 PERSON'S 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 Shareholder	Number of shares	Stock Category	Capacity	*Note*	Percentage of total issued domestic shares *(%)*	Percentage of total issued H shares *(%)*	Percentage of total issued shares *(%)*
Chongqing Machinery and Electronic Holding (Group) Co., Ltd.	1,924,225,189	Domestic shares	Beneficial owner	*(1)*	74.46 (L)	–	52.22
	11,652,000	H shares	Beneficial owner	*(1)*	–	8.42 (L)	2.52
Chongqing Yufu Capital Operation Group Co., Ltd.	232,132,514	Domestic shares	Beneficial owner	*(1)*	8.98 (L)	–	6.30
Chongqing Construction Engineering Group Co., Ltd.	232,132,514	Domestic shares	Beneficial owner	*(2)*	8.98 (L)	–	6.30
China Huarong Asset Management Co., Ltd	195,962,467	Domestic shares	Beneficial owner	*(3)*	7.58 (L)	–	5.32
Chongqing State-Owned Assets Supervision and Administration Commission	2,388,490,217	Domestic shares	Interest in controlled corporation	*(1)*	92.42 (L)	–	64.82
	11,652,000	H shares	Beneficial owner	*(1)*	–	8.42 (L)	2.52
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 the Company with par value of RMB1.00 each

Name of Shareholder	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) 0 (P)	Custodian		7.93 (L) 0 (P)	2.37 (L) 0 (P)
The Bank of New York Mellon Corporation	87,276,000 (L) 87,276,000 (P)	Interest in corporation controlled by substantial shareholders	*(4)*	7.93 (L) 7.93 (P)	2.37 (L) 2.37 (P)

(L) Long Position
(S) Short Position
(P) Lending Pool

Notes:

1. As Chongqing Machinery and Electronics Holding (Group) Co., Ltd. and Chongqing Yufu Capital Operation Group Co., Ltd. are wholly owned by Chongqing State-owned Assets Supervision and Administration Commission, Chongqing State-owned Assets Supervision and Administration Commission is deemed to be interested in 1,924,225,189 domestic shares and 11,652,000 H shares as well as 232,132,514 domestic shares of the Company held by the two companies respectively.

2. Chongqing Construction Engineering Group Corporation Limited is held as to 76.53% by Chongqing State-owned Assets Supervision and Administration Commission through its wholly-owned subsidiary, Chongqing Construction Investment Holding Co., Ltd. Therefore, Chongqing State-owned Assets Supervision and Administration Commission is deemed to be interested in 232,132,514 domestic shares of the Company held by Chongqing Construction Engineering Group Corporation Limited.

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

4. The Bank of New York Mellon Corporation holds 100% interest in The Bank of New York Mellon (formerly known as "The Bank of New York"), which holds 87,276,000 H shares of the Company. The interest in 87,276,000 H shares relates to the same block of shares in the Company and includes a lending pool of 87,276,000 H shares of the Company.

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

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

As at the Latest Practicable Date, none of the Directors and the supervisors of the Company had any direct or indirect interest in any assets which have been acquired or disposed of by or leased to the Company or are proposed to be acquired or disposed of by or leased to the Company since 31 December 2021, 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 CONTRACTS

None of the Directors has a service contract with the Company which is not terminable 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 nor his associates was interested in any business apart from the business of the Group, which competes or is likely to compete, either directly or indirectly, with that of the Group.

7. LITIGATION

As at the Latest Practicable Date, the Company or any other members of the Group were engaged in material litigation or arbitration with details below:

(a) In respect of the failure of Chongqing General Trading Chemical Co., Ltd. (重慶商社化工有限公司) ("**General Trading Chemical**") to make payment to PTG Hong Kong as agreed for the rubber purchased. Considering that PTG Hong Kong is an overseas subsidiary, to facilitate litigation, the Company has transferred all creditors' rights of PTG Hong Kong over General Trading Chemical to Chongqing Shengpu Materials Co., Ltd. (重慶盛普物資有限公司) ("**Shengpu Company**"), a wholly-owned subsidiary of the Company, through legal procedures. Each of the Company and Shengpu Company has filed a litigation with the Chongqing First Intermediate People's Court to claim General Trading Chemical for the principal of the borrowing amounting to approximately RMB287.5 million and the relevant interest payments and default penalty. The cases were accepted on 6 November 2020. For details, please refer to the announcement of the Company dated 6 November 2020. On 25 August 2021, the Company received two first-instance judgments from the Chongqing First Intermediate People's Court. Details of the two judgments are as follows:

(i) Judgment 1: General Trading Chemical shall repay the borrowing principal of RMB87,568,704.21 and interest of RMB952,309.66 as of 27 December 2019 to the Company within ten days after this judgment being effective; General Trading Chemical shall pay the interest on the borrowing principal of RMB87,568,704.21 (at four times the Loan Prime Rate published by the National Interbank Funding Center for one-year loans on 27 September 2019 and accrued from 28 December 2019 until the amount is fully paid off) to the Company within ten days after this judgment being effective; Other claims of the Company were rejected; The litigation fees in this case were RMB546,517.46, of which RMB500,107.46 shall be borne by General Trading Chemical, and RMB46,409.68 shall be borne by the Company.

(ii) Judgment 2: General Trading Chemical shall repay Shengpu Company the payment of RMB199,436,290.27 and interest thereon (at the Loan Prime Rate published by the National Interbank Funding Center for one-year loans, accrued from 7 July 2020 until the amount is fully paid off) within ten days after this judgment being effective; General Trading Chemical shall pay Shengpu Company legal fees of RMB60,000 within ten days after this judgment being effective; Other claims of Shengpu Company were rejected; The litigation fees in this case were RMB1,052,742.05 which shall be borne by General Trading Chemical.

The Company reserves the right to appeal to the Higher People's Court of Chongqing against the litigation that are not supported by the Chongqing First Intermediate People's Court. For details, please refer to the announcement of the Company dated 25 August 2021.

(b) On 18 December 2020, the Chongqing No. 5 Intermediate People's Court made a first trial judgment on the dispute over trademark infringement and unfair competition brought by Chongqing Pigeon Electric Wires & Cable Co., Ltd. ("Pigeon Company"), a wholly-owned subsidiary of the Company, against Chongqing Gehuang Electric Wires & Cable Group Co., Ltd. (重慶鴿皇電線電纜集團有限公司) ("Gehuang Company"). The judgment stated that Gehuang Company shall stop the infringement and compensate Pigeon Company for its economic losses, totaling RMB10 million. For details, please refer to the announcement of the Company dated 7 January 2021. Gehuang Company and the Operation Department of Xingfu Shiguang Construction Material of Hi-Tech Industrial Development Zone (高新技術產業開發區幸福時光建材經營部) (a dealer of products of "Gehuang" and a related party of Gehuang Company, together with Gehuang Company hereinafter collectively referred to as the "**Gehuang Party**") were dissatisfied with the judgment. On 16 July 2021, the Court made a final trial judgment on the appeal of the Gehuang Party and the appeal request of the Gehuang Party could not be established. The facts affirmed in the first instance judgment are clear and the law was correctly applied. The appeal was dismissed, and the original judgment was upheld. For details, please refer to the announcement of the Company dated 29 July 2021.

8. MATERIAL ADVERSE CHANGE

As at the Latest Practicable Date, the Directors confirmed that there was no material adverse change in the financial or trading position of the Group since 31 December 2021, 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
Lego Corporate Finance Limited	Lego Corporate Finance Limited, a licensed corporation to carry on Type 6 (advising on corporate finance) regulated activities under the SFO, being the independent financial adviser to the Independent Board Committee and the Independent Shareholders in relation to the terms and conditions of the continuing connected transactions and the respective transactions contemplated thereunder (including their respective annual caps)

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

As at the Latest Practicable Date, (i) the Independent Financial Adviser did not have any interest, either direct or indirect, in any assets which had been, since 31 December 2021, being the date to which the latest published audited financial statements of the Company were made up, acquired or disposed of by or leased to any member of the Group or are proposed to be acquired or disposed of by or leased to any member of the Group; and (ii) the Independent Financial Adviser did not have any shareholding interests in any member of the Group and it did not have any right, whether legally enforceable or not, to subscribe for or nominate persons to subscribe for securities of any members of the Group.

10. MATERIAL CONTRACTS

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

(i) On 15 July 2020, Chongqing ABB Transformer Co., Ltd., an associated company of the Company, entered into the State-Owned Construction Land Use Right Transfer Contract with Chongqing Municipal Planning and Natural Resources Bureau, for details please refer to the announcement of the Company dated 15 July 2020. Pursuant to the contract, the land transferred is located at a land parcel (No. F22-1-1/04) in Zone F, Yuzui Group in Liangjiang New District, Chongqing, with a total area of 159,581.7m^2. The land transferred will be used for implementing the overall relocation for Chongqing ABB Transformer Co., Ltd. and the total consideration is RMB40,220,000.

11. MISCELLANEOUS

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

(ii) The principal place of business of the Company in Hong Kong is Room 1204-06, 12/F, 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 at Shops 1712-1716, 17th Floor, 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 text of this circular shall prevail over the Chinese text.

12. DOCUMENTS AVAILABLE ON DISPLAY

Copies of the following documents will be published on the websites of the Stock Exchange (http://www.hkexnews.hk) and the Company (www.chinacqme.com) for the period of 14 days commencing from the date of this circular:

(i) 2023-2025 Master Sales Agreement;

(ii) 2023-2025 Group Financial Services Framework Agreement;

(iii) 2023-2025 Parent Group Financial Services Framework Agreement;

(iv) the letter from the Independent Board Committee to the Independent Shareholders, the text of which is set out in page 38 of this circular;

(v) 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 39 to 67 of this circular;

(vi) the written consent from the Independent Financial Advisor.

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 Thursday, 23 June 2022 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 2021;

2. To consider and approve the report of the Supervisory Committee of the Company for the year ended 31 December 2021;

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 2021;

4. To consider and approve the final report of the Company for the year ended 31 December 2021;

5. To consider and approve the profit appropriation proposal of the Company for the year ended 31 December 2021 and the declaration of the final dividend of RMB0.03 per share (tax inclusive);

6. To consider and approve the 2022 annual budget report of the Company;

7. To consider and approve the appointment of ShineWing Certified Public Accountants LLP as the auditor of the Company for the year 2022 to hold office until the conclusion of the next annual general meeting and the total review and audit fees of RMB2.60 million for the Company's 2022 interim financial report and 2022 annual financial report;

* *For identification purposes only*

8. To consider and approve the Master Sales Agreement entered into between the Company and Chongqing Machinery and Electric Holding (Group) Co., Ltd. on 7 April 2022 (the "**2023-2025 Master Sales Agreement**") and the proposed annual caps for such transactions for the three years ended 31 December 2025; 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 2023-2025 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;

9. To consider and approve the transactions in respect of the deposit services under the financial services framework agreement entered into between the Company and Chongqing Machinery and Electric Holding (Group) Finance Co., Ltd. on 7 April 2022 (the "**2023-2025 Group Financial Services Framework Agreement**") and the proposed annual caps for such transactions for the three years ended 31 December 2025; 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 2023-2025 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 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 7 April 2022 (the "**2023-2025 Parent Group Financial Services Framework Agreement**") and the proposed annual caps for such transactions for the three years ended 31 December 2025 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 2023-2025 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;

11. To consider and approve the appointment of Mr. Zhang Fulun 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. Zhang Fulun pursuant to the Administrative Measures on Directors' and Supervisors' Remuneration passed at the 2021 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;

12. 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 Administrative Measures on Directors' and Supervisors' Remuneration passed at the 2021 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;

13. 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 Administrative Measures on Directors' and Supervisors' Remuneration passed at the 2021 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. 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 Administrative Measures on Directors' and Supervisors' Remuneration passed at the 2021 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 Ms. Wang Tingting as a non-executive Director of the next session of the Board of the Company to hold office from the date of the AGM until expiry of the term of the next session of the Board and to authorize the Board to fix the remuneration of Ms. Wang Tingting pursuant to the Administrative Measures on Directors' and Supervisors' Remuneration passed at the 2021 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. 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 Administrative Measures on Directors' and Supervisors' Remuneration passed at the 2021 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. Cai Zhibin 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. Cai Zhibin pursuant to the Administrative Measures on Directors' and Supervisors' Remuneration passed at the 2021 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. 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 Administrative Measures on

Directors' and Supervisors' Remuneration passed at the 2021 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. 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 Administrative Measures on Directors' and Supervisors' Remuneration passed at the 2021 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. 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 Administrative Measures on Directors' and Supervisors' Remuneration passed at the 2021 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. 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 Administrative Measures on Directors' and Supervisors' Remuneration passed at the 2021 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;

22. 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 Administrative Measures on Directors' and Supervisors' Remuneration passed at the 2021 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;

23. 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 Administrative Measures on Directors' and Supervisors' Remuneration passed at the 2021 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;

24. 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 Administrative Measures on Directors' and Supervisors' Remuneration passed at the 2021 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;

25. To consider and approve the Administrative Measures on Directors' and Supervisors' Remuneration of the Company;

26. To consider and approve the provision of guarantee by the Group for the financing of its subsidiaries;

SPECIAL RESOLUTION

27. 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.*
Zhang Fulun
Executive Director and Chairman

Chongqing, the PRC
24 May 2022

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 18 June 2022 to 23 June 2022, 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 17 June 2022.

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, 29 June 2022 to Thursday, 7 July 2022, 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, 28 June 2022.

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