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

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

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CQME

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

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

(Stock Code: 02722)

- (1) REPORT OF THE BOARD OF DIRECTORS OF THE COMPANY IN 2024;**
- (2) REPORT OF THE SUPERVISORY COMMITTEE OF THE COMPANY IN 2024;**
- (3) AUDITED FINANCIAL STATEMENTS AND AUDITOR'S REPORT OF THE COMPANY AND ITS SUBSIDIARIES IN 2024;**
- (4) 2024 ANNUAL FINAL ACCOUNTS PLAN OF THE COMPANY;**
- (5) PROFIT APPROPRIATION PROPOSAL FOR THE YEAR OF 2024 OF THE COMPANY;**
- (6) 2025 ANNUAL BUDGET PLAN OF THE COMPANY;**
- (7) APPOINTMENT OF THE COMPANY'S AUDITOR IN 2025;**
- (8) RE-ELECTION OF DIRECTORS;**
- (9) RE-ELECTION OF SUPERVISORS;**
- (10) PROVISION OF GUARANTEE BY THE GROUP FOR THE FINANCING OF ITS SUBSIDIARIES;**
- (11) CONTINUING CONNECTED TRANSACTIONS/MAJOR TRANSACTIONS AND CONTINUING CONNECTED TRANSACTIONS;**
- (12) PROPOSED AMENDMENTS TO THE ARTICLES OF ASSOCIATION**
- (13) PROPOSED GRANTING OF GENERAL MANDATE TO ISSUE NEW SHARES OF THE COMPANY; AND**
- (14) 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 7 to 47 of this circular.

Notice convening the 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, 12 June 2025 at 9:00 a.m. is set out on pages 126 to 133 of this circular.

The form of proxy has been enclosed with this circular for use at the Annual General Meeting and such form of proxy is also published on the websites of HKEXnews 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.

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DEFINITIONS

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

“2026-2028 The Group Financial Services Framework Agreement”	means the financial services framework agreement entered into between the Company and the Finance Company on 23 April 2025, pursuant to which the Finance Company has agreed to provide deposits, loans, non-financing guarantee letter services and other financial services to the Group during 2026-2028
“2026-2028 Master Leasing Agreement”	means the master leasing agreement entered into between the Company and the Parent Company on 23 April 2025, pursuant to which the Parent Group has agreed to lease the land and buildings to the Group to be used as the Group’s offices, production facilities, workshops and staff quarters during 2026-2028.
“2026-2028 Master Sales Agreement”	means the master sales agreement entered into between the Company and the Parent Company on 23 April 2025, pursuant to which the Group has agreed to sell materials, parts, components, accessories or raw materials, finished goods and other relevant or similar items, engine equipment and components, structural components, electrical control cabinets, refrigeration systems, intelligent production line and electronic products to the Parent Group during 2026-2028
“2026-2028 Master Supplies Agreement”	means the master supplies agreement entered into between the Company and the Parent Company on 23 April 2025, pursuant to which the Parent Group has agreed to supply transport and storage services, components and raw materials such as gears, standard component, transformers and information-based intelligent control equipment to the Group during 2026-2028
“2026-2028 Parent Group Financial Services Framework Agreement”	means the financial services framework agreement entered into between the Parent Company and the Finance Company on 23 April 2025, pursuant to which the Finance Company has agreed to provide deposits services, loans services, non-financing guarantee letter services and other financial services to the Parent Group during 2026-2028
“Announcement”	means the announcement of the Company dated 23 April 2025 in relation to the 2026-2028 Master Sales Agreement, the 2026-2028 Master Supplies Agreement, the 2026-2028 Master Leasing Agreement, the 2026-2028 Group Financial Services Framework Agreement and the 2026-2028 Parent Group Financial Services Framework Agreement

DEFINITIONS

“Annual General Meeting” or “AGM”	means the 2024 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, 12 June 2025 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 126 to 133 of this circular, or any adjournment thereof
“Articles of Association” or “Articles”	means the articles of association of the Company currently in force
“associates”	has the meaning ascribed to it under the Listing Rules
“Board”	means the board of Directors of the Company
“CBIRC”	means the China Banking and Insurance Regulatory Commission (中國銀行保險監督管理委員會), have now been renamed NFRA
“Chengfei New Material”	means Chongqing Chengfei New Material Co., Ltd., a subsidiary controlled by the Company
“Chengfei Jiangsu Company”	means Chongtong Chengfei Wind Power Equipment Jiangsu Co., Ltd., a wholly-owned subsidiary of Chengfei New Material
“Chengfei Xinjiang Company”	means Xinjiang Chengfei New Material Co., Ltd., a wholly-owned subsidiary of Chengfei New Material
“Chongqing Water Company”	means Chongqing Water Turbine Works Co., Ltd., a wholly-owned subsidiary of the Company
“Company”	means Chongqing Machinery & Electric Co., Ltd.* (重慶機電股份有限公司), a stock limited company incorporated in the PRC
“connected person”	has the meaning ascribed to it under the Listing Rules
“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) of 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

DEFINITIONS

“Existing 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 agreed to provide deposits, loans, guarantees and other financial services to the Group during 2023-2025
“Existing 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 agreed to lease land and buildings to the Group as offices, production facilities, workshops and staff quarters during 2023-2025
“Existing 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 agreed to sell materials, components, accessories or raw materials, finished goods and other relevant or similar items, electrical equipment and components (including certain products such as control valves, parts for steering systems, gears, clutch, the BV series of electric components) and other products to the Parent Group during 2023-2025
“Existing 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 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) etc. to the Group during 2023-2025
“Existing 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 agreed to provide deposits, loans, guarantees and other financial services to the Parent Group during 2023-2025
“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 held as to 70% by the Company and 30% by the Parent Company respectively
“GBP”	means British pound sterling, the lawful currency of the United Kingdom

DEFINITIONS

“General Mandate”	means the proposed general mandate to allot, issue and otherwise deal with additional Shares representing up to the limit of 20% of the Shares in issue on the date of the passing of the relevant resolution
“Group”	means the Company and its associates
“H Shares”	means the overseas-listed foreign shares of the Company with a nominal value of RMB1.00 each, which are listed on the Stock Exchange
“Hong Kong”	means the Hong Kong Special Administrative Region of the PRC.
“HK\$”	means Hong Kong dollars, the lawful currency of Hong Kong
“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. Liu Wei and Mr. Ke Rui
“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 appointed to provide advice to the Independent Board Committee and the Independent Shareholders in respect of the continuing connected transactions and the major transactions of the Group and the respective transactions contemplated thereunder as well as the adoption of relevant proposed 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 2025, 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 of Hong Kong Limited
“NFRA”	means the National Financial Regulatory Administration and its local offices, including its predecessor, CBIRC. The NAFR is an institution directly under the State Council established on the basis of CBIRC. In March 2023, the Central Committee of the Communist Party of China and the State Council of the PRC issued the Party and State Organizational Reform Plan, deciding to establish the NAFR on the basis of the CBIRC and no longer retain the CBIRC. On 18 May 2023, the NFRA was inaugurated

DEFINITIONS

“Non-exempted Continuing Connected Transaction(s)”	means the transactions contemplated under the 2026-2028 Master Sales Agreement, the transactions in respect of deposit services contemplated under the 2026-2028 Group Financial Services Framework Agreement (details of which are set out in the paragraph headed “Deposit services” under the 2026-2028 Group Financial Services Framework Agreement), and the transactions in respect of loan services contemplated under the 2026-2028 Parent Group Financial Services Framework Agreement (details of which are set out in the paragraph headed “Loan services” under the 2026-2028 Parent Group Financial Services Framework Agreement)
“Parent Company”	means Chongqing Machinery and Electronic Holding (Group) Co., Ltd.* (重慶機電控股(集團)公司), a limited liability company established in the PRC on 25 August 2000 and owned by the Chongqing State-owned Assets Supervision and Administration Commission, being one of the Promoters of the Company
“Parent Group”	means Parent Company and its associates, excluding the Group
“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 Special Administrative Region of the PRC, the Macau Special Administrative Region of the PRC and the Taiwan region
“Promoter”	has the meaning ascribed to it under the Listing Rules
“Prospectus”	means the prospectus dated 30 May 2008 issued by the Company
“PTG”	means Precision Technologies Group Limited, a wholly-owned subsidiary of the Company and a limited company incorporated in the United Kingdom
“PCL”	means Precision Components Ltd., a wholly-owned subsidiary of PTG and a limited company incorporated in the United Kingdom
“Holroyd”	means Holroyd Precision Ltd., a wholly-owned subsidiary of PTG and a limited company incorporated in the United Kingdom

DEFINITIONS

“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 or other securities of the Company 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) pursuant to the offer
“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 the Hong Kong Shares 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
“USD”	means U.S. dollars, the lawful currency of the United States of America
“Yufu Holding”	means Chongqing Yufu Holding Group Co., Ltd.* (重慶渝富控股集團有限公司), a company established in the PRC with limited liability and an indirect holder of the issued share capital of the Company
“%”	means percentage

LETTER FROM THE BOARD



CQME

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

(a joint stock limited company incorporated in the People's Republic of China with limited liability)
(Stock Code: 02722)

Executive Directors:

Mr. Yue Xiangjun
Mr. Qin Shaobo

Non-executive Directors:

Mr. Fu Yihong
Ms. Zhu Ying
Mr. Dou Bo
Mr. Cai Zhibin

Independent non-executive Directors:

Mr. Lo Wah Wai
Mr. Ren Xiaochang
Mr. Liu Wei
Mr. Ke Rui

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

22 May 2025

To the Shareholders

Dear Sir or Madam,

- (1) REPORT OF THE BOARD OF DIRECTORS OF THE COMPANY IN 2024;**
- (2) REPORT OF THE SUPERVISORY COMMITTEE OF THE COMPANY IN 2024;**
- (3) AUDITED FINANCIAL STATEMENTS AND AUDITOR'S REPORT OF THE COMPANY AND ITS SUBSIDIARIES IN 2024;**
- (4) 2024 ANNUAL FINAL ACCOUNTS PLAN OF THE COMPANY;**
- (5) PROFIT APPROPRIATION PROPOSAL FOR THE YEAR OF 2024 OF THE COMPANY;**
- (6) 2025 ANNUAL BUDGET PLAN OF THE COMPANY;**
- (7) APPOINTMENT OF THE COMPANY'S AUDITOR IN 2025;**
- (8) RE-ELECTION OF DIRECTORS;**
- (9) RE-ELECTION OF SUPERVISORS;**
- (10) PROVISION OF GUARANTEE BY THE GROUP FOR THE FINANCING OF ITS SUBSIDIARIES;**
- (11) CONTINUING CONNECTED TRANSACTIONS/MAJOR TRANSACTIONS AND CONTINUING CONNECTED TRANSACTIONS**
- (12) PROPOSED AMENDMENTS TO THE ARTICLES OF ASSOCIATION**
- (13) PROPOSED GRANTING OF GENERAL MANDATE TO ISSUE NEW SHARES OF THE COMPANY; AND**
- (14) NOTICE OF THE ANNUAL GENERAL MEETING OF THE COMPANY**

* For identification purposes only

LETTER FROM THE BOARD

1. INTRODUCTION

Reference is made by the Board to the Announcement of the Company dated 23 April 2025 in relation to the 2026-2028 Master Sales Agreement, the 2026-2028 Master Supplies Agreement, the 2026-2028 Master Leasing Agreement, the 2026-2028 Group Financial Services Framework Agreement and the 2026-2028 Parent Group Financial Services Framework Agreement, the major transactions and the continuing connected transactions contemplated under these agreements, as well as the adoption of relevant proposed annual caps.

The purpose of this circular is to give you, among others, the notice of the Annual General Meeting and to provide you with details 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 2024

Details are set out in “Report of the Board of Directors” within the Company’s 2024 Annual Report issued by the Company on the website of HKEXnews of the Stock Exchange on 11 April 2025.

3. REPORT OF THE SUPERVISORY COMMITTEE OF THE COMPANY IN 2024

Details are set out in “Report of the Supervisory Committee” within the Company’s 2024 Annual Report on the website of HKEXnews of the Stock Exchange on 11 April 2025.

4. AUDITED FINANCIAL STATEMENTS AND AUDITOR’S REPORT OF THE COMPANY AND ITS SUBSIDIARIES IN 2024

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 2024 Annual Report issued by the Company on the website of HKEXnews of the Stock Exchange on 11 April 2025.

5. 2024 ANNUAL FINAL ACCOUNTS PLAN 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 2024 Annual Report issued by the Company on the website of HKEXnews of the Stock Exchange on 11 April 2025.

LETTER FROM THE BOARD

6. PROFIT APPROPRIATION PROPOSAL FOR THE YEAR OF 2024 OF THE COMPANY

The Board has recommended the payment of a final dividend of RMB0.035 per share (tax inclusive) for the year ended 31 December 2024, which is calculated based on the total share capital of 3,684,640,154 Shares for the year ended 31 December 2024, totaling RMB128,962,405.39. Subject to approval by Shareholders at the Annual General Meeting to be convened on 12 June 2025, the proposed final dividend will be paid on 25 July 2025 to Shareholders whose names appear on the register of members of the Company on 25 June 2025 (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, 18 June 2025 to Wednesday, 25 June 2025 (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, 17 June 2025.

7. 2025 ANNUAL BUDGET PLAN OF THE COMPANY

In 2025, the Company’s operating expenses are expected to be approximately RMB256.27 million.

8. APPOINTMENT OF THE COMPANY’S AUDITOR IN 2025

ShineWing Certified Public Accountants LLP is the PRC accountant of the Company engaged in 2024. During their engagement, they fully performed their duties to present unqualified audited report of 2024 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 2025. The total review and audit fees are approximately RMB2.6 million for the 2025 interim financial report and annual financial report.

9. RE-ELECTION OF DIRECTORS

The sixth session of the Board was established in June 2022 and will conclude its term in June 2025. According to the regulations of Article 111 of the Articles of Association: “Directors shall be elected at the general meeting with the term of three years. At the expiry of a Director’s term of office, the term is renewable upon re-election” and Article 32 of the Rules of Procedures of General Meeting of the Chongqing Machinery & Electric Co., Ltd.*: “the Board, Shareholders individually or jointly holding 5% or more of the Company’s outstanding shares carrying voting rights are entitled to propose a candidate for Directors” and the requirements of relevant laws and regulations, the Directors of the seventh term of the Board will be elected on the Company’s 2024 Annual General Meeting.

LETTER FROM THE BOARD

According to the arrangement of the Articles of Association, the Board shall consist of 11 Directors:

- (1) 3 executive Directors, nominated by the Shareholders from among the senior management serving in the Company (the chairman shall be elected by the Board);
- (2) 4 non-executive Directors, nominated by Shareholders;
- (3) 4 independent non-executive Directors, of which 1 is a Hong Kong professional and the other 3 may be appointed from among the professionals in the PRC, to be nominated by Shareholders.

The Company sent a notice of change of the Board in February 2025 to Shareholders who individually or collectively hold more than 5% of the total number of the Company's issued and outstanding shares with voting rights, and each of the Shareholders returned the required documents of nomination, and the status of the nominations are set out below:

- (1) The Parent Company nominated Mr. Yue Xiangjun, Mr. Qin Shaobo and Mr. Deng Rui as candidates for executive Directors;
- (2) The Parent Company nominated Mr. Lei Bin as a candidate for non-executive Director; Chongqing Construction Engineering Group Co. Ltd.* ("**CCEG**") nominated Mr. Dou Bo as a non-executive Director candidate; Chongqing Yufu Holding Group Co., Ltd. ("**Yufu Group**") nominated Ms. Zhu Ying as a candidate for non-executive Director; China CITIC Financial Asset Management Co., Ltd. ("**CITIC Financial**") nominated Mr. Cai Zhibin as a candidate for non-executive Director;
- (3) The Parent Company nominated 4 persons, namely, Mr. Ke Rui, Mr. Liu Lijun, Ms. Pu Huayan and Mr. Wong Chun Wa (a Hong Kong citizen) as candidates for independent non-executive Directors.

Except for Mr. Deng Rui, Mr. Lei Bin, Mr. Liu Lijun, Ms. Pu Huayan and Mr. Wong Chun Wa, all the Director candidates are existing Directors. The term of office of the seventh session of the Board is 3 years from the date of approval by the Annual General Meeting. All incumbent members of the sixth session of the Board will continue to perform their duties and responsibilities in accordance with the applicable laws and administrative regulations and the Articles of Association until the general election of the Board is approved at the Annual General Meeting.

Mr. Fu Yihong, Mr. Lo Wah Wai, Mr. Ren Xiaochang and Mr. Liu Wei will retire as Directors upon expiry of their terms of office with effect from the conclusion of the AGM. Mr. Fu Yihong, Mr. Lo Wah Wai, Mr. Ren Xiaochang and Mr. Liu Wei confirmed that they have no disagreement with the Board and there are no matters in relation to their resignation that need to be brought to the attention of the Shareholders and the Stock Exchange. The Board would like to express its gratitude to Mr. Fu Yihong, Mr. Lo Wah Wai, Mr. Ren Xiaochang and Mr. Liu Wei for their contributions to the Company during their tenure of office.

LETTER FROM THE BOARD

The Nomination Committee of the Board of the Company held a meeting in April 2025, at which the qualifications of the above 11 Director candidates were reviewed by the Board. The Board was of the view that the candidates for executive Directors of the seventh session of the Board of the Company were all senior management personnel of the Company, had served the Company for many years and concurrently held directorships in subordinate enterprises of the Company, and were familiar with the operation and management of the Company and its subordinate enterprises. The non-executive Director candidates are all management personnel of the Shareholders of the domestic Shares and are familiar with the relevant laws and regulations of listed companies and have extensive experience in management, accounting, legal and economic work.

Nomination Policy and Procedure for Independent Non-Executive Directors

In order to achieve sustainable and balanced development, the Nomination Committee of the Board will consider the diversity of the Board members from various perspectives when reviewing the structure of the Board, including, but not limited to, gender, age, cultural and educational backgrounds, ethnicity, skills, knowledge and professional experience. All appointments to the members of the Board are made on the basis of meritocracy and the benefits of diversity of the members of the Board are given due regard in the consideration of candidates based on objective criteria.

In considering the candidates for the independent non-executive Directors for the seventh session of the Board, the Nomination Committee of the Board has considered the independence of all candidates as well as their background, skills, knowledge and experience. Specifically, Mr. Ke Rui has extensive theoretical and practical experience in the fields of robotics and intelligent equipment, green and low carbon technology, environmental science; Mr. Liu Lijun has extensive theoretical and practical experience in the fields of fluid machinery and energy-saving system, new energy and energy storage, photovoltaic and semiconductor materials; Ms. Pu Huayan has extensive theoretical and practical experience in the fields of mechanical transmission and automation; and Mr. Wong Chun Wa has extensive theoretical and practical experience in the fields of financial auditing and corporate governance, and legal compliance. They are able to dedicate sufficient time and effort in discharging their duties as independent non-executive Directors and have solid theoretical foundation and knowledge of the relevant laws and regulations of listed companies. The election of Mr. Ke Rui, Mr. Liu Lijun, Ms. Pu Huayan and Mr. Wong Chun Wa as independent non-executive Directors can further supplement the expertise of the Board in financial management, technological innovation and industry synergy and legal affairs, promote gender diversity of the Board and enhance the Company's financial, management and legal compliance standards. Accordingly, the Nomination Committee has nominated Mr. Ke Rui, Mr. Liu Lijun, Ms. Pu Huayan and Mr. Wong Chun Wa to the Board in response to the aforesaid Shareholders' nomination for recommendation to the Shareholders for election at the AGM. The Board considers that Mr. Ke Rui, Mr. Liu Lijun, Ms. Pu Huayan and Mr. Wong Chun Wa all possess basic knowledge of the operation of a listed company, are familiar with the relevant laws, administrative regulations, departmental rules and other regulatory documents, and have relevant work experience in the legal, economic, financial and managerial fields or other experience necessary for serving as independent non-executive Directors. In addition, Mr. Ke Rui, Mr. Liu Lijun, Ms. Pu Huayan and Mr. Wong Chun Wa have confirmed their independence in accordance with Rule 3.13 of the Hong Kong Listing Rules, and none of them is connected with the Company and the Shareholders. The Board also considers that Mr. Ke Rui, Mr. Liu Lijun, Ms. Pu Huayan and Mr. Wong Chun Wa meet the independence criteria set out in Rule 3.13 of the Hong Kong Listing Rules and are independent in accordance with the terms of the criteria.

LETTER FROM THE BOARD

In summary, the Nomination Committee is of the view that all of the above 11 director nominees fulfill the requirements for directorship in the PRC Company Law and the Listing Rules, and that the 4 independent non-executive Director nominees are indeed independent and fulfill the requirements for appointment as independent non-executive Directors of the Company.

In view of the above, it is proposed that the 11 Director candidates be put forward to the Annual General Meeting for consideration and approval. Details of the Director candidates proposed for re-election at the Annual General Meeting are set out in Appendix IV to this circular.

10. RE-ELECTION OF SUPERVISORS

The sixth Supervisory Committee of the Company was established in June 2022 and its term will expire in June 2025. Pursuant to the regulations of Article 124 of the Articles of Association of the Company: “The term of office of supervisors shall be three years, renewable upon re-election” and Article 32 of the Rules of Procedures of General Meeting of the Chongqing Machinery & Electric Co., Ltd.: “the Supervisory Committee, Shareholders individually or jointly holding 5% or more of the Company’s outstanding shares carrying voting rights are entitled to propose a candidate for Supervisors” and the requirements of relevant laws and regulations, the Company intends to re-elect the sixth Supervisory Committee of the Company at the 2024 Annual General Meeting in June 2025 and elect the members of the seventh Supervisory Committee of the Company.

According to the arrangement of the Articles of Association, the Supervisory Committee shall consist of 5 persons:

- (1) 1 shareholder supervisor, nominated by Shareholders (the chairman of the Supervisory Committee shall be elected by the Supervisory Committee);
- (2) 2 independent supervisors (meaning supervisors who are independent of the Shareholders of the Company and do not serve within the Company), nominated by the shareholders;
- (3) 2 employee supervisors. Supervisors who are representatives of the employees shall be democratically elected and removed by the employees of the Company through the employee representative meeting, employee meeting or other forms.

The status of nomination and election is as follows:

- (1) The Parent Company nominated Mr. Sun Wenguang as a candidate for Shareholder supervisor;
- (2) The Parent Company nominated Mr. Wang Haibing and Mr. Cao Xingquan as candidates for independent supervisors;
- (3) In February 2025, the Company democratically elected two comrades, Mr. Duan Lian and Mr. Liu Daohua, as candidates for employee supervisors through the staff representative meeting.

LETTER FROM THE BOARD

Except for Mr. Liu Daohua, all the Supervisor candidates are current Supervisors. The term of office of the seventh Supervisory Committee shall be three years commencing from the date of approval at the Annual General Meeting. All incumbent members of the sixth Supervisory Committee will continue to perform their duties and responsibilities in accordance with the applicable laws and administrative regulations and the Articles of Association until the re-election of the Supervisory Committee is approved at the Annual General Meeting.

In view of the foregoing, it is proposed to agree to submit the Shareholder Supervisors and independent Supervisors candidates to the Annual General Meeting for consideration and approval. Details of the Supervisor candidates proposed to be elected at the AGM are set out in Appendix V to this circular.

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

11.1 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) (“**PTG or Holroyd or PCL Comprehensive Financing**”). 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 PTG or Holroyd or PCL Comprehensive Financing

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 of PTG or Holroyd or PCL Comprehensive Financing 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 of PTG or Holroyd or PCL Comprehensive Financing are fair and reasonable and are in the best interests of the Company and Shareholders as a whole and will not have a material adverse impact on the financial conditions of the Company.

LETTER FROM THE BOARD

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 Comprehensive Financing is subject to consideration and approval at the general meeting according to requirements of the Articles of Association.

11.2 Provision of Guarantee by the Company for Comprehensive Financing of PTG or Holroyd or PCL of USD41.50 million (or GBP equivalent)

PTG or Holroyd or PCL jointly requested the Company to provide guarantee for their comprehensive financing totaling USD41.50 million (or GBP equivalent) (“**Comprehensive Financing 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 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 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 of PTG Group are fair and reasonable and are in the best interests of the Company and 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 the co-financing of Comprehensive Financing of PTG Group is subject to consideration and approval at the general meeting according to requirements of the Articles of Association.

LETTER FROM THE BOARD

11.3 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 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 Chapter 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 of Association.

LETTER FROM THE BOARD

11.4 Provision of Guarantee for Comprehensive Financing of Chengfei Jiangsu Company of RMB90.00 million

Chengfei Jiangsu Company requested Chengfei New Material to provide guarantee for its comprehensive financing totaling RMB90.00 million (“**Financing of Chengfei Jiangsu Company**”). Chengfei New Material is a subsidiary controlled by the Company and Chengfei Jiangsu Company is a wholly-owned subsidiary of the Chengfei New Material.

Terms of the Guarantee

The guarantee for the Financing of 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 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 Chengfei Jiangsu Company by Chengfei New Material are fair and reasonable and are in the best interests of the Company and Shareholders as a whole and will not have a material adverse impact on the financial conditions of the Company.

Chengfei New Material and Chengfei Jiangsu Company are not connected persons of the Group and the guarantee provided by Chengfei New Material 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 Chapter 14A of the Listing Rules. However, as the gearing ratio of Chengfei Jiangsu Company exceed 70%, the provision of guarantee by Chengfei New Material for the Financing of Chengfei Jiangsu Company is subject to consideration and approval at the general meeting according to requirements of the Articles of Association.

11.5 Provision of Guarantee for Comprehensive Financing of Chengfei Xinjiang Company of RMB50.00 million

Chengfei Xinjiang Company requested Chengfei New Material to provide guarantee for its comprehensive financing totaling RMB50.00 million (“**Financing of Chengfei Xinjiang Company**”). Chengfei New Material is a subsidiary controlled by the Company and Chengfei Xinjiang Company is a wholly-owned subsidiary of the Chengfei New Material.

LETTER FROM THE BOARD

Terms of the Guarantee

The guarantee for the Financing of Chengfei Xinjiang Company is for a term of one year commencing from the date of approval by the Shareholders and completion of relevant formalities by Chengfei Xinjiang 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 Chengfei Xinjiang Company by Chengfei New Material are fair and reasonable and are in the best interests of the Company and Shareholders as a whole and will not have a material adverse impact on the financial conditions of the Company.

Chengfei New Material and Chengfei Xinjiang Company are not connected persons of the Group and the guarantee to be provided by Chengfei New Material for the Financing of Chengfei Xinjiang Company does not exceed the applicable percentage ratios specified in the Listing Rules. Therefore, such transaction is not subject to the requirements under Chapter 14A of the Listing Rules. However, as the gearing ratio of Chengfei Xinjiang Company exceed 70%, the provision of guarantee by Chengfei New Material for the Financing of Chengfei Xinjiang Company is subject to consideration and approval at the general meeting according to requirements of the Articles of Association.

12. CONTINUING CONNECTED TRANSACTIONS/MAJOR TRANSACTIONS AND CONTINUING CONNECTED TRANSACTIONS

(I) CONTINUING CONNECTED TRANSACTION

Background

References are made to the announcement of the Company dated 7 April 2022 and the circular of the Company dated 24 May 2022 in relation to, among others, the Existing Master Sales Agreement, the Existing Master Supplies Agreement and the Existing Master Leasing Agreement, which constitute continuing connected transactions of the Company under Chapter 14A of the Listing Rules and will expire on 31 December 2025.

2026-2028 Master Sales Agreement

On 7 April 2022, the Company entered into the Existing Master Sales Agreement, pursuant to which the Group agreed to sell materials, components, accessories or raw materials, finished goods and other relevant or similar items, power generation equipment and parts (including certain products such as control valves, parts for steering systems, gears, clutch, the BV series of electric cables) and other products, to the Parent Group.

LETTER FROM THE BOARD

As the Existing Master Sales Agreement will expire on 31 December 2025, the Company renewed the Existing Master Sales Agreement with the Parent Company under similar terms by entering into the 2026-2028 Master Sales Agreement on 23 April 2025, details of which are set out as follows:

Date:

23 April 2025

Parties:

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

Term:

Subject to the approval being obtained from the Independent Shareholders, 2026-2028 Master Sales Agreement will become effective from 1 January 2026 and expire on 31 December 2028.

Nature of transaction:

The Group has agreed to sell materials, components, accessories or raw materials, finished goods and other relevant or similar items, engine equipment and components, structural components, electrical control cabinets, refrigeration systems, intelligent production line and electronic products to the Parent Group.

Payment terms:

The payment terms will be otherwise specified on each separate agreement to be entered into 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 agreement under the 2026-2028 Master Sales Agreement by any member of the Company, the financial department, the compliance department and the business department, will strictly assess the terms of the agreement and make sure the term adhere to the principal terms under the 2026-2028 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 agreement by the said departments, the agreement will be approved according to the decision-making procedure of the Company.

LETTER FROM THE BOARD

Pricing Basis for the 2026-2028 Master Sales Agreement

The 2026-2028 Master Sales Agreement was entered into in the ordinary and usual course of business of the Group. The relevant terms of agreement were negotiated on an arm's length basis and on normal commercial terms. The pricing or consideration under the 2026-2028 Master Sales Agreement will be determined with reference to:

- (i) the market price obtained through prices quoted on industry websites (including website of Alibaba at www.1688.com) or by inquiring in the market 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 prices are applicable, the price (taxed price) is determined by the cost plus method, that is, $\text{price} = \text{cost} \times (1 + \text{percentage mark-up})$, where the cost profit margin is not less than 20%, and the cost profit margin of 20% is determined based on the average gross margin of the Group in the past three years.

All the products sold by the Group 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 2026-2028 Master Sales Agreement, except that pricing basis (iii) was and will be adopted for the price of software (since they are customized and designed according to the needs of different customers).

After reviewing the relevant basis, the Directors (including the independent non-executive Directors) are of the view that the 2026-2028 Master Sales Agreement are entered into on normal commercial terms and are fair and reasonable, and in the interests of the Company and the Shareholders as a whole.

The relevant historical transaction amount and the annual caps under the Existing Master Sales Agreement and similar transactions in 2022 are set out below:

	For the year ended 31 December 2022 <i>RMB in million</i>	For the year ended 31 December 2023 <i>RMB in million</i>	For the year ended 31 December 2024 <i>RMB in million</i>	As of 31 March 2025 <i>RMB in million</i>
Annual caps	336.2	227.0	220.0	250.0
Historical transaction amount	77.8	22.9	46.1	15
Utilization rate	23.1%	10.1%	21.0%	6.0%

LETTER FROM THE BOARD

The main reason for the low utilization rate of the historical annual cap amounts under the Existing Master Sales Agreement are as follows: shareholding structure of the Parent Group has been adjusted in the past two years, and several affiliated enterprises have withdrawn from the Parent Group, so such entities are no longer included in the statistical scope of connected sales transactions, and the volume of connected sales transactions as a numerator is estimated to decrease by approximately RMB100 million per year. Therefore, the overall utilization rate has decreased.

The Company has considered the low utilization rate of the historical annual caps when determining the proposed annual cap amounts. However, after comprehensive consideration of the positive development trend of the Parent Group in the past two years and the strategic plan from 2025 to 2027, especially the Parent Group is expected to undertake engineering track projects and strategic reorganization of the Light Textile Group in the next few years, the Group will actively participate in business cooperation with the Parent Group, and it is estimated that the connected sales transactions between the Group and the Parent Group will increase significantly in the next three years.

The Group compiles the actual transaction amounts for connected transactions on a quarterly basis. Therefore, the Company can only provide historical transaction amounts and utilization rates as of 31 March 2025. The amount of the historical transactions as at 31 March 2025 is approximately RMB15 million, while the utilization rate as at 31 March 2025 is 6.0%.

The proposed annual caps for each of the three years ending 31 December 2028 under the 2026-2028 Master Sales Agreement are set out below:

	For the year ending 31 December 2026 <i>RMB in million</i>	For the year ending 31 December 2027 <i>RMB in million</i>	For the year ending 31 December 2028 <i>RMB in million</i>
Proposed annual caps	280.00	300.00	320.00

Basis of the Revised Annual Caps

The proposed annual caps for the 2026-2028 Master Sales Agreement are determined with reference to:

- (i) the price fluctuations of raw materials like copper and steel and the expected increase in demand for the production and sales of products such as wires, cables, copper busbars and engine equipment, affected by market environment and other external factors;
- (ii) the estimated sales volume of the Group for each of the three fiscal years ending 31 December 2028;

LETTER FROM THE BOARD

- (iii) the historical transaction amount of the transactions under the Existing Master Sales Agreement for the fiscal year ended 31 December 2024;
- (iv) 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. According to the Chongqing Central Urban Area Urban Rail Transit Network Plan (2021-2035)* (《重慶市中心城區城市軌道交通線網規劃(2021年至2035年)》), by 2035, the core metropolitan area of Chongqing will establish a multi-tiered rail transit network, comprising a total of 24 urban rail lines with an overall length of approximately 1,312 kilometers. The Parent Group's subsidiary, the Engineering Company, has undertaken the general contracting projects for Line 15 and the post-station works of Chongqing East Station. In the future, it is expected to secure additional relevant rail transit projects in Chongqing. Between 2026 and 2028, several subsidiaries of the Group, Chongqing General Industry Group (can undertake engineering projects related to station ventilation and air conditioning, with an estimated contract value of approximately RMB100 million), Pigeon Company (can engage in cable-related projects within the rail transit construction sector, with an estimated contract value of approximately RMB30 million), Chongqing Pump Company (can undertake structural parts and other products, with an estimated contract value of approximately RMB100 million), and others, can participate in rail transit projects, and it is expected that the future business volume will achieve greater growth;
- (v) in accordance with the reform and restructuring requirements for key municipal state-owned enterprises set forth by the Chongqing Municipal Government and the Municipal State-owned Assets Supervision and Administration Commission (the "SASAC"), the restructuring and integration of Chongqing Light Textile Holdings (Group) Company (hereinafter referred to as "**Light Textile Group**") with the Parent Group is scheduled for completion within 2025. The Group will have the opportunity to participate in Light Textile Group's paper machinery business, enterprise digitalized production line transformation, structural parts and other businesses; and
- (vi) in 2025, Yufu Holding will inject capital into the Parent Group with a consideration of RMB5,000 million, laying a solid foundation for the future business development of the Parent Group. As a key business segment of the Parent Group, the Group undertakes critical strategic objectives of the Parent Group, and is expected to achieve greater growth in business volume in the future.

The Directors (including the independent non-executive Directors) are of the view that the proposed annual caps are fair and reasonable and that the transactions contemplated under the 2026-2028 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 2026-2028 Master Sales Agreement are fair and reasonable and in the interest of the Company and the Shareholders as a whole.

LETTER FROM THE BOARD

Reasons for and Benefits of the Transactions Contemplated under the 2026-2028 Master Sales Agreement

As far as the Group is concerned, the sales of the products to the Parent Group can enable the Group to obtain reliable customer sources and stable revenue, and ensure that the payment of sold products can be collected on time.

Internal Control

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

- (i) the Company has established a special department with dedicated personnel in place to monitor and manage the connected transactions. The dedicated personnels are Company's Audit and Risk Management Committee, which comprises of three Independent Non-executive Directors (Mr. Lo Wah Wai, Mr. Liu Wei and Mr. Ke Rui) and one non-executive Director (Mr. Dou Bo), each of them possesses sufficient knowledge and experience in the Listing Rules and the Company's operations to monitor and manage the connected transactions;
- (ii) the Audit and Risk Management Committee of the Company will review the implementation of annual caps and pricing terms for connected transactions on a quarterly basis to ensure full compliance with annual caps and pricing benchmarks; and
- (iii) the Audit and Risk Management Committee of the Company will check the relevant connected transactions amount occurred with the third-party auditors at the half year and at the end of the year, respectively, to ensure that the data is accurate and do not exceed the annual caps.

(II) MAJOR TRANSACTIONS AND CONTINUING CONNECTED TRANSACTIONS

Background

References are made to the announcement of the Company dated 7 April 2022 and the circular of the Company dated 24 May 2022 in relation to, among others, the Existing Group Financial Services Framework Agreement and the Existing Parent Group Financial Services Framework Agreement. Pursuant to Chapter 14 and Chapter 14A of the Listing Rules, these agreements constitute major transactions and continuing connected transactions of the Company and will expire on 31 December 2025.

LETTER FROM THE BOARD

Exemptions of the 2026-2028 Group Financial Services Framework Agreement

As the Existing Group Financial Services Framework Agreement will expire on 31 December 2025, on 23 April 2025, the Company and the Finance Company entered into the 2026-2028 Group Financial Services Framework Agreement.

The loan services, non-financing guarantee letter services and other financial services under the 2026-2028 Group Financial Services Framework Agreement have been disclosed in the announcement of the Company dated 23 April 2025 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, therefore, such transactions are exempted from Independent Shareholders' approval requirement under Chapter 14A of the Listing Rules. The resolution in relation to the deposit services under the 2026-2028 Group Financial Services Framework Agreement proposed at the Annual 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 2026-2028 Group Financial Services Framework Agreement will not be affected.

The major terms of deposit services under the 2026-2028 Group Financial Services Framework Agreement are set out below:

Date:

23 April 2025

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 2026-2028 Group Financial Services Framework Agreement becomes effective from 1 January 2026 and expires on 31 December 2028. The terms of loan services, non-financing guarantee letter services and other financial services under the 2026-2028 Group Financial Services Framework Agreement becomes effective from 1 January 2026 and expires on 31 December 2028.

LETTER FROM THE BOARD

Nature of transaction:

Pursuant to the 2026-2028 Group Financial Services Framework Agreement, the Finance Company has agreed to provide financial services to the Group, including deposit services, loan services, non-financing guarantee letter services and other financial services.

The Finance Company undertakes under the 2026-2028 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 financial services of similar type and similar period 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 from the Finance Company and may obtain relevant financial services based on its business needs.

Payment terms:

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

Pricing standards:

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

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

The Company will obtain the interest rates for deposits of similar type and similar period 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 it with the interest rates provided by the Finance Company to the Group for deposits of such type to ensure that the interests the Group will receive on its deposits are in consistent with the above pricing standards for deposit services.

LETTER FROM THE BOARD

Proposed Annual Caps and the Basis for Deposit Services under the 2026-2028 Group Financial Services Framework Agreement

The relevant historical transaction amount and the annual cap amounts for the deposit services under the Existing Group Financial Services Framework Agreement and similar transactions in 2022 are set out below:

	For the year ended 31 December 2022 <i>RMB in million</i>	For the year ended 31 December 2023 <i>RMB in million</i>	For the year ended 31 December 2024 <i>RMB in million</i>	As of 30 April 2025 <i>RMB in million</i>
Annual cap amount (including corresponding interest)	3,479.0	3,320.0	3,433.0	3,552.0
Daily balance of deposits (including corresponding interest)	2,034.3	2,382.9	2,223.6	2,059.1
Utilization rate	58.5%	71.8%	64.8%	57.97%

The proposed annual caps for the deposit services for the three years ending 31 December 2028 under the 2026-2028 Group Financial Services Framework Agreement are set out below:

	For the year ending 31 December 2026 <i>RMB in million</i>	For the year ending 31 December 2027 <i>RMB in million</i>	For the year ending 31 December 2028 <i>RMB in million</i>
Proposed annual cap amount (including corresponding interest)	7,993.0	10,836.0	11,920.0

Basis of the Revised Annual Caps

The proposed annual caps for deposit services under the 2026-2028 Group Financial Services Framework Agreement are determined with reference to the following basis:

- (a) The Group's development expectation from now until 31 December 2028
- Amid a complex and volatile international environment, the domestic economy has achieved overall balance, steady progress, and improved quality and efficiency through intensified macroeconomic regulation, deepened reforms, expanded domestic demand, and optimized economic structures. Against this backdrop, the Group has diligently advanced its strategic development plan, actively expanded its business, further optimized asset allocation efficiency, and significantly enhanced operational quality and operating cash flow, which lays a solid foundation for stable development over the next three years (from 2026 to 2028).

LETTER FROM THE BOARD

The expected contribution of such factor to the proposed annual cap amount is 10%.

- (b) The Group's expected increase in operating revenue from now until 31 December 2028

Based on the Group's strategic development plan for the next three years, and with reference to the increase in the Group's operating revenue in 2024 compared with 2023, it is expected that the annual growth rate of operating revenue from 2026 to 2028 will be approximately 10%.

The expected contribution of such factor to the proposed annual cap amount is 10%.

- (c) The Group's expected operating monetary funds from now until 31 December 2028

According to the growth rate of operating revenue, the amount of monetary funds of the Group is expected to be RMB3,355 million, RMB3,691 million, and RMB4,060 million respectively from 2026 to the end of 2028.

The basis of determination of amount of expected operating monetary funds (the "**Monetary Funds**") is as follows:

The expected Monetary Funds from 2026 to 2028 are determined by reference to the Monetary Funds in the consolidated balance sheet in the 2024 annual report of the Company, and then multiplied by 110%, the 10% is estimated by reference to the Group's operating income growth rate in 2024.

The Board considers that the Monetary Funds as set out in the annual consolidated balance sheet audited by the auditor are used as the basis, and the Monetary Funds for 2026 to 2028 are calculated based on the 10% increase in the Group's operating income in 2024 compared with the previous year, which can fairly and objectively reflect the actual business development and Monetary Funds of the Group. Therefore, the Board of the Company considers that the determination of the above Monetary Funds is fair and reasonable and on normal commercial terms.

The expected contribution of such factor to the proposed annual cap amount is 10%.

LETTER FROM THE BOARD

- (d) The Group's expected debt management needs from now until 31 December 2028

The Group expects that bank loans of approximately RMB1,804 million, RMB1,984 million, and RMB2,183 million will mature annually from 2026 to 2028, respectively. To address loan repayments, the Group may need to prepare and deposit cash in advance with the Finance Company to ensure robust liquidity. The peak deposit balance is expected to reach approximately RMB6,242.3 million in 2028.

The expected contribution of such factor to the proposed annual cap amount is 10%.

- (e) The Group's expected funding needs from now until 31 December 2028

The Group's monetary funds from 2022 to 2024 :

2022 : RMB 2,597 million

2023 : RMB 2,319 million

2024 : RMB 2,745 million

These data are determined with reference to the Monetary Fund's data in the consolidated balance sheet of the Group's annual reports from 2022 to 2024.

The maximum single-day deposit balance (including accrued interest) of the Group's deposits with the Finance Company is approximately RMB2,383 million, and based on past data and conservative estimates, the annual growth rate is expected to be 10% from 2026 to 2028. At the same time, referring to the peak historical deposits of the Group in that year from 2022 to 2024 and the highest proportion of monetary funds in that year of 102.76% (78.32% in 2022, 102.76% in 2023, 81.02% in 2024). From 2022 to 2024, the average monetary funds of the Group was approximately RMB2,554 million per year.

Basis of determination of the proportion of Monetary Funds is as follows:

LETTER FROM THE BOARD

According to the records of the Finance Company, the peak value of the Group's single-day deposits from 2022 to 2024 was approximately RMB2,383 million (as occurred in 2023), which was divided by RMB2,319 million in Monetary Funds in 2023, accounting for 102.76%. Therefore, the Group uses a percentage similar to this proportion to calculate the peak value of single-day deposits that the Group may deposit all (i.e. 100%) of its Monetary Funds in the Finance Company at some point in the future.

In summary, the Board believes that using historical data from the past three years to calculate the proportion of Monetary Funds relative to the peak daily deposit, in order to estimate the possibility that the Group may, at some point in the future, use all Monetary Funds for deposits with the Finance Company, the Company's subsidiary, is fair and reasonable. Therefore, the Board of the Company considers the above assessment of Monetary Funds and the highest proportion of Monetary Funds to be fair and reasonable.

In addition, the Group expects an average of approximately RMB1,990 million of bank loans to mature and new loans each year from 2026 to 2028, and the Group can deposit the repayment amount into the Finance Company for repayment before the loan matures, and the new loans will also be deposited into the Finance Company.

The expected contribution of such factor to the proposed annual cap amount is 10%.

- (f) Potential mergers and acquisitions of the Group from now to 31 December 2028

The Group will continue to focus on major national strategies such as green and low-carbon transformation and innovation-driven development and the “33618” modern manufacturing cluster system in Chongqing City, and in conjunction with the Group's strategic development plan for the next three years, actively participate in upstream and downstream mergers and acquisitions of high-end clean energy equipment and intelligent manufacturing industry chains, which are expected to bring a large increase to the Group's operating revenue from 2026 to 2028.

LETTER FROM THE BOARD

The “33618” Modern Manufacturing Centralized System refers to the modern manufacturing system that Chongqing City Government is focused on building. It specifically includes three leading industries, three pillar industries, six characteristic advantage industries, and eighteen “emerging” industry clusters. These encompass the Group’s main business segments, such as intelligent equipment and intelligent manufacturing, software information services, and high-end equipment manufacturing.

Fixed asset investments and potential projects refer to the Group’s strategic plan for 2025 to 2027, which involves seeking suitable target companies for mergers and acquisitions in business areas such as wire and cable, high-precision copper processing, industrial automation control, wind-solar-hydrogen storage resource development and operation, carbon fiber and other materials, and forming machine tools.

The 2026-2028 annual caps (i.e. approximately RMB7,993 million, RMB10,836 million and RMB11,920 million) are the sum of the increase in operating revenue from general monetary funds and repayment funds, new loans, fixed asset investment and potential mergers and acquisitions projects, if the merger and acquisition projects are realized.

The Group determines the expected growth rate of operating revenue, mainly by referencing the growth rate of the Group’s 2024 operating revenue compared to the 2023 growth rate to extrapolate the future operating revenue growth rate. When estimating the proposed annual cap amount, in addition to considering the expected Monetary Funds and the Group’s operating revenue under its current asset scale, the Group also fully takes into account other factors. These include the positive impact of favorable policies such as the aforementioned “33618” on the Group’s future development, as well as the potential positive impact of the Group’s prospective investment and acquisition projects on the proposed annual cap amount.

The expected contribution of such factor to the proposed annual cap amount is 50%.

LETTER FROM THE BOARD

The 50% expected contribution threshold, is determined based on a comprehensive evaluation of the Group's prospective investment and acquisition pipeline, including projected transaction scale and associated capital commitment.

Therefore, the Board considers that, such expected contribution is fair and reasonable, and is in the interest of the Company and the Shareholders as a whole.

(g) Financial capacity of the Finance Company

The Finance Company is gradually becoming the Group's center for funds settlement, funds management, financing support, capital operations, and information services, helping the Group enhance financial control, reduce operational risks, and integrate internal resources.

With the objectives of strengthening centralized funds management and improving funds utilization efficiency, the Finance Company focuses on four key platforms: funds pooling, funds settlement, funds monitoring, and financial services. The Company's average daily total assets have remained stable. By adopting tailored deposit strategies to attract increased deposits, it has maintained stable deposit levels, enabling it to meet the diverse financial service needs of the Group's internal enterprises.

Based on the above, the Board (including the independent non-executive Directors) are of the view that the proposed annual caps and pricing of the 2026-2028 Group Financial Services Framework Agreement are fair and reasonable, and the transactions contemplated thereunder are entered into on normal commercial terms in the ordinary and usual course of business of the Group, and the terms of the 2026-2028 Group Financial Services Framework Agreement are fair and reasonable, and in the interest of the Company and the Shareholders as a whole.

2026-2028 Parent Group Financial Services Framework Agreement

As the Existing Parent Group Financial Services Framework Agreement will expire on 31 December 2025, on 23 April 2025, the Parent Company and the Finance Company entered into the 2026-2028 Parent Group Financial Services Framework Agreement.

LETTER FROM THE BOARD

The deposit services, non-financing guarantee letter services and other financial services under the 2026-2028 Parent Group Financial Services Framework Agreement have been disclosed in the Announcement of the Company dated 23 April 2025 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, therefore, such transactions are exempted from Independent Shareholders' approval requirement under Chapter 14A of the Listing Rules. The resolution in relation to the loan services under the 2026-2028 Parent Group Financial Services Framework Agreement proposed at the AGM 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 2026-2028 Parent Group Financial Services Framework Agreement will not be affected.

The major terms of the loan services contemplated under the 2026-2028 Parent Group Financial Services Framework Agreement are set out below:

Date:

23 April 2025

Parties:

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

Term:

Subject to the approval being obtained from the Independent Shareholders, the terms of loan services under the 2026-2028 Parent Group Financial Services Framework Agreement becomes effective from 1 January 2026 and expires on 31 December 2028. The terms of deposit services, non-financing guarantee letter services and other financial services under the 2026-2028 Parent Group Financial Services Framework Agreement becomes effective from 1 January 2026 and expires on 31 December 2028.

Nature of transaction:

Pursuant to the 2026-2028 Parent Group Financial Services Framework Agreement, the Finance Company has agreed to provide financial services to the Parent Group, including deposit services, loan services, non-financing guarantee letter 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 relevant financial services based on its business needs.

LETTER FROM THE BOARD

Payment terms:

The payment terms will be otherwise specified on each separate contract to be entered into 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 type and similar period 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 type and similar period for the Parent Group (where banks apply a unified credit policy, i.e., the credit ratings of enterprises within the Parent Group are identical), and submit the results to the Finance Company. The Finance Company will then make the final assessments and determine the final service pricing (i.e., interest rates) provided to the Parent Group by reference to the Parent Group's business risks, comprehensive returns, capital cost of the Finance Company and regulatory indicators and other factors, so as to ensure that the interest rates on loans provided by the Finance Company to the Parent Group are consistent with the above pricing standards for loan services.

Proposed Annual Caps and the Basis for Loan Services under the 2026-2028 Parent Group Financial Services Framework Agreement

The relevant historical transaction records and the annual cap amounts for loan services under the Existing Parent Group Financial Services Framework Agreement and similar transactions in 2022 are set out below:

	For the year ended 31 December 2022 <i>RMB in million</i>	For the year ended 31 December 2023 <i>RMB in million</i>	For the year ended 31 December 2024 <i>RMB in million</i>	As of 30 April 2025 <i>RMB in million</i>
Annual cap amount (including corresponding interest)	2,754.0	2,842.0	2,946.0	3,056.0
Daily balance of loans (including corresponding interest)	879.7	769.8	812.4	801.1
Utilization rate	31.9%	27.1%	27.6%	26.21%

LETTER FROM THE BOARD

The proposed annual caps for the loan services under the 2026-2028 Parent Group Financial Services Framework Agreement for the three years ending 31 December 2028 are set out below:

	For the year ending 31 December 2026 <i>RMB in million</i>	For the year ending 31 December 2027 <i>RMB in million</i>	For the year ending 31 December 2028 <i>RMB in million</i>
Proposed annual cap amount (including corresponding interest)	6,200.0	6,460.0	6,720.0

Basis of the Revised Annual Caps

The proposed annual caps for loan services under the 2026-2028 Parent Group Financial Services Framework Agreement are determined with reference to the following basis:

- | | |
|---|---|
| (1) Expected loan size of the Parent Group from now until 31 December 2028 | According to the plan of the Finance Company, the total loan size from 2026 to 2028 is expected to be RMB2,580 million, RMB3,130 million and RMB3,693 million respectively, and the corresponding interests will be RMB60.85 million, RMB66.44 million and RMB69.68 million respectively. Considering that the proportion of loans issued by the Finance Company to the Parent Group over the years is approximately 35% of the total loan size and the corresponding interest proportion is 36%. The loan services (including corresponding interests) of the Parent Group and subsidiaries are : RMB924.91 million, RMB1,119.42 million and RMB1,317.63 million respectively. |
| (2) Expected loan size after reorganization and integration of Parent Group and Light Textile Group | Considering that after the reorganization and integration with the Light Textile Group, the Parent Group's funding needs are expected to increase, with an expected incremental loan demand of RMB2,500 million. The additional loan services (including the aforementioned interest) post-reorganization are estimated to amount RMB2,558.96 million, RMB2,553.07 million and RMB2,547.17 million, respectively. |

As such, the total loan services provided by the Finance Company to the Parent Group for 2026 to 2028 are expected to be RMB3,483.87 million, RMB3,672.49 million, and RMB3,864.8 million, respectively.

LETTER FROM THE BOARD

- (3) The Parent Group's expected loan management needs from now until 31 December 2028
- During the period from 2022 to 2024, the peak loan value of the Parent Group and subsidiaries/their average daily loan value was 1.35 times. Therefore, the peak loans of the Parent Group and its subsidiaries from 2026 to 2028 are estimated at 1.35 times. In addition, the Parent Group expects bank loans of approximately RMB1,500 million to mature each year from 2026 to 2028, and the Parent Group can deposit the repayment amount into the Finance Company for repayment before the loan matures.

In summary, it is expected that the peak value of loans provided by the Finance Company to the Parent Group in 2028 will reach approximately RMB6,720 million.

Based on the above, the Board (including the independent non-executive Directors) are of the view that the proposed annual caps and pricing of the 2026-2028 Parent Group Financial Services Framework Agreement are fair and reasonable, and the transactions contemplated thereunder are entered into on normal commercial terms in the ordinary and usual course of business of the Group, and the terms of the 2026-2028 Parent Group Financial Services Framework 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 rights and 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 2026-2028 Group Financial Services Framework Agreement and the 2026-2028 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 2026-2028 Group Financial Services Framework Agreement and the 2026-2028 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 2026-2028 Master Sales Agreement in this circular.

LETTER FROM THE BOARD

Measures specific to 2026-2028 Group Financial Services Framework Agreement and 2026-2028 Parent Group Financial Services Framework Agreement

(a) Capital requirement of the Finance Company

Pursuant to the relevant regulations set by the NFRA, 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 8.5% as set out by the NFRA. Based on the registered capital of RMB1,000,000,000 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 2026 to 2028 at not less than 15%, which is in compliance with relevant provisions of the NFRA.

(b) Internal control of the Finance Company

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

The Finance Company has established its own credit policies and credit approval procedures for the loan services, bills discounting services and bills acceptance services, which are designed in accordance with the relevant PBOC and NFRA 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 condition of the Finance Company (in the case of deposit services, loan services, non-financing guarantee letter services and other financial services). The vice chairman and the chairman of the supervisory board of the Finance Company are appointed by the Company to effectively oversee and manage the daily operations of the Finance Company. The Finance Company is a non-bank financial institution approved by the NFRA (formerly known as the CBIRC) and the PBOC. It is also subject to centralized supervision and guidance from the Company's Board of Directors Office, Risk Control Department, Legal and Audit Department, Planning Department, Marketing Department, and Finance Department to ensure its stable operation. In the event of any deficiencies, the Finance Company shall be urged to take rectification measures to comply with relevant standards.

LETTER FROM THE BOARD

(c) Professional 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. The supervisory committee of the Finance Company shall ensure that the Finance Company complies with relevant regulations and rules while overseeing its operating activities. The credit review committee of the Finance Company adopts a collective decision-making process to provide decision-making recommendations regarding the development of the Finance Company's credit business. The primary function of the credit review committee is to review the opinions of the business department on corporate credit plans and the assessments of the risk review department. The committee, consisting of five members with expertise in finance, risk control and compliance, accounting, and law, shall independently provide their opinions, comprehensively evaluate the operational condition, default risks, reasonableness of capital requirements, and the adequacy of the Finance Company's risk management and control measures. All plans must be submitted to the General Manager for approval.

(d) The Audit and Risk Management Committee of the Company will review the implementation of connected transactions under the 2026-2028 Group Financial Services Framework Agreement and the 2026-2028 Parent Group Financial Services Framework Agreement semi annually.

Save for the risk control measures mentioned above, the 2026-2028 Group Financial Services Framework Agreement has also stipulated following internal control and risk management measures:

LETTER FROM THE BOARD

Internal Control and Risk Management under the 2026-2028 Group Financial Services Framework Agreement

- (a) The Finance Company and the Company shall establish and enhance their respective risk assessment, risk management, and internal control systems to ensure lawful and compliant operations. They shall implement appropriate risk management measures to prevent the spread of their respective operational risks to the other party.
- (b) The Finance Company undertakes to strictly adhere to the risk monitoring indicator standards for finance companies as promulgated by the NFRA. Key regulatory indicators, including capital adequacy ratio, liquidity ratio, and loan balance, shall meet the requirements of the “Administrative Measures for Finance Companies of Enterprise Groups (《企業集團財務公司管理辦法》)” and other relevant laws and regulations. The Finance Company shall not engage in businesses not approved by the NFRA or conduct any illegal activities.
- (c) The Finance Company shall formulate relevant risk control measures and internal control systems for each financial service and product, ensuring the secure operation of the funds settlement network and safeguarding the fund security and payment needs of the Group and its associates within Finance Company.
- (d) The Company shall have the right to periodically obtain and review the semi-annual and annual financial reports, risk indicators, and other necessary information of the Finance Company. The Finance Company shall cooperate by providing such financial reports, risk indicators, and other requisite information.
- (e) The Finance Company shall promptly inform the Company of its own risk status, actively cooperate with the Company in addressing risks and fulfill corresponding information disclosure obligations, so as to ensure the safety of the Company’s funds.

LETTER FROM THE BOARD

Reasons for and benefits of entering into 2026-2028 Group Financial Services Framework Agreement

- (a) by capitalizing on the treasury management system of the Parent Company, 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 will 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 NFRA and is required to provide its services in accordance with the rules and operational requirements of these regulatory authorities. In addition, capital risk can be reduced through the risk management measures;
- (c) the existing funds deposited by the Group with the Finance Company will receive interest at a rate not lower than the interest rates for deposits of similar type and similar period provided by other independent commercial banks in the PRC to the Group. Such an arrangement will enable the Group to increase its interest income more effectively; and
- (d) the Group is able to obtain loans from the Finance Company at an interest rate not higher than the interest rates for loans of similar type and similar period being charged on the Group by other independent commercial banks in the PRC, which could effectively lower its financing costs.

Reasons for and benefits of entering into 2026-2028 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 reduce the finance costs;
- (c) it will enlarge the operation scale of the Group, thus enhancing the profitability of the Group, while strengthening the financial flexibility by expanding the financing channels; 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 non-financing guarantee letter services under the 2026-2028 Parent Group Financial Services Framework Agreement.

LETTER FROM THE BOARD

Effect of the 2026-2028 Group Financial Services Framework Agreement on the Earnings, Assets and Liabilities of Group non-financing guarantee letter

In respect of the 2026-2028 Group Financial Services Framework Agreement, since

- (1) the interest rates of deposits provided by the Finance Company will not be lower than the interest rates for deposits of similar type and similar period 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 similar type and similar period 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.

The 2026-2028 Group Financial Services Framework Agreement and the non-exempted transactions thereunder are therefore not expected to have any significant effect on the earnings, assets and liabilities of the Group.

Effect of the 2026-2028 Parent Group Financial Services Framework Agreement on the Earnings, Assets and Liabilities of Group

In respect of the 2026-2028 Parent Group Financial Services Framework Agreement, since

- (1) the interests rates for loans provided to the Parent Group by the Finance Company will not be lower than the interest rates for loans of similar type and similar period 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 non-financing guarantee letter services to the Parent Group.

The 2026-2028 Parent Group Financial Services Framework Agreement and the non-exempted transactions thereunder are therefore not expected to have any significant effect on the earnings, assets and liabilities of the Group.

LETTER FROM THE BOARD

INFORMATION OF THE PARTIES

Information on the Group

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

Information on the Parent Group

The Parent Group is principally engaged in sales of automobiles and component parts, electrical machinery and equipment, electronic products, construction materials, electrical supplies, electromechanical products, metallurgy, and environmental technology consulting services.

Information on 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 NFRA (formerly known as the CBIRC). It is subject to the regulation of the PBOC and the NFRA. Its principal business is provision of financial services (including but not limited to deposit services, loan services, non-financing guarantee letter services and other financial services) to the Group and the Parent Group.

IMPLICATIONS UNDER THE LISTING RULES

2026-2028 Master Sales 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. Therefore, the transactions contemplated under the 2026-2028 Master Sales Agreement constitute continuing connected transactions of the Company. As the highest applicable percentage ratios (as defined in the Listing Rules) in respect of the annual caps under the 2026-2028 Master Sales Agreement exceed 5% and such annual caps exceed HK\$10,000,000, accordingly, the 2026-2028 Master Sales Agreement constitutes Non-exempted Continuing Connected Transactions 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.

2026-2028 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, accordingly, the Parent Group is a connected person of the Group under the Listing Rules. The Finance Company, which is held as to 30% by the Parent Company, is an associate of the Parent Company. Therefore, the transactions contemplated under the 2026-2028 Group Financial Services Framework Agreement constitute continuing connected transactions of the Company.

LETTER FROM THE BOARD

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 such annual caps exceeds HK\$10,000,000, accordingly, the deposit services under the 2026-2028 Group Financial Services Framework Agreement are subject to the reporting, annual review, announcement and Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules. Meanwhile, as one or more of the applicable percentage ratios calculated in respect of the maximum daily deposit amount exceed 25%, accordingly, such transactions also constitute major transactions of the Company under Rule 14.06(3) of the Listing Rules, being the Non-exempted Continuing Connected Transactions of the Company, and are subject to the reporting, announcement and Shareholders' approval requirements for major transactions under Chapter 14 of the Listing Rules.

2026-2028 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 is a subsidiary owned as to 70% by the Company. Pursuant to the Listing Rules, the Finance Company is a connected person of the Company. Therefore, the transactions contemplated under the 2026-2028 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 such annual cap exceeds HK\$10,000,000, accordingly, the loan services under the 2026-2028 Parent Group Financial Services Framework Agreement are subject to the reporting, annual review, announcement and Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules. Meanwhile, as one or more of the applicable percentage ratios calculated in respect of the maximum daily loan amount exceed 25%, accordingly, such transactions also constitute major transactions of the Company under Rule 14.06(3) of the Listing Rules, being the Non-exempted Continuing Connected Transactions of the Company, and are subject to the reporting, announcement and Shareholders' approval requirements for major transactions under Chapter 14 of the Listing Rules.

The Independent Board Committee comprising all independent non-executive Directors has been formed in accordance with the Listing Rules to consider as to whether the 2026-2028 Master Sales Agreement and the transactions contemplated thereunder, the 2026-2028 Group Financial Services Framework Agreement and the transactions in respect of the deposit services contemplated thereunder, the 2026-2028 Parent Group Financial Services Framework Agreement and the transactions in respect of the loan services contemplated thereunder, as well as the adoption of relevant proposed annual caps, are fair and reasonable and in the interests of the Group and the Shareholders as a whole, and advise the Independent Shareholders in this regards. The Independent Financial Adviser has been appointed by the Company 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 and the transactions contemplated thereunder as well as the 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 the above continuing connected transactions are conducted in the ordinary and usual course of business of the Company and entered into on normal commercial terms.

LETTER FROM THE BOARD

In relation to the non-financial letter of guarantee services and other financial services under the 2026-2028 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 non-financial letter of 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 independent third parties) 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 non-financial letter of guarantee services and other financial services under the 2026-2028 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 non-financial letter of 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 Annual General Meeting will be convened by the Company at the Conference Room, 16/F, Jidian Building, No. 60, Middle Section of Huangshan Avenue, New North Zone, Chongqing City, the PRC on Thursday, 12 June 2025 at 9:00 a.m., at which resolutions will be proposed to seek consideration and (if thought fit) approval from the Independent Shareholders for, among others, the 2026-2028 Master Sales Agreement and the transactions contemplated thereunder, 2026-2028 Group Financial Services Framework Agreement and the transactions in respect of the deposit services contemplated thereunder, the 2026-2028 Parent Group Financial Services Framework Agreement and the transactions in respect of the loan services contemplated thereunder, as well as the adoption of relevant proposed annual caps. As the Parent Company is a Controlling Shareholder of the Company, and Yufu Holding is the direct Controlling Shareholder of the Parent Company, both of which are materially interested in the Non-exempted Continuing Connected Transactions, accordingly, Parent Company and its associates, as well as Director appointed by Yufu Holding, will respectively abstain from voting on the relevant resolutions to be proposed at the AGM. Given the sound corporate governance practices, Mr. Fu Yihong (a non-executive Director of the Company) currently holds a management position in the Parent Company (the deputy director of the Strategy and Technology Department in the Parent Company), and he is deemed to have material interests in the Non-exempt Continuing Connected Transactions, and has abstained from voting on the relevant Board resolutions to approve the Non-exempt Continuing Connected Transactions. Save as disclosed above, none of the other Directors has any material interest in the Non-exempted Continuing Connected Transactions, and none of them is required to abstain from voting on the relevant resolutions passed by the Board to approve Non-exempted Continuing Connected Transactions.

LETTER FROM THE BOARD

13. PROPOSED AMENDMENTS TO THE ARTICLES OF ASSOCIATION

On 14 February 2023, the State Council issued the “Decision of the State Council to Repeal Certain Administrative Regulations and Documents”, pursuant to which the “Special Regulations on the Overseas Offering and Listing of Shares by Joint Stock Limited Companies” (the “**Special Regulations**”) were repealed. On 17 February 2023, with the approval of the State Council, the China Securities Regulatory Commission (“**CSRC**”) issued the “Trial Measures of Overseas Securities Offering and Listing by Domestic Companies”, pursuant to which the Mandatory Provisions of the Articles of Association of Companies Listed Overseas (“**Mandatory Provisions**”) were repealed with effect from 31 March 2023. The Stock Exchange amended the Listing Rules pursuant to the aforesaid new regulatory regulations with effect from 1 August 2023.

In order to further utilize the fundamental role of the Articles of Association in corporate governance, in accordance with the relevant requirements of the PRC Company Law and taking into account the actual operational and management needs of the Company, the Board intends to amend the Articles of Association, and the major amendments include:

- (1) Updating and adjusting the relevant articles and contents relating to the legal representatives of the Company in accordance with Article 10 of the PRC Company Law;
- (2) Pursuant to the PRC Company Law, the Guidelines on Articles of Association of Listed Companies of the CSRC and the Listing Rules and other relevant regulations, this amendment removes, updates and adjusts the requirements for class Shareholders’ meetings and other relevant requirements relating to the issuance and repurchase of shares by the PRC issuer, and removes, updates and adjusts the requirement for the Articles of Association of the PRC issuer to include the Mandatory Provisions and other accompanying provisions, as well as removes the requirement for the class Shareholders’ related to class Shareholders and the original references to the terms and contents of the Mandatory Provisions;
- (3) To amend the relevant terms and contents of the Party Committee of the Company pursuant to the work requirements of the Chongqing Municipal Government, SASAC and the Parent Company;
- (4) Updating and adjusting the relevant terms and contents of the powers and functions of the general meeting of Shareholders and the Board of Directors pursuant to the PRC Company Law and the actual situation of the Company;
- (5) New capital reserve may be used to cover losses pursuant to the PRC Company Law, but capital reserve cannot be utilized when there is still a balance in the surplus reserve;
- (6) Updating and adjusting the relevant terms and contents of dissolution of a company and liquidation of a company in accordance with the PRC Company Law; and
- (7) other compliance and regulatory amendments.

LETTER FROM THE BOARD

Details of the proposed amendments to the Articles of Association are set out in Appendix 6 of this circular. The proposed amendments to the Articles of Association are written in Chinese and there is no official English translation. The English translation is for reference only and its contents may be updated to reflect clerical or translation improvements, and in the event of any discrepancy between the English and Chinese versions, the Chinese version shall prevail. The proposed amendments to the Articles of Association are subject to the approval of the Shareholders by way of an ordinary resolution at the Annual General Meeting.

Note: The final amendment is subject to the approval of the market supervisory authority for the record.

14. 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 in issue up to the limit of 20% 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 must 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; 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 CSRC and/or other relevant government authorities in the PRC are obtained.

LETTER FROM THE BOARD

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 relevant 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 equity structure of the Company.

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

15. ANNUAL GENERAL MEETING AND PROXY ARRANGEMENT

The notice of the Annual General Meeting is set out on pages 126 to 133 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 2024; (2) report of the Supervisory Committee of the Company in 2024; (3) audited financial statements and auditor's report of the Company and its subsidiaries in 2024; (4) 2024 annual accounts plan of the Company; (5) profit appropriation proposal for the year of 2024 of the Company; (6) 2025 annual budget plan of the Company; (7) appointment of the Company's auditor in 2025; (8) re-election of Directors; (9) re-election of Supervisors; (10) provision of guarantee by the Group for financing of the subsidiaries; (11) continuing connected transactions/major transactions and continuing connected transactions ((i) the 2026-2028 Master Sales Agreement and the transactions contemplated thereunder; (ii) the 2026-2028 Group Financial Services Framework Agreement and the transactions in respect of the deposit services contemplated thereunder; and (iii) the 2026-2028 Parent Group Financial Services Framework Agreement) and the transactions in respect of the loan services contemplated thereunder; as well as (iv) the adoption of relevant proposed annual caps); (12) proposed amendments to the Articles of Association; and (13) proposed granting of General Mandate to issue new Shares of the Company.

LETTER FROM THE BOARD

The form of proxy for use at the Annual General Meeting has been despatched on 22 May 2025, and such form of proxy is also published on the websites of HKEXnews 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, as well as Director appointed by Yufu Holding who shall abstain from voting at the AGM in respect of the resolutions relating to (i) the 2026-2028 Master Sales Agreement and the transactions contemplated thereunder; (ii) the 2026-2028 Group Financial Services Framework Agreement and the transactions in respect of the deposit services contemplated thereunder; (iii) the 2026-2028 Parent Group Financial Services Framework Agreement and the transactions in respect of the loan services contemplated thereunder; as well as (iv) the adoption of relevant proposed annual caps, none of the Directors or Shareholders has a material interest in the resolutions to be proposed at the Annual General Meeting and no Shareholder is required to abstain from voting on any of the resolutions at the Annual General Meeting.

16. PROCEDURES FOR VOTING AT THE ANNUAL GENERAL MEETING

According to Rule 13.39(4) of the Listing Rules, any vote of Shareholders at a general meeting must be taken by poll except where the chairman of the meeting, in good faith, decides to allow a resolution which relates purely to a procedural or administrative matter to be voted on by a show of hands. Accordingly, the resolutions to be proposed at the Annual General Meeting (as set out in the Notice of the Annual General Meeting) will be voted by way of poll. An announcement will be published by the Company in relation to the poll results by means as required by Rule 13.39(5) and 13.39(5A) of the Listing Rules.

17. RECOMMENDATION

Having taken into account the terms of the 2026-2028 Master Sales Agreement, the terms of deposit services under the 2026-2028 Group Financial Services Framework Agreement, the terms of loan services under the 2026-2028 Parent Group Financial Services Framework Agreement and the advice from Lego Corporate Finance, the Board considers that the 2026-2028 Master Sales Agreement and the transactions contemplated thereunder, the 2026-2028 Group Financial Services Framework Agreement and the transactions in respect of the deposit services contemplated thereunder, and the 2026-2028 Parent Group Financial Services Framework Agreement and the transactions in respect of the loan services contemplated thereunder, are conducted in the ordinary course of business of the Group on normal commercial terms, and such terms are fair and reasonable and in the interests of the Company and the Shareholders as a whole. The respective proposed annual caps are fair and reasonable so far as the Independent Shareholders are concerned. Therefore, all resolutions proposed at the Annual General Meeting for consideration and approval by Shareholders are in the best interests of the Company and the Shareholders as a whole.

LETTER FROM THE BOARD

Accordingly, the Directors (including the members of the Independent Board Committee, after taking into account the advice of the Independent Financial Adviser) recommend that Independent Shareholders vote in favour of the ordinary resolutions to be proposed at the Annual General Meeting, so as to approve the 2026-2028 Master Sales Agreement and the transactions contemplated thereunder, the 2026-2028 Group Financial Services Framework Agreement and the transactions in respect of the deposit services contemplated thereunder, the 2026-2028 Parent Group Financial Services Framework Agreement and the transactions in respect of the loan services contemplated thereunder, as well as the adoption of relevant proposed annual caps.

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.

ADDITIONAL INFORMATION

Your attention is drawn to the additional information set out in the Appendix I, Appendix II, Appendix III, Appendix IV, Appendix V, Appendix VI and Appendix VII to this circular.

Yours faithfully

By Order of the Board

Chongqing Machinery & Electric Co., Ltd.*

Yue Xiangjun

Executive Director and General Manager

(performing duties and powers of the chairman of the Board)

* *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 with limited liability)
(Stock Code: 02722)

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

22 May 2025

To the Independent Shareholders

Dear Sir or Madam,

Reference is made to the circular issued by the Company to the Shareholders dated 22 May 2025 (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 as members of the Independent Board Committee, to consider as to whether the transactions contemplated under the 2026-2028 Master Sales Agreement, the 2026-2028 Group Financial Services Framework Agreement and the transactions in respect of the deposit services contemplated thereunder, the 2026-2028 Parent Group Financial Services Framework Agreement and the transactions in respect of the loan services contemplated thereunder, as well as the adoption of relevant proposed annual caps, are fair and reasonable and in the interests of the Group and the Shareholders as a whole, and advise the Independent Shareholders in this regards.

Lego Corporate Finance has been appointed as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in this regards. The full text of the letter of advice from Lego Corporate Finance to the Independent Board Committee and the Independent Shareholders is set out on pages 50 to 76 of the Circular.

Your attention is drawn to the Letter from the Board as set out on pages 7 to 47 of the Circular.

Having considered the 2026-2028 Master Sales Agreement, the terms of deposit services under the 2026-2028 Group Financial Services Framework Agreement, the terms of loan services under the 2026-2028 Parent Group Financial Services Framework Agreement and the advice of Lego Corporate Finance, we consider that the 2026-2028 Master Sales Agreement and the transactions contemplated thereunder, the 2026-2028 Group Financial Services Framework Agreement and the transactions in respect of the deposit services contemplated thereunder, and 2026-2028 Parent Group Financial Services Framework Agreement and the transactions in respect of the loan services contemplated thereunder, are conducted in the ordinary course of business of the Group on normal commercial terms, and such terms are fair and reasonable and in the interests of the Company and the Shareholders as a whole. The adoption respective proposed annual caps are fair and reasonable so far as the Independent Shareholders are concerned.

Accordingly, we recommend that Independent Shareholders vote in favour of the ordinary resolutions to be proposed at the Annual General Meeting, so as to approve the transactions contemplated under the 2026-2028 Master Sales Agreement, the 2026-2028 Group Financial Services Framework Agreement and the transactions in respect of the deposit services contemplated thereunder, and the 2026-2028 Parent Group Financial Services Framework Agreement and the transactions in respect of the loan services contemplated thereunder, as well as the adoption of relevant proposed annual caps.

Yours faithfully,

For and on behalf of the Independent Board Committee

Lo Wah Wai

Ren Xiaochang

Liu Wei

Ke Rui

*Independent Non-
executive Director*

*Independent Non-
executive Director*

*Independent Non-
executive Director*

*Independent Non-
executive Director*

* *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 2026-2028 Master Sales Agreement, the 2026-2028 Group Financial Services Framework Agreement, the 2026-2028 Parent Group Financial Services Framework Agreement and the respective transactions contemplated thereunder (including their relevant proposed annual caps).



22 May 2025

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 2026-2028 Master Sales Agreement; (ii) the deposit services (the “**Deposit Services**”) under the 2026-2028 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 2026-2028 Parent Group Financial Services Framework Agreement and the respective transactions contemplated thereunder (including their relevant proposed annual caps for the three years ending 31 December 2028 (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 22 May 2025 (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 7 April 2022, the Company entered into the Existing Master Sales Agreement, pursuant to which the Group agreed to sell materials, components, accessories or raw materials, finished goods and other relevant or similar items, power generation equipment and parts (including certain products such as control valves, parts for steering systems, gears, clutch, the BV series of electric cables) and other products, to the Parent Group. As the Existing Master Sales Agreement will expire on 31 December 2025, the Company renewed the Existing Master Sales Agreement with the Parent Company under the similar terms by entering into the 2026-2028 Master Sales Agreement on 23 April 2025.

As the Existing Group Financial Services Framework Agreement will expire on 31 December 2025, on 23 April 2025, the Company and the Finance Company entered into the 2026-2028 Group Financial Services Framework Agreement, pursuant to which, the Finance Company will provide financial services to the Group, including loan services, non-financing guarantee letter services and other financial services. Subject to the approval of the Independent Shareholders, the Finance Company will provide deposit services to the Group. The Group is not under any obligation to obtain any or all of the financial services from the Finance Company and may obtain relevant financial services based on its business needs.

As the Existing Parent Group Financial Services Framework Agreement will expire on 31 December 2025, on 23 April 2025, the Parent Company and the Finance Company entered into the 2026-2028 Parent Group Financial Services Framework Agreement, pursuant to which, the Finance Company will provide financial services to the Parent Group, including deposit services, non-financing guarantee letter services and other financial services. Subject to the approval of the Independent Shareholders, the Finance Company will provide loan services to the Group. The Finance Company is not under any obligation to provide any or all of the financial services to the Parent Group and may provide relevant 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, accordingly, the Parent Group is a connected person of the Group under the Listing Rules. The Finance Company, which is held 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 2026-2028 Master Sales Agreement, the 2026-2028 Group Financial Services Framework Agreement and the 2026-2028 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 annual caps under the 2026-2028 Master Sales Agreement exceed 5% and such annual caps exceed HK\$10,000,000, accordingly, the 2026-2028 Master Sales Agreement constitutes Non-exempted Continuing Connected Transactions 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, accordingly, 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%, accordingly, 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 AGM will be convened by the Company at which resolutions will be proposed to seek consideration and (if thought fit), among other, approval from the Independent Shareholders for the 2026-2028 Master Sales Agreement and the transactions contemplated thereunder, the deposit services under the 2026-2028 Group Financial Services Framework Agreement and the loan services under the 2026-2028 Parent Group Financial Services Framework Agreement as well as the adoption of relevant proposed annual caps. As the Parent Company is a Controlling Shareholder of the Company, and Yufu Holding is the direct Controlling Shareholder of the Parent Company, both of which are materially interested in the Non-exempted Continuing Connected Transactions, accordingly, Parent Company and its associates, as well as Director appointed by Yufu Holding, will respectively abstain from voting on the relevant resolutions to be proposed at the AGM.

Given the sound corporate governance practices, Mr. Fu Yihong (a non-executive Director of the Company) currently holds a management position in the Parent Company (the deputy director of the Strategy and Technology Department in the Parent Company), and he is deemed to have material interests in the Non-exempt Continuing Connected Transactions, and has abstained from voting on the relevant Board resolutions to approve the Non-exempt Continuing Connected Transactions. Save as disclosed above, none of the other Directors has any material interest in the Non-exempted Continuing Connected Transactions, and none of them is required to abstain from voting on the relevant resolutions. Save as disclosed above, none of the other Directors has any material interest in the Non-exempted Continuing Connected Transactions, and none of them is required to abstain from voting.

The Independent Board Committee, composed of independent non-executive Directors of the Company, namely Mr. Lo Wah Wai, Mr. Ren Xiaochang, Mr. Liu Wei and Mr. Ke Rui, has been established to advise the Independent Shareholders as to (i) whether the 2026-2028 Master Sales Agreement, the 2026-2028 Group Financial Services Framework Agreement and the 2026-2028 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 of the Continuing Connected Transactions and the Proposed Annual Caps, we have taken into consideration of the following principal factors and reasons.

1. Background of the parties involved***a) Information on the Group***

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

b) Information on the Parent Group

The Parent Group is principally engaged in sales of automobiles and component parts, electrical machinery and equipment, electronic products, construction materials, electrical supplies, electromechanical products, metallurgy, and environmental technology consulting services.

c) Information on 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 NFRA (formerly known as the CBIRC). It is subject to the regulation of the PBOC and the NFRA. Its principal business is provision of financial services (including but not limited to deposit services, loan services, non-financing guarantee letter services and other financial services) to the Group and the Parent Group.

d) Information on Chongqing Yufu Holding Group Co., Ltd. (重慶渝富控股集團有限公司)
("Yufu Holding", together with its subsidiaries but excluding the Group, "Yufu Group")*

Yufu Group is principally engaged in new energy and intelligent connected vehicles business, electronic information business, artificial intelligence business and other business.

We have reviewed the announcements of the Company dated 26 February 2025 and 29 April 2025 in relation to the change in shareholding structure of the Controlling Shareholder of the Company, and noted that (i) Yufu Holding will make a capital increase to the Parent Company with a consideration of RMB5,000 million through cash and non-cash contribution methods. Upon completion of the capital increase, Yufu Holding will hold approximately 44.58% equity interest in the Parent Company (the "**Capital Increase**"); and (ii) Chongqing State-owned Assets Supervision and Administration Commission ("**CQSASAC**") agrees to gratuitously transfer its 35.42% equity interest in the Parent Company to Yufu Holding (the "**Gratuitous Transfer**") (together with the Capital Increase, collectively referred to as the "**Internal Restructuring**"). On 29 April 2025, the Company received a notification from the Parent Company that the Industrial and Commercial Administration procedures related to the Internal Restructuring had been completed. Upon completion of these procedures, Yufu Holding has become the direct Controlling Shareholder of the Parent Company, while the Parent Company remains the direct Controlling Shareholder of the Company, and the CQSASAC continues to be the ultimate Controlling Shareholder of the Company.

e) Information on Chongqing Light Textile Holdings (Group) Company ("Light Textile Group")

The Light Textile Group is principally engaged in paper machinery business, enterprise digitalized production line transformation, structural parts and other businesses.

We have reviewed the announcement of the Light Textile Group dated 28 February 2025 in relation to the termination of the escrow agreement, and noted that CQSASAC and Yufu Holding will transfer their 20% and 80% equity interests in the Light Textile Group to the Parent Company, respectively. Accordingly, the Parent Company will hold 100% equity interests in the Light Textile Group.

2. 2026-2028 Master Sales Agreement***a) Reasons for and benefits of entering into the 2026-2028 Master Sales Agreement***

The Group is principally engaged in designing, manufacturing and sales of clean energy equipment, high-end smart manufacturing equipment and industrial services. As disclosed in the annual report of the Company for the year ended 31 December 2024 (the “**2024 Annual Report**”), the clean energy equipment business included the sales of, among others, wind power blades, electrical wires and cables and materials, industrial pumps, industry blowers, and hydroelectric generation equipment. 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 of the 2026-2028 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 2026-2028 Master Sales Agreement

We have reviewed the 2026-2028 Master Sales Agreement and did not note any abnormal terms or material difference between the terms of the Existing Master Sales Agreement and the terms of the 2026-2028 Master Sales Agreement, save for the change in annual caps.

Pricing Basis for the 2026-2028 Master Sales Agreement

As disclosed in the Letter from the Board, the 2026-2028 Master Sales Agreement was entered into in the ordinary and usual course of business of the Group. The relevant terms of the agreement were negotiated on arm's length basis and on normal commercial terms. The pricing or consideration under the 2026-2028 Master Sales Agreement will be determined with reference to:

- (i) the market price obtained through prices quoted on the industry websites (including website of Alibaba at www.1688.com) or by inquiring in the market 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 prices are applicable, the price (taxed price) is determined by the cost plus method, that is, $\text{price} = \text{cost} \times (1 + \text{percentage mark-up})$, where the cost profit margin is not less than 20%, and the cost profit margin of 20% is determined based on the average gross margin of the Group in the past three years.

As disclosed in the Letter from the Board, all the products sold by the Group 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 2026-2028 Master Sales Agreement, except that pricing basis (iii) was and will be adopted for the price of software (since they are customised and designed according to the needs 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 annual report of the Company for the year ended 31 December 2023 (the “**2023 Annual Report**”) and the 2024 Annual Report that (1) the Group's gross profit margins amounted to approximately 19.8%, 18.4% and 17.4%, with an average of approximately 18.5%.

Having considered that (i) the software are customized and designed according to the needs of different customers; (ii) the percentage mark-up (tax inclusive) of not less than 20% applies to all customers of the Group; and (iii) the 20% mark-up is above the range of and the average of the gross profit margin of the Group for each of the three years ended 31 December 2024, we are of the view that the percentage mark-up (tax inclusive) of not less than 20% (including using the average gross margin of the Group in the past three years in the basis of the percentage mark-up (tax inclusive)) is fairly and reasonably determined.

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

- (a) 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 2024. 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;
- (b) for refrigeration machines, copper plates 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 2024. 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 products sold to independent third parties; and
- (c) 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 2024. 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 20%, which is in line with the pricing basis of the Existing Master Sales Agreement.

We have selected all kinds of items under the 2026-2028 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 2024. 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 20% for the three years ended 31 December 2024. 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 at 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 at 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 2026-2028 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 2026-2028 Master Sales Agreement (as further discussed in the section headed “5. Internal Control Measures” below), we are of the view that the terms offered to the Parent Group under the 2026-2028 Master Sales Agreement are entered into 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 2024 and the year ending 31 December 2025.

	For the year ended/ending 31 December			
	2022	2023	2024	2025
The annual cap (<i>RMB in million</i>)	336.2	227.0	220.0	250.0
The actual transaction amount (<i>RMB in million</i>)	77.8	22.9	46.3	15.0 ^(Note)
Utilisation rate/annualised utilisation rate (%)	23.1%	10.1%	21.0%	24.0% ^(Note)

Note: For the three months ended 31 March 2025

As illustrated in the above table, the actual transaction amount of the sale of products by the Group to the Parent Group were approximately RMB77.8 million, RMB22.9 million, RMB46.3 million and RMB15.0 million for the three years ended 31 December 2024 and the three months ended 31 March 2025, respectively. We have discussed with the Management and were given to understand that the low utilisation rates of the annual caps of the sale of products to the Parent Group by the Group for the three years ended 31 December 2024 and the three months ended 31 March 2025 was mainly because the corporate structure of the Parent Group has been restructured in the past two years, and several affiliated enterprises have been withdrawn from the Parent Group, so such entities are no longer connected persons and transactions with them are excluded from the Agreed Sales.

The table below illustrates the proposed annual caps of the Agreed Sales for the three years ending 31 December 2028.

	For the year ending 31 December		
	2026	2027	2028
The proposed annual cap (<i>RMB in million</i>)	280.0	300.0	320.0

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 opportunities from the existing and potential railway and infrastructure projects for the sale of products to the Parent Group*

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. Pursuant to the Chongqing Central Urban Area Urban Rail Transit Network Plan (2021-2035) * (《重慶市中心城區城市軌道交通線網規劃(2021年至2035年)》), by 2035, the core metropolitan area of Chongqing will establish a multi-tiered rail transit network, comprising a total of 24 urban rail lines with an overall length of approximately 1,312 kilometers. We have discussed with the Management and were given to understand that, the Parent Group's subsidiary, the Engineering Company, has undertaken the general contracting projects for Line 15 and the post-station works of Chongqing East Station. In the future, it is expected to secure additional relevant rail transit projects in Chongqing. As advised by the Management, several subsidiaries of the Group are expected to participate in rail transit projects during the period from 2026 and 2028, contributing to significant business growth.

We have obtained and reviewed the documents provided by the Company, including the contracts entered into between (a) Chongqing General Industry Group and the Parent Group dated 3 June 2024 in relation to the engineering projects related to station ventilation and air conditioning, with an estimated contract value of approximately RMB73.7 million, which is expected to commence in first half of 2025; (b) Chongqing Pump Company and the Parent Group dated 6 September 2024 in relation to the supply of structural components and related products, with an estimated contract value of approximately RMB71.8 million, which has commenced in October 2024; and (c) Chongqing Pump Company and the Parent Group dated 18 April 2024 in relation to the post-construction works of Chongqing East Station with an estimated contract value of approximately RMB9.5 million, which has commenced in April 2024. We noted that the total estimated contract sum of the abovementioned projects amounts to approximately RMB155.0 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.

(ii) The restructuring and integration of the Light Textile Group

As disclosed in the Letter from the Board and the section headed “1. Background of the parties involved”, in accordance with the reform and restructuring requirements for key municipal state-owned enterprises set forth by the Chongqing Municipal Government and the CQSASAC, the restructuring and integration of the Light Textile Group with the Parent Group is scheduled for completion within 2025. The Group will have the opportunity to participate in Light Textile Group’s paper machinery business, enterprise digitalized production line transformation, structural parts and other businesses. We have reviewed the financial statement of the Light Textile Group for the year ended 31 December 2023 and the six months ended 30 June 2024 and noted that the operating income of the Light Textile Group amounted to approximately RMB10,025.4 million and RMB5,318.5 million, for the year ended 31 December 2023 and the six months ended 30 June 2024, respectively, which implied a significant business growth potential for the Group. Accordingly, we consider the Group is well-positioned to seize the opportunities and benefit from the restructuring and integration of the Light Textile Group.

(iii) Capital injection by Yufu Group to drive strategic growth of the Parent Group

As disclosed in the section headed “1. Background of the parties involved”, Yufu Group will inject capital into the Parent group with a consideration of RMB5,000 million in 2025, laying a solid foundation for the future business development of the Parent Group. We have reviewed the financial statement of the Yufu Group for the year ended 31 December 2023 and the six months ended 30 June 2024 and noted that the operating income of the Yufu Group amounted to approximately RMB32,379.2 million and RMB15,856.6 million, for the year ended 31 December 2023 and the six months ended 30 June 2024, respectively, which indicated a sound basis for a strategic growth of the Parent Group, and hence the proposed annual caps of the Agreed Sales are not excessive.

Based on the aforesaid, we are of the view that the proposed annual caps of the Agreed Sales for the three years ending 31 December 2028 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 2028, 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. 2026-2028 Group Financial Services Framework Agreement**a) *Reasons for and benefits of entering into the 2026-2028 Group Financial Services Framework Agreement***

As disclosed in the Letter from the Board, (a) by capitalizing on the treasury management system of the Parent Company, 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 will 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 NFRA and is required to provide its services in accordance with the rules and requirements of these regulatory authorities. In addition, capital risk can be reduced through the risk management measures; (c) the existing funds deposited by the Group with the Finance Company will receive interest at a rate not lower than the interest rates for deposits of similar type and similar period provided by other independent commercial banks in the PRC to the Group. Such an arrangement will enable the Group to increase its interest income more effectively; and (d) the Group is able to obtain loans from the Finance Company at an interest rate not higher than the interest rates for loans of similar type and similar period 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 NFRA, which is required to comply with relevant rules and regulations; (iv) the 2026-2028 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 of the 2026-2028 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 2026-2028 Group Financial Services Framework Agreement*

We have reviewed the 2026-2028 Group Financial Services Framework Agreement and did not note any abnormal terms or material difference between the terms of the Existing Group Financial Services Framework Agreement and the terms of the 2026-2028 Group Financial Services Framework Agreement, save for the change in annual caps.

Pricing standards

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

The Company will obtain the interest rates for deposits of similar type and similar period 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 it with the interest rates provided by the Finance Company to the Group for deposits of such type to ensure that the interests the Group will receive on its deposits are in consistent 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 2024. All nine deposit contracts/records obtained covered all types of deposits that the Group had during the three years ended 31 December 2024, being the seven-day call deposits, three-month time deposits, six-month time deposit, twelve-month time deposit and three-year time deposit, and compared against the then deposit rates with at least two independent commercial banks in the PRC. 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 <i>% per annum</i>
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 type and similar period.

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 2024 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 2026-2028 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 2026-2028 Group Financial Services Framework Agreement (as further discussed in the section headed “5. Internal Control Measures” below), we consider that the terms of the Deposit Services under the 2026-2028 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 2024 and the year ending 31 December 2025; and (ii) the proposed annual caps of the Deposit Services for the three years ending 31 December 2028 under the 2026-2028 Group Financial Services Framework Agreement.

	For the year ended/ending 31 December			
	2022	2024	2025	2025
The annual cap (<i>RMB in million</i>)	3,479.0	3,320.0	3,433.0	3,552.0
Maximum daily deposit balance (including corresponding interest) (<i>RMB in million</i>)	2,034.3	2,382.9	2,223.6	2,059.1 ^(Note)
Utilisation rate (%)	58.5%	71.8%	64.8%	57.97% ^(Note)

Note: For the three months ended 31 March 2025

	For the year ending 31 December		
	2026	2027	2028
The proposed annual cap (<i>RMB in million</i>)	7,993.0	10,836.0	11,920

As disclosed in the Letter from the Board, amid a complex and volatile international environment, the domestic economy has achieved overall balance, steady progress, and improved quality and efficiency through intensified macroeconomic regulation, deepened reforms, expanded domestic demand, and optimized economic structures. Against this backdrop, the Group has diligently advanced its strategic development plan, actively expanded its business, further optimized asset allocation efficiency, and significantly enhanced operational quality and operating cash flow, which lays a solid foundation for stable development over the next three years (from 2026 to 2028).

We have obtained and reviewed the schedule in respect of the calculation of the Deposit Services for the three years ending 31 December 2028 under the 2026-2028 Group Financial Services Framework Agreement (the “**Schedule**”), and the analysis is set out below.

		For the year ended/ending 31 December						
		2022	2023	2024	2025	2026	2027	2028
		RMB'	RMB'	RMB'	RMB'	RMB'	RMB'	RMB'
		million	million	million	million	million	million	million
		(actual)	(actual)	(actual)	(forecast)	(forecast)	(forecast)	(forecast)
Operating revenue of the Group	A	7,205	8,058	8,919	10,000	11,000	12,100	13,310
Cash and cash equivalents of the Group as at year end date	B	2,597	2,318	2,744	3,050	3,355	3,691	4,060
Cash to revenue ratio (%)	C = B/A	36.0	28.8	30.8	30.5	30.5	30.5	30.5
Peak deposit balance	D	2,034	2,383	2,224	3,050	3,355	3,691	4,060
Peak deposit balance to cash ratio (%)	E = D/B	78.3	103.2	81.0	100	100	100	100
Revolving loans	F					1,804	1,984	2,183
Aggregate peak deposit balance	G = D + F					5,159	5,675	6,243

According to the Group’s strategic development plan for the next three years, and with reference to the increase in the Group’s operating revenue in 2024 compared with 2023, it is expected that the annual growth rate of operating revenue from 2026 to 2028 will be approximately 10%. We have reviewed the 2024 Annual Report and noted that the revenue of the Group increased from approximately RMB7,205 million for the year ended 31 December 2022 to approximately RMB8,058 million for the year ended 31 December 2023 and further increased to approximately RMB8,919 million for the year ended 31 December 2024, representing a year-on-year growth of approximately 11.9% and 10.6%, respectively.

We further noted from the 2023 Annual Report and the 2024 Annual Report that the cash and cash equivalents of the Group amounted to approximately RMB2,597 million, RMB2,318 million and RMB2,744 million for the three years ended 31 December 2024, respectively, representing approximately 36.0%, 28.8% and 30.8% of the operating revenue of the Group for the corresponding years, with an average of approximately 31.8%.

Based on the growth rate of operating revenue of 10% and the cash to revenue ratio of 30.5%, which are prudently assumed to be similar to that for the year ended 31 December 2024, the cash and cash equivalents of the Group is expected to be approximately RMB3,355 million, RMB3,691 million and RMB4,060 million respectively from 2026 to the end of 2028.

Based on our review of the records of the Finance Company in respect of the peak amount and balance of the connected transactions, we noted that the daily peak deposit balance of the Group amounted to approximately RMB2,034 million, RMB2,383 million and RMB2,224 million for the three years ended 31 December 2024, respectively, representing approximately 78.3%, 103.2% and 81.0% relative to the year-end cash and cash equivalents of the Group for the corresponding years.

Moreover, the Group expects the bank loans of approximately RMB1,804 million, RMB1,984 million and RMB2,183 million will mature annually from 2026 to 2028, respectively. To address loan repayments, the Group may need to prepare and deposit cash in advance with the Finance Company to ensure robust liquidity. We have discussed with the Management and were given to understand that the Group will renew the existing revolving loans and deposit the repayment amount into the Finance Company for repayment before the existing loan matures.

With reference to the historical highest peak deposit balance of approximately 103.2%, the Group assumes all the cash and cash equivalents of the Group of approximately RMB3,355 million, RMB3,691 million and RMB4,060 million respectively from 2026 to the end of 2028 will be fully deposited into the Finance Company. The aggregate peak deposit balance is expected to reach approximately RMB6,243 million in 2028 (the “**Aggregate Peak Deposit Balance**”).

Based on our review of the 2024 Annual Report and the strategic development plan of the Company provided by the Management, we noted that the Group will strengthen resource integration and focus on overall synergy. The Group will enhance strategic cooperation, amplify strategic coordination with major customers such as listed companies and centralized state-owned enterprises, and accelerate project implementation and order conversion. Leveraging on the restructuring of the Parent Group, comprising the aforementioned integration of the Light Textile Group and the capital injection by Yufu Group, it is expected that the sales to Parent Group will substantially improve, which in turn will result in further growth in revenue of the Group for the three years ending 31 December 2028.

As disclosed in the Letter from the Board, the Group will continue to focus on major national strategies such as green and low-carbon transformation and innovation-driven development and the “33618” modern manufacturing cluster system in Chongqing City, and in conjunction with the Group’s strategic development plan for the next three years, actively participate in upstream and downstream mergers and acquisitions of high-end clean energy equipment and intelligent manufacturing industry chains, which are expected to bring a large increase to the Group’s operating revenue from 2026 to 2028. We have reviewed the official release dated 6 June 2023 issued by the Chongqing Municipal People’s Government (<https://www.cq.gov.cn/>) and noted that such national strategies is one of the main national strategic development plans in the next five year. The “33618” Modern Manufacturing Centralised System refers to the modern manufacturing system that Chongqing City is focused on building. It specifically includes three leading industries, three pillar industries, six characteristic advantage industries, and eighteen “new star” industry clusters. We further noted that these encompass the Group’s main business segments, such as intelligent equipment and intelligent manufacturing, software information services, and high-end equipment manufacturing. Fixed asset investments and potential projects refer to the Group’s strategic plan for 2025 to 2027, which involves seeking suitable target companies for mergers and acquisitions in business areas such as wire and cable, high-precision copper processing, industrial automation control, wind-solar-hydrogen storage resource development and operation, carbon fiber and other materials, and forming machine tools. In view of the above, we consider the Group is well-positioned to seize the opportunities and benefit from the national strategic development plan.

In addition, the proposed annual caps of the Deposit Services provide the Group with the flexibility instead of an obligation to deposit its cash with the Finance Company on terms no less favourable than those offered by the other independent commercial banks in the PRC given that the Group has its sole discretion to decide whether or not to require Deposit Services from the Finance Company. We are of the view that it is fair and reasonable to set the proposed annual caps of the Deposit Services according to the Group’s sales target, so as not to limit the development of the Group’s business in the event that it is able to meet its sales target.

In view of the above and having considered (i) the Aggregate Peak Deposit Balance of approximately RMB5,159 million, RMB5,764 million and RMB6,243 million represents approximately 64.5%, 53.2% and 52.4% of the proposed annual caps of the Deposit Services for the three years ending 31 December 2028, respectively; (ii) the potential sales growth derived from the restructuring of the Parent Group; (iii) the revenue and cash and cash equivalents of the Group are highly correlated to the peak deposit balance, where the revenue growth and cash to revenue ratio in the Schedule are currently estimated on a prudent and reasonable basis; (iv) the potential mergers and acquisitions of the Group which are expected to increase the revenue of the Group; and (v) it is fair and reasonable to set the proposed annual caps of the Deposit Services according to the Group’s sales target, so as not to limit the development of the Group’s business in the event that it is able to meet its sales target, we consider that the proposed annual caps of the Deposit Services for the three years ending 31 December 2028 are not excessive.

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 2028, 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. 2026-2028 Parent Group Financial Services Framework Agreement

a) Reasons for and benefits of entering into the 2026-2028 Parent Group Financial Services Framework Agreement

As disclosed in the Letter from the Board, (a) the entering into of the 2026-2028 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 costs; (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 non-financing guarantee letter services under the 2026-2028 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 of the 2026-2028 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 2026-2028 Parent Group Financial Services Framework Agreement

We have reviewed the 2026-2028 Parent Group Financial Services Framework Agreement and did not note any abnormal terms or material difference between the terms of the Existing Parent Group Financial Services Framework Agreement and the terms of the 2026-2028 Parent Group Financial Services Framework Agreement, save for the change in annual caps.

Pricing standards

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 type and similar period 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 type and similar period for the Parent Group (where banks apply a unified credit policy, i.e., the credit ratings of enterprises within the Parent Group are identical), and submit the results to the Finance Company. The Finance Company will then make the final assessments and determine the final service pricing (i.e., interest rates) provided to the Parent Group by reference to the Parent Group's business risks, comprehensive returns, capital cost of the Finance Company and regulatory indicators and other factors, so as to ensure that the interests on loans provided by the Finance Company to the Parent Group are consistent 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 three loan contracts with highest loan amount between the Parent Group and the Finance Company for each of the three years ended 31 December 2024. All nine loan contracts obtained covered all major and typical types of loans that the Group had during the three years ended 31 December 2024, being the three-month loan, twelve-month loan and three-year loan, and compared against the quotations with two independent commercial banks in the PRC for each loan of similar type. 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 2024 were set at such rates not less than the rates offered by the independent third parties and the Loan Services under the 2026-2028 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 2026-2028 Parent Group Financial Services Framework Agreement (as further discussed in the section headed "5. Internal Control Measures" below), we consider that the terms of the Loan Services under the 2026-2028 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 2024 and the year ending 31 December 2025; and (ii) the proposed annual caps of the Loan Services for the three years ending 31 December 2028 under the 2026-2028 Parent Group Financial Services Framework Agreement.

	For the year ended/ending 31 December			
	2022	2023	2024	2025
The annual cap (<i>RMB in million</i>)	2,754.0	2,842.0	2,946.0	3,056.0
Maximum daily loan balance (including corresponding interest) (<i>RMB in million</i>)	879.7	769.8	812.4	801.1 ^(Note)
Utilisation rate (%)	31.9%	27.1%	27.6%	26.21% ^(Note)

Note: For the three months ended March 2025

	For the year ending 31 December		
	2026	2027	2028
The proposed annual cap (<i>RMB in million</i>)	6,200.0	6,460.0	6,720.0

We have discussed with the Management and were given to understand that according to the Finance Company's planning, the total loan size for 2026-2028 is expected to be approximately RMB2,580 million, RMB3,130 million and RMB3,693 million, respectively, and the corresponding interest is expected to be approximately RMB60.9 million, RMB66.4 million and RMB69.7 million, respectively. Considering that historically, loans issued by the Finance Company to the Parent Group and the corresponding interest have accounted for approximately 35% and 36% (being the average for the three years ended 31 December 2024) of the total loan scale and total interest scale, respectively, it is expected that the Finance Company is expected to provide loan services (including corresponding interest) to the Parent Group amounting to approximately RMB924.9 million in 2026, RMB1,119.4 million in 2027, and RMB1,317.6 million in 2028 (the "**Loan Planning Amount**").

Following the aforementioned completion of the restructuring and integration of the Light Textile Group and the Yufu Group, whereby multiple subsidiaries will be incorporated into the Parent Group, it is expected that the funding demand will be significantly increased. From the discussion with the Management, we noted that 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 size of the loan, the Parent Group may need the loan from the Finance Company to satisfy the capital needs in view of the restructuring and expansion, it is anticipated the funding demand will be increased and hence the estimated loan increment will be RMB2,500 million for the three years ending 31 December 2028. Taking into account of the estimated corresponding interest of approximately RMB59.0 million, RMB53.1 million and RMB47.2 million, the expected loan increment (including corresponding interest) will be approximately RMB2,559.0 million, RMB2,553.1 million and RMB2,547.2 million for the three years ending 31 December 2028, respectively (the "**Loan Increment**").

Having considered that (i) the peak loan balance of the Parent Group and its subsidiaries was 1.35 times their average daily loan value from 2022 to 2024; and (ii) the aggregate of (a) the Loan Planning Amount of approximately RMB924.9 million, RMB1,119.4 million and RMB1,317.6 million for the three years ending 31 December 2028, respectively; and (b) the Loan Increment of approximately RMB2,559.0 million, RMB2,553.1 million and RMB2,547.2 million for the three years ending 31 December 2028, respectively, it is expected that the daily balance of loans (including the corresponding interest) will be approximately RMB4,703.3 million, RMB4,957.9 million and RMB5,217.5 million for the three years ending 31 December 2028, respectively (“**Expected Daily Loan Balance**”).

Taking into consideration (i) that it is expected that approximately RMB1,500 million in external bank loans will be refinanced annually from 2026 to 2028; and (ii) of the Expected Daily Loan Balance of approximately RMB4,703.3 million, RMB4,957.9 million and RMB5,217.5 million for the three years ending 31 December 2028, respectively, the maximum daily balance of loans (including the corresponding interest) is expected to be approximately RMB6,203.3 million, RMB6,457.9 million and RMB6,717.5 million for the three years ending 31 December 2028, respectively. Accordingly, we are of the view that the proposed annual caps of the Loan Services for the three years ending 31 December 2028 are justifiable.

Shareholders should note that the proposed annual caps for Loan Services under the 2026-2028 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 2028, 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 2026-2028 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 Company has established a special department with dedicated personnel in place to monitor and manage the connected transactions. The dedicated personnels are Company’s Audit and Risk Management Committee, which comprises of three Independent Non-executive Directors (Mr. Lo Wah Wai, Mr. Liu Wei and Mr. Ke Rui) and non-executive Director, (Mr. Dou Bo), each of them possesses sufficient knowledge and experience in the Listing Rules and the Company’s operations to monitor and manage the connected transaction;
2. the Audit and Risk Management Committee of the Company department will review the implementation of annual caps and pricing terms for connected transactions on a quarterly basis to ensure full compliance with annual caps and pricing benchmarks; and

3. the Audit and Risk Management Committee of the Company will check the relevant connected transactions amount occurred with the third-party auditors at the half year and at the end of the year, respectively, to ensure that the data is accurate and do not exceed the annual caps.

In this connection, we have obtained and reviewed the relevant records of the special 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 2023 Annual Report and the 2024 Annual Report 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 2026-2028 Group Financial Services Framework Agreement and 2026-2028 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 2026-2028 Group Financial Services Framework Agreement and the 2026-2028 Parent Group Financial Services Framework Agreement semi-annually. The special department of the Company and other subsidiaries in the Group will ensure that the pricing terms under the 2026-2028 Group Financial Services Framework Agreement and the 2026-2028 Parent Group Financial Services Framework Agreement are complied with in every individual agreement entered into thereunder.

Measures specific to 2026-2028 Group Financial Services Framework Agreement and 2026-2028 Parent Group Financial Services Framework Agreement***(a) Capital requirement of the Finance Company***

Pursuant to the relevant regulations set by the NFRA (formerly known as the CBIRC), financial institutions in the PRC have to comply with certain requirements, which include, among other things, the minimum total capital requirement of a capital adequacy ratio of not less than 8.5% as set out by the NFRA. Based on the registered capital of RMB1,000,000,000 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 2026 to 2028 at not less than 15%, which is in compliance with relevant provisions of the NFRA.

(b) Internal control of the Finance Company

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

The Finance Company has established its own credit policies and credit approval procedures for the loan services, bills discounting services and bills acceptance services, which are designed in accordance with the relevant PBOC and NFRA 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, non-financing guarantee letter services and other financial services). The vice chairman, the chairman of the supervisory board of the Finance Company are appointed by the Company to effectively oversee and manage the daily operations of the Finance Company. The Finance Company is a non-bank financial institution approved by the NFRA (formerly known as the CBIRC) and the PBOC. It is also subject to centralized supervision and guidance from the Company's Board of Directors Office, Risk Control Department, Legal and Audit Department, Planning Department, Marketing Department, and Finance Department to ensure its stable operation. In the event of any deficiencies, the Finance Company shall be urged to take rectification measures to comply with relevant standards.

(c) Professional 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 monitor its operational activities. The supervisory committee of the Finance Company shall ensure that the Finance Company complies with relevant regulations and rules while overseeing its operating activities. The credit review committee of the Finance Company adopts a collective decision-making process to provide decision-making recommendations regarding the development of the Finance Company's credit business. The primary function of the credit review committee is to review the opinions of the business department on corporate credit plans and the assessments of the risk review department. The committee, consisting of five members with expertise in finance, risk control and compliance, accounting, and law, shall independently provide their opinions, comprehensively evaluate the operational condition, default risks, reasonableness of capital requirements, and the adequacy of the Finance Company's risk management and control measures. All plans must be submitted to the General Manager for approval.

The Audit and Risk Management Committee of the Company will review the implementation of connected transactions under the 2026-2028 Group Financial Services Framework Agreement and the 2026-2028 Parent Group Financial Services Framework Agreement semi-annually. Save for the risk control measures mentioned above, the 2026-2028 Group Financial Services Framework Agreement has also stipulated following internal control and risk management measures.

Internal Control and Risk Management under the 2026-2028 Group Financial Services Framework Agreement

- (a) The Finance Company and the Company shall establish and enhance their respective risk assessment, risk management, and internal control systems to ensure lawful and compliant operations. They shall implement appropriate risk management measures to prevent the spread of their respective operational risks to the other party.
- (b) The Finance Company undertakes to strictly adhere to the risk monitoring indicator standards for finance companies as promulgated by the NFRA. Key regulatory indicators, including capital adequacy ratio, liquidity ratio, and loan balance, shall meet the requirements of the "Administrative Measures for Finance Companies of Enterprise Groups (《企業集團財務公司管理辦法》)" and other relevant laws and regulations. The Finance Company shall not engage in businesses not approved by the NFRA or conduct any illegal activities.

- (c) The Finance Company shall formulate relevant risk control measures and internal control systems for each financial service and product, ensuring the secure operation of the funds settlement network and safeguarding the fund security and payment needs of the Group and its associates within Finance Company.
- (d) The Company shall have the right to periodically obtain and review the semi-annual and annual financial reports, risk indicators, and other necessary information of the Finance Company. The Finance Company shall cooperate by providing such financial reports, risk indicators, and other requisite information.
- (e) The Finance Company shall promptly inform the Company of its own risk status, actively cooperate with the Company in addressing risks and fulfill corresponding information disclosure obligations, so as to ensure the safety of the Company's funds.

In respect of the internal control measures for the transactions contemplated under the 2026-2028 Group Financial Services Framework Agreement and the 2026-2028 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 2026-2028 Group Financial Services Framework Agreement and the 2026-2028 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 2026-2028 Group Financial Services Framework Agreement and the 2026-2028 Parent Group Financial Services Framework Agreement.

According to 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 8.5%;
- (2) The liquidity ratio shall not be lower than 25%;
- (3) The loan ratio shall not be higher than 80% of the total capital;

- (4) The off-balance sheet liabilities to net equity shall not exceed the net capital;
- (5) The balance of bill acceptance shall not exceed 15% of the total assets;
- (6) The balance of bill acceptance shall not exceed three times the balance of interbank deposits;
- (7) The total amount of bill acceptance and rediscounting shall not exceed the net capital;
- (8) The balance of margin deposits for accepted bills shall not exceed 10% of the total deposits;
- (9) The total investment shall not exceed 70% of the net capital; and
- (10) The net value of fixed assets shall not exceed 20% of the net capital.

For our due diligence purpose, we have obtained and reviewed the financial statements of the Finance Company as at 31 December 2022, 2023 and 2024 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		
	2022	2023	2024
Capital adequacy ratio	30.18%	34.63%	37.08%
Liquidity ratio	48.95%	56.36%	81.47%
Loan ratio	75.29%	53.85%	57.62%
Off-balance sheet liabilities to net equity	Nil	Nil	Nil
Bill acceptance balance/total assets	11.36%	10.90%	11.04%
Bill acceptance balance/deposits with other banks	39.29%	44.39%	52.44%
Total amount of bills accepted and rediscounted/ net capital	44.26%	48.90%	30.44%
Acceptance bill deposit/total deposit amount	Nil	Nil	Nil
Total investment/net capital	10.10%	17.45%	43.10%
Net fixed assets/net capital	0.22%	0.16%	0.14%

Taking into consideration that the Finance Company has historically complied with the Requirements and risk monitoring indicators prescribed by the NFRA, 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 2026-2028 Master Sales Agreement, the 2026-2028 Group Financial Services Framework Agreement and the 2026-2028 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 2026-2028 Master Sales Agreement, the 2026-2028 Group Financial Services Framework Agreement and the 2026-2028 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 2026-2028 Master Sales Agreement, the 2026-2028 Group Financial Services Framework Agreement and the 2026-2028 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 20 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 latest financial year.

The audited consolidated financial statements of the Group together with the relevant notes for each of the three years ended 31 December 2022, 2023 and 2024 have been disclosed in the following documents published on the Stock Exchange's HKEXnews website (www.hkexnews.hk) and the Company's website (<http://www.chinacqme.com>):

- Annual report of the Company for the year ended 31 December 2024 published on 11 April 2025 (<https://www1.hkexnews.hk/listedco/listconews/sehk/2025/0411/2025041100716.pdf>);
- Annual report of the Company for the year ended 31 December 2023 published on 9 April 2024 (<https://www1.hkexnews.hk/listedco/listconews/sehk/2024/0409/2024040900745.pdf>);
- Supplemental announcement in relation to 2022 Annual report of the Company dated 10 October 2023; (<https://www1.hkexnews.hk/listedco/listconews/sehk/2023/1010/2023101000381.pdf>); and
- Annual report of the Company for the year ended 31 December 2022 published on 14 April 2023 (<https://www1.hkexnews.hk/listedco/listconews/sehk/2023/0414/2023041400536.pdf>)

2. STATEMENT OF INDEBTEDNESS**Borrowings**

As at the close of business on 30 April 2025, 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 RMB2,236.10 million, comprising (i) bank loans of RMB2,236.10 million; (ii) other interest-bearing borrowings of RMB0 million (the aforesaid figures are unaudited).

Among the borrowings mentioned above, RMB178.58 million of bank loans are secured. Save as disclosed herein, all borrowings of the Group are unsecured and unguaranteed.

Disclaimer

Save as disclosed above, and apart from intra-group liabilities and normal trade payables, as at the close of business on 30 April 2025, the Group did not have any outstanding, issued and outstanding, authorized, agreed or otherwise created but unissued debt securities, bank overdrafts, other borrowings or other similar indebtedness, liabilities under acceptance (other than normal trade bills) or acceptance credits, debentures, mortgages, charges, lease liabilities, hire purchase commitments, guarantees or 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 and other borrowings, the Directors of the Company are of the opinion that the Group will have sufficient working capital to satisfy its present requirement for at least 12 months from the date of this circular.

4. FINANCIAL AND TRADING PROSPECTS**International and Domestic Review for 2024**

In 2024, the slower growth of the global economy showed a continuation of sluggish recovery trends. The United States (the “U.S.”) economy was in a soft landing cycle with demand cooling down in an orderly manner and supply recovering slowly; the European economy was recovering slowly, with significant disparities in the performance of major member states; Japan’s economic recovery was below expectations and inflation remained at a high level; and other emerging economies, despite the challenges they faced, still recorded positive overall economic performance. In addition, the monetary policies of the European and U.S. central banks have entered their interest rate cutting cycle. The global fiscal policies have returned towards normalization, and international trade and direct investment rebounded. Domestically, China’s economy has maintained overall stability and made steady progress. New quality productive forces have developed steadily and positive progress has been made in preventing and resolving risks in key areas. However, the economic growth was weak due to the impact of a number of factors such as the deep contraction in the real estate market, weak domestic demand and low social expectations. In the second half of the year, China has accelerated its pace to introduce a series of policies to promote the incremental growth of the economy. These targeted policies cover a wide range of areas and positive changes were seen in many areas. Social expectations and market confidence gradually picked up, and the momentum of economic stabilization and recovery continuously strengthened. In 2024, China’s GDP growth rate was 5%, and the total economic output was approximately RMB134.9 trillion.

Results Review of the Group for 2024

In 2024, the Group has overcome many adverse factors such as intensified competition in the industry by actively integrating into the new development pattern, focusing on major national strategies such as green and low-carbon transformation and innovation-driven development and Chongqing's modern manufacturing cluster system of "33618", breaking down traditional industry boundaries and integrating innovative development platforms. The Group has accelerated the adjustment, transformation, upgrading and digital empowerment of traditional industries, carried out research on major technological equipment and industrialization applications of innovation achievements to enhance product added value and market competitiveness, continuously moving towards the high end of the value chain. Simultaneously, the Group continued to optimize in various aspects such as market expansion, brand building, R&D innovation, risk management, talent attraction and sustainable development strategy, improve quality and create efficiency and promote high-quality development. The scientific and technological applications and core competitiveness of the Group have been improved, laying the foundation for the comprehensive completion of the annual goals set by the Board.

Outlook for International and Domestic Situation in 2025

Looking forward to 2025, global economic uncertainties increase, which are mainly associated with the new policies implemented by Donald Trump, the new U.S. President. Trump's new policies focus on aspects such as tariffs, immigration and taxation. Different combinations, sequences and intensity in the implementation of these policies will have different impacts on the U.S. itself, which will in turn affect the fiscal and monetary policies of various countries as well as competition in fields such as technology, trade and supply chain, making the global geopolitical environment more complicated and putting greater pressure on the expectation of and confidence in the growth of the global economy. In the face of exacerbated adverse effects brought about by the changes in the external environment and economic difficulties and challenges, the Chinese government insists on pursuing progress while maintaining stability; promoting stability through progress; adhering to the right path and fostering innovation; and establishing the new before abolishing the old. It will implement more active fiscal policies and moderate monetary easing policies, strengthen extraordinary counter-cyclical adjustment, expand domestic demand on all fronts, promote the integrated development of technological and industrial innovation, stabilize the property and stock markets, prevent and resolve the risks in key areas and external shocks, so as to stabilize the expectations, stimulate the vitality, drive for a sustained upturn of the economy, accomplish the goals and tasks of the "14th Five-Year Plan" with high quality and lay the solid foundation for a good beginning of the "15th Five-Year Plan".

Development Strategies of the Group in 2025

Looking forward to 2025, the Group will fully implement the work requirements of "five reshaping" (i.e. functional reshaping, strategic reshaping, value reshaping, organizational reshaping and cultural reshaping), optimize resource allocation, improve lean management, promote industrial transformation and upgrading, cultivate and consolidate core industries, and highlight value creation and high-quality development.

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 OF DIRECTORS AND CHIEF EXECUTIVE

As at the Latest Practicable Date, so far as was known to the Directors, none of the Directors, chief executive or supervisors of the Company or their respective associates (as defined under the Listing Rules) had any interests or short positions in the Shares, underlying Shares or debt securities of the Company or its associated corporations (within the meaning of Part XV of the SFO) (a) 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 (b) which were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (c) 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 C3 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 (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	Percentage of	Percentage of
					total issued domestic Shares (%)	total issued H Shares (%)	total issued Shares (%)
Chongqing Machinery and Electronic Holding (Group) Co., Ltd.	1,924,225,189	Domestic Shares	Beneficial owner	(1)	74.46 (L)	–	52.22
	92,670,000	H Shares	Beneficial owner	(1)	–	8.42 (L)	2.52
Chongqing Yufu Holding 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 CITIC Financial 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
	92,670,000	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)	Interest in corporation controlled by substantial Shareholders	(4)	7.93 (L)	2.37 (L)
	87,276,000 (P)			7.93 (P)	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 Holding Group Co., Ltd.* (重慶渝富控股集團有限公司) 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 92,670,000 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 CITIC Financial Asset Management Co., Ltd. (formerly known as China Huarong Asset Management Co., Ltd.) 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 CITIC Financial 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, as at the Latest Practicable Date, the Directors are not aware of any persons (other than the Directors, Supervisors and chief executives of the Company) holding any interests or short positions in the Shares or underlying Shares of the Company which were required to be disclosed to the Company and the Stock Exchange pursuant to Divisions 2 and 3 of Part XV of the SFO or which have been recorded in the Register required to be maintained pursuant to section 336 of the SFO.

4. DIRECTORS' AND SUPERVISORS' INTERESTS AND OTHER INTERESTS IN ASSETS AND/OR 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 any member of the Group or are proposed to be acquired or disposed of by or leased to any member of the Group since 31 December 2024, being the date to which the latest published audited consolidated financial statements of the Company were made up.

As at the Latest Practicable Date, none of the Directors and the supervisors of the Company was materially interested in any contract or arrangement which is significant in relation to the business of the Group.

5. SERVICE CONTRACTS

As at the Latest Practicable Date, none of the Directors had any existing or proposed service contracts with any member of the Group which do not expire or are not terminable by relevant members of the Group within one year without payment of compensation (other than statutory compensation).

6. COMPETING INTEREST

Mr. Fu Yihong (a non-executive Director of the Company) currently holds a management position in the Parent Company (the deputy director of the Strategy and Technology Department in the Parent Company). As the Board is independent of the board of directors of Parent Company and Mr. Fu Yihong has no control over the Board, the Group is capable of carrying on its business independently of, and at arm's length from, the business of Parent Company.

Save as disclosed above, as at the Latest Practicable Date, so far as the Directors were aware, none of the Directors or their respective close associates (as defined in the Listing Rules) had any interest in a business (other than the business of the Group) which competes or is likely to compete, either directly or indirectly, with the business 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:

Due to disputes over processing and contracting contracts and product quality, Chongqing Chengfei New Material Co., Ltd. (“**Chengfei Company**”, formerly known as Jilin Chongtong Chengfei New Material Co., Ltd. and renamed in March 2024, a subsidiary controlled by the Company) and its wholly-owned subsidiaries, and Ming Yang Smart Energy Group., Ltd. (“**Ming Yang Company**”) and its wholly-owned subsidiary had previously filed a series of litigations with the Tianjin Binhai New Area People’s Court and the Zhongshan First People’s Court of Guangdong Province respectively.

Recently, Chengfei Company and Ming Yang Company (and their respective relevant subsidiaries) entered into a settlement agreement to settle the aforementioned series of litigations. The settlement is beneficial to the Company’s subsidiaries to recover funds, reduce litigation costs and maintain corporate image, and provide opportunities for further cooperation between both parties in the future. The entering into of the settlement agreement has no material impact on the daily production and operation of the Company.

For details, please refer to the inside information announcement in relation to litigation dated 19 May 2023 and the inside information announcement in relation to updates on litigation dated 28 November 2023 of the Company.

Save as disclosed above, no member of the Group was engaged in any litigation or arbitration of material importance and no litigation or claim of material importance was known to the Directors to be pending or threatened against any member of the Group.

8. MATERIAL ADVERSE CHANGE

As at the Latest Practicable Date, the Directors were not aware of any material adverse change in the financial or trading position of the Group since 31 December 2024, being the date to which the latest published audited consolidated financial statements of the Group were made up.

9. EXPERT'S QUALIFICATION AND CONSENT

The qualification of the expert who has given opinion or advice which is contained in this circular is set out as follows:

Name	Qualification
Lego Corporate Finance	a licensed corporation to carry on Type 6 (advising on corporate finance) regulated activities under the SFO

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.

The letter given by the Independent Financial Adviser is given as of the date of this circular for incorporation herein.

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 2024, being the date to which the latest published audited consolidated 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 direct or indirect 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 the Group within the two years immediately preceding the Latest Practicable Date and is, or may be material:

- (i) On 23 January 2024, the Company, China's Agriculture Development Key Construction Fund Co., Ltd. ("**Agriculture Development Fund**") and Chongqing Gas Compressor Factory Co., Ltd. ("**Gas Compressor Company**") entered into the equity transfer agreement ("**Equity Transfer Agreement 1**"), pursuant to which Agriculture Development Fund agreed to sell and the Company agreed to acquire 35.79% equity interest in Gas Compressor Company held by Agriculture Development Fund at a consideration of RMB67,000,000 ("**Acquisition 1**"). Upon completion of the Acquisition 1, Gas Compressor Company will become a wholly-owned subsidiary of the Company. The Company holds 64.21% equity interest in Gas Compressor Company, and Agriculture Development Fund holds 35.79% equity interest in Gas Compressor Company, which is a substantial shareholder of Gas Compressor Company and a connected person of the Company at the subsidiary level. Accordingly, the Acquisition 1 under the Equity Transfer Agreement 1 constitutes a connected transaction of the Company under Chapter 14A of the Listing Rules. Details of the connected transaction aforementioned have been disclosed in the announcement of the Company dated 23 January 2024.
- (ii) On 29 November 2024, Chongqing General Industry (Group) Co., Ltd. (a wholly-owned subsidiary of the Company) ("**CQGI Group**") and CQMEHG Asset Management Co., Ltd. (a wholly-owned subsidiary of the Controlling Shareholder of the Company (being the Parent Company) ("**Asset Company**") entered into the equity transfer agreement ("**Equity Transfer Agreement 2**"), pursuant to which CQGI Group agreed to acquire and the Asset Company agreed to sell the target equity held by it at a consideration of approximately RMB9,955,600 ("**Acquisition 2**"). CQGI Group holds 40% equity interest in the target company, which is a subsidiary of the Company, whereas the Asset Company directly holds approximately 33.33% equity interest in the target company and is the substantial shareholder of the target company. Meanwhile, CQGI Group is a wholly-owned subsidiary of the Company, and the Asset Company is a wholly-owned subsidiary of the Controlling Shareholder of the Company. Accordingly, all parties under the Equity Transfer Agreement 2 are connected persons of the Company. Therefore, the Acquisition 2 constitutes a connected transaction of the Company under Chapter 14A of the Listing Rules. Details of the connected transaction aforementioned have been disclosed in the announcement of the Company dated 29 November 2024.

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 City, 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 registrar 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 Stock Exchange's HKEXnews website (<http://www.hkexnews.hk>) and the Company's website (<http://www.chinacqme.com>) for the period of 14 days commencing from the date of this circular:

- (i) 2026-2028 Master Sales Agreement;
- (ii) 2026-2028 Group Financial Services Framework Agreement;
- (iii) 2026-2028 Parent Group Financial Services Framework Agreement;
- (iv) the letter from the Independent Board Committee to the Independent Shareholders, the full text of which is set out in pages 48 to 49 of this circular;
- (v) the letter from the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders, the full text of which is set out in pages 50 to 76 of this circular; and
- (vi) the written consent from the Independent Financial Adviser.

* *For identification purposes only*

CANDIDATES FOR DIRECTORS OF THE SEVENTH 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
Yue Xiangjun	48	Executive Director
Qin Shaobo	56	Executive Director
Deng Rui	50	Executive Director
Lei Bin	49	Non-executive Director
Zhu Ying	48	Non-executive Director
Dou Bo	55	Non-executive Director
Cai Zhibin	51	Non-executive Director
Ke Rui	38	Independent Non-executive Director
Liu Lijun	54	Independent Non-executive Director
Pu Huayan	42	Independent Non-executive Director
Wong Chun Wa	50	Independent Non-executive Director

Executive Directors

Mr. Yue Xiangjun (岳相軍), aged 48, is an executive Director, the general manager and deputy secretary of the Party Committee of the Company. Mr. Yue has also served as vice chairman of Chongqing Hitachi Energy Transformer Co., Ltd. (重日立能源變壓器有限公司) from November 2024 to the present, and also served as a director of Chongqing Chengfei New Material Co., Ltd. (重慶成飛新材料股份公司) and Chairman of Chongqing Cummins Engine Co (重慶康明斯發動機有限公司) from July 2024 to the present; he has been a director of Chongqing Machinery & Electronic Intelligent Manufacturing Co., Ltd. (重慶機電智能製造有限公司), the chairman and director of Precision Technologies Group (PTG) Limited (精密技術集團有限公司) (PTG Group), the executive director of PTG Investment Development Company Ltd. (精密技術集團投資發展有限公司) (PTG Hong Kong) since May 2023; he served as the deputy chairman and director of Chongqing Mechanical and Electrical Holding Group Finance Co., Ltd. (重慶機電控股集團財務有限公司), the director of Chongqing General Industry (Group) Co., Ltd. (重慶通用工業(集團)有限責任公司) and the director of Chongqing Industrial Enabling Innovation Center Co., Ltd. (重慶工業賦能創新中心有限公司) since March 2023. Mr. Yue served as the general manager and deputy secretary of the Party Committee of the Company since January 2023. He served as the Party branch secretary and the chairman of Chongqing Machinery & Electronic Intelligent Manufacturing Co., Ltd. and the chairman of Chongqing Unication Electronic Technology Co., Ltd. from February 2021 to March 2023. He also served as the Party branch secretary and the chairman of Chongqing Machinery & Electronic Intelligent Manufacturing Co., Ltd., and the secretary of Party general branch, the chairman and general manager of Chongqing Unication Electronic Technology Co., Ltd. from October 2020 to February 2021. He served as the chairman of Chongqing Machinery & Electronic Intelligent Manufacturing Co., Ltd., and the secretary of Party general branch, the chairman and general manager of Chongqing Unication Electronic Technology Co., Ltd. from July 2020 to October 2020; he served as the secretary of Party general branch and the general manager of Chongqing Unication Electronic Technology Co., Ltd., a director and a vice general manager of

Chongqing Machinery & Electronic Intelligent Manufacturing Co., Ltd. from July 2017 to July 2020, and the general manager and secretary of Party general branch of Chongqing Unication Electronic Technology Co., Ltd. from February 2017 to July 2017. He also served as a vice general manager of Southwest Computer Co., Ltd. from October 2012 to February 2017, the deputy general economist, the head of the business and market department and the director of the Beijing development department of Southwest Computer Co., Ltd. from February 2010 to October 2012, the deputy general economist, the head of the planning and development department and the officer of Beijing development department of Southwest Computer Co., Ltd. from February 2008 to February 2010, the officer of Beijing development department of Southwest Computer Co., Ltd. from January 2005 to February 2008, and the officer of simulation office of information technology institute of Southwest Computer Co., Ltd. from February 2004 to January 2005. Mr. Yue acted as a designer of information technology institute of the State-owned Factory 789 from July 1999 to February 2004. Mr. Yue is a senior engineer, he completed the training and study of the 73rd advanced business management course at School of Economics and Management, Tsinghua University from April 2014 to June 2014. Mr. Yue studied in the Control Engineering Field Major at Beijing Institute of Technology from August 2006 to September 2011 and obtained a master's degree in engineering. He took undergraduate study in the Applied Mathematics Major at the Applied Mathematics Department of Xi'an University of Electronic Science and Technology from August 1995 to July 1999 and obtained a bachelor's degree of science.

Mr. Qin Shaobo (秦少波), aged 56, is an executive Director, a vice general manager and a member of the Party Committee of the Company. Mr. Qin is a senior engineer. He has served as a vice general manager of the Company since June 2018. He has served as the chairman of Chongqing Machine Tools (Group) Co., Ltd. since January 2025. He has also served as the vice chairman of KnorrBremse Commercial Vehicle Systems (Chongqing) Co., Ltd. since July 2024. He served a director of Chongqing CAFF Automotive Braking & Steering System Co., Ltd. since March 2023 and a director of several companies including Chongqing Gas Compressor Factory Co., Ltd. (重慶氣體壓縮機廠有限責任公司), Chongqing Water Turbine Works Co., Ltd., and Chongqing Cummins Engine Co., Ltd. since November 2022. He served as the chairman of Chongqing Industry Empower Innovation Center Co., Ltd. from July 2020 to November 2022, and has served as a director of Chongqing Machine Tools (Group) Co., Ltd. since August 2018. He also served as the standing committee member and deputy secretary of the Chengkou County Committee of Chongqing from April 2015 to June 2018; he successively served as the standing committee member, committee member of government, the director of United Front Work Department and office director of Chongqing Fengdu County Committee from August 2009 to April 2015; he successively served as the deputy chief of High-tech Development and Industrialization Division and the chief of the Education and Training Division of the Chongqing Economic Commission from February 2003 to August 2009; he successively served as the deputy director of the Institute No. 2 of the Development Department No. 2 of the Chongqing Jianshe Industry Group of China North Industries Corporation, the executive deputy director of the National Enterprise Technology Center of China South Industries Group, the vice general manager of Shenzhen North Construction Motorcycle (Chongqing) Manufacturing Company of China South Industries Group and the director of technical quality department of Shenzhen North Jianshe Motorcycle Co., Ltd. of China South Industries Group from July 1997 to February 2003 (during which he studied in the College of Business Administration in Chongqing University from March 1999 to March 2002 and obtained a master's degree in business administration). He was a visiting scholar at the Department of Industrial Design of Beijing Institute of Technology from September 1996 to July 1997; he worked as a technician and engineer in Chongqing Construction Industrial (Group) Co., Ltd. from July 1990 to September 1996.

Mr. Deng Rui (鄧瑞), aged 50, is a vice general manager, the secretary to the Board and the member of the Party Committee of the Company. He has served as a vice general manager of the Company since October 2022. He served as the deputy secretary to the Party Committee and the secretary of the Disciplinary Inspection Committee of the Company from July 2020 to October 2022. He has served as the secretary to the Board since June 2016 and a director of Chongqing Cummins Engine Co., Ltd. since November 2022. He concurrently served as a supervisor of Chongqing Cummins Engine Co., Ltd. from June 2022 to November 2022. He has also served as a director of Chongqing Jiangbei Machinery Co., Ltd. since February 2018. Mr. Deng has served as a director of Chongqing Pigeon Electric Wires & Cables Co. Ltd., and Chongqing Pump Industry Co., Ltd., and concurrently served as the director and deputy chairman of Exedy Chongqing Driving System Co., Ltd. since July 2016. Mr. Deng has been working in human resource and administrative management for a long career with extensive experience in corporate management. He served as the vice minister and minister of the Organization Department of the Party Committee (the Leader Management Department) of Chongqing Machinery and Electrics Holding (Group) Co., Ltd. from June 2012 to March 2017, and the secretary and vice director of Chongqing Machinery and Electric Holding (Group) Co., Ltd. from June 2009 to May 2012. He served as the secretary and head of office of the Company from July 2007 to August 2009, and worked as the secretary and head of the comprehensive management department of securities leading group (證券領導小組綜合管理部) of Chongqing Machinery & Electronics Holding (Group) Co., Ltd. from February 2006 to July 2007, and secretary of the Communist Youth League, the director of promotion division, and deputy workshop supervisor of Chongqing Bearing Industrial Co., Ltd. (重慶軸承工業公司) from May 1998 to February 2006. Mr. Deng is a senior political scientist and graduated from the EMBA Professional Graduate Program in the School of Management of Xiamen University in December 2014 and graduated from Xiamen University, majoring in international economy and trade with a bachelor's degree in January 2013. He graduated from the Correspondence School of the Chongqing Municipal Party School (重慶市委黨校函授學院) in December 2008, majoring in economics and management with a bachelor's degree. He graduated from Department of Chinese Language in Chongqing Normal University (重慶師範大學) with a college degree in 2004 and graduated from Chongqing Machinery & Electric College (重慶機電工程技術學校) in mechanical processing with a technical secondary school education degree in May 1998.

Save as disclosed above, as at the date of this circular, Mr. Yue Xiangjun, Mr. Qin Shaobo and Mr. Deng Rui did not hold any directorships in any other public companies the securities of which are listed on any securities market in Hong Kong or overseas in the past three years and did not hold any other major appointments and qualifications. Other than the directorship in the Company and various subsidiaries of the Company, Mr. Yue Xiangjun, Mr. Qin Shaobo and Mr. Tang Rui do not hold any other positions in the Company or other members of the Group.

Save as disclosed above, Mr. Yue Xiangjun, Mr. Qin Shaobo and Mr. Deng Rui do not have any relationship with any other Directors, senior management, Supervisors, substantial or controlling Shareholders of the Company nor have any of them had any interests in the Shares of the Company within the meaning of Part XV of the SFO as at the Latest Practicable Date.

Subject to the approval of the election at the Annual General Meeting, the Group will enter into service contracts with each of Mr. Yue Xiangjun, Mr. Qin Shaobo and Mr. Deng Rui for their election as executive Directors:

- (a) Mr. Yue Xiangjun, Mr. Qin Shaobo and Mr. Deng Rui are elected as executive Directors for a fixed term of three years commencing from the date of the Annual General Meeting subject to retirement by rotation and re-election at the Annual General Meeting in accordance with the Articles of Association;
- (b) the remuneration of Mr. Yue Xiangjun, Mr. Qin Shaobo and Mr. Deng Rui are determined with reference to their duties and responsibilities with the Company, the remuneration management plan for Directors and supervisors adopted at the 2012 Annual General Meeting and the remuneration management system for senior management of the Company (the “**Management System**”); and
- (c) Pursuant to the Management System, the remuneration of Mr. Yue Xiangjun, Mr. Qin Shaobo and Mr. Deng Rui as executive Directors comprises a base annual salary (Mr. Yue Xiangjun has a base salary of approximately RMB0.4 million per annum (before tax), while Mr. Qin Shaobo and Mr. Deng Rui have a base salary of approximately RMB0.32 million per annum (before tax)), an annual performance-based salary and tenure incentive income, and a transportation allowance. None of Mr. Yue Xiangjun, Mr. Qin Shaobo and Mr. Deng Rui will receive any emoluments from holding other positions in the Company. All the aforesaid emoluments have been included in their service contracts.

Save as disclosed in this circular, there are no other matters relating to the election of Mr. Yue Xiangjun, Mr. Qin Shaobo and Mr. Deng Rui that need to be brought to the attention of the Shareholders of the Company or other information required to be disclosed pursuant to the provisions of Rule 13.51(2) (h) to (v) of the Listing Rules.

Non-executive Directors

Mr. Lei Bin (雷斌), aged 49, is a senior accountant and has been a member of the Party Committee, Chief Financial Officer and Director of Chongqing Machinery and Electronic Holding (Group) Co., Ltd. since December 2024. He was a member of the Party Committee, Chief Financial Officer and director of Chongqing Light Textile Holdings (Group) Company from October 2024 to December 2024. He served as the Deputy Chief Accountant of Qingling Motors (Group) Co., Ltd. and the Chief Financial Officer of Qingling Motors Co. Ltd from February 2020 to October 2024. He was Deputy Chief Accountant and the head of the finance department of Qingling Motors (Group) Co., Ltd. from July 2013 to October 2020; head of Finance Department of Qingling Motors (Holdings) Ltd. from November 2011 to July 2013 (he was concurrently the principal of Chongqing Qingling Casting Company Limited from November 2012 to June 2013). He served as Deputy Head of the Integrated Planning Department of Qingling Motors (Group) Co., Ltd. from December 2005 to November 2011 (during which time he studied accounting at Chongqing Normal University from September 2006 to December 2008). He was the head of the comprehensive planning department of Qingling Motors (Group) Co., Ltd. from February 2005 to December 2005. He served as a price administrator in the comprehensive planning department of Qingling Motors (Group) Co., Ltd. from February 1999 to February 2005. He worked as a planner of the engine manufacturing department of Qingling Motors Co. Ltd. from April 1998 to February 1999. From July 1997 to April 1998, he served as a scheduler in the production and management department of Qingling Motors (Group) Co., Ltd. Mr. Lei studied at Chongqing Normal University with the major of accounting from September 2006 to December 2008, and at Hunan University with the major of international finance from September 1993 to July 1997, and obtained a bachelor's degree in economics.

Ms. Zhu Ying (朱穎), aged 48, a Juris Doctorate degree holder, has been serving as the deputy general manager of Chongqing Yufu Capital Operation Group Co., Ltd. since September 2021. She has served as a director of Chongqing Shangshe (Group) Co., Ltd. and Chongqing Department Store Co., Ltd. since August 2022, and a director of Chongqing Shangshe Business Management Co., Ltd. (重慶商社商業管理有限公司) since October 2021. She held mid-level management position at Chongqing Yufu Capital Operation Group Co., Ltd. from July 2021 to September 2021. She served as the deputy general manager of the business management department of Chongqing Yufu Holding Group Co., Ltd. from July 2020 to July 2021, and head of the risk compliance department of Chongqing Yufu Holding Group Co., Ltd. from April 2020 to July 2020. She served as head of the risk compliance department of Chongqing Yufu Assets Management Group Co., Ltd. from January 2019 to April 2020, deputy head of the risk compliance department of Chongqing Yufu Assets Management Group Co., Ltd. from May 2015 to January 2019 and senior officer of the risk compliance department of Chongqing Yufu Assets Management Group Co., Ltd. from January 2014 to May 2015. She worked at the legal affairs department of Chongqing Yufu Assets Management Group Co., Ltd. from January 2012 to January 2014. She served as a lawyer of Chongqing Kings Attorneys At Law from July 2007 to January 2012 and worked at Luzhou Laojiao Group Co., Ltd. from September 2000 to September 2001. Ms. Zhu studied at School of Law of Chongqing University with the major of the laws of environmental and resource protection from September 2004 to July 2007. She studied at Southwest University of Political Science & Law with the major of law from September 2001 to July 2004 and obtained a master's degree in law. She studied at the Department of Economic Management of Northwest Institute of Textile Technology with the major of industrial foreign trade from September 1996 to July 2000 and obtained a bachelor's degree in engineering.

Mr. Dou Bo (竇波), aged 55, 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 51, has been the assistant to general manager at the Chongqing office of China Huarong Asset Management Co., Ltd. (Current name: China CITIC Financial 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 Subbranch, 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, as at the date of this circular, Mr. Lei Bin, Ms. Zhu Ying, Mr. Dou Bo and Mr. Cai Zhibin did not hold any directorships in any other public companies the securities of which are listed on any securities market in Hong Kong or overseas in the past three years and did not hold any other major appointments and qualifications. Other than the directorship in the Company and various subsidiaries of the Company, Mr. Lei Bin, Ms. Zhu Ying, Mr. Dou Bo and Mr. Cai Zhibin do not hold any other positions in the Company or other members of the Group.

Save as disclosed above, Mr. Lei Bin, Ms. Zhu Ying, Mr. Dou Bo and Mr. Cai Zhibin do not have any relationship with any other Directors, senior management, Supervisors, substantial or controlling Shareholders of the Company nor have any of them had any interests in the Shares of the Company within the meaning of Part XV of the SFO as at the Latest Practicable Date.

Subject to the approval of the election at the Annual General Meeting, the Group will enter into service contracts with each of Mr. Lei Bin, Ms. Zhu Ying, Mr. Dou Bo and Mr. Cai Zhibin for their election as non-executive Directors:

- (a) Mr. Lei Bin, Ms. Zhu Ying, Mr. Dou Bo and Mr. Cai Zhibin are elected as non-executive Directors for a fixed term of three years commencing from the date of the Annual General Meeting subject to retirement by rotation and re-election at the Annual General Meeting in accordance with the Articles of Association;
- (b) the remuneration of Mr. Lei Bin, Ms. Zhu Ying, Mr. Dou Bo and Mr. Cai Zhibin are determined with reference to their duties and responsibilities with the Company, and the Management System; and
- (c) Pursuant to the Management System, the remuneration of Mr. Lei Bin, Ms. Zhu Ying, Mr. Dou Bo and Mr. Cai Zhibin as non-executive Directors is RMB5,000 per month per person; when the Company convenes a regular on-site board meetings, each of external Directors and Supervisors attending the on-site meeting will be provided with transportation fee and meal allowance of RMB2,000 per meeting; when the Company convenes an extraordinary on-site Board meeting, each of external Directors and Supervisors attending the on-site meeting will be provided with transportation fee and meal allowance of RMB1,000 per meeting. None of Mr. Lei Bin, Ms. Zhu Ying, Mr. Dou Bo and Mr. Cai Zhibin will receive any emoluments from holding other positions in the Company. All the aforesaid emoluments have been included in their service contracts.

Save as disclosed in this circular, there are no other matters relating to the election of Mr. Lei Bin, Ms. Zhu Ying, Mr. Dou Bo and Mr. Cai Zhibin that need to be brought to the attention of the Shareholders of the Company or other information required to be disclosed pursuant to the provisions of Rule 13.51(2)(h) to (v) of the Listing Rules.

Independent Non-executive Directors

Mr. Ke Rui (柯瑞), aged 38, has been the deputy dean of the Chongqing Research Institute of HIT since December 2020. From September 2017 to September 2020, he served as the deputy dean of Chengdu Robotics and Intelligent Equipment Industry Technology Research Institute. From July 2014 to August 2017, he served as an engineer at the China Academy of Engineering Physics and the Machinery Manufacture Art and Craft Institute. Mr. Ke has concurrently served as the deputy director of the Expert Decision-making Advisory Committee of Chongqing New Research and Development Institution, the vice chairman of the Building Low-carbon Branch of Chongqing Green Building and Building Industrialization Association, the executive director of the Chongqing Society for Environmental Sciences, and a member of the special committee of Chongqing New Materials Industry Federation since 2022. He has concurrently served as the director of China Chongqing Robot Industry Alliance since 2021. Mr. Ke is a senior engineer. He completed engineering mechanics at Harbin Institute of Technology from September 2010 to July 2014 and obtained a doctoral degree. He completed the professional study of aircraft design at Harbin Institute of Technology from September 2008 to July 2010 and obtained a master's degree. He completed the professional study of aircraft environment and life protection engineering at Harbin Institute of Technology from September 2004 to July 2008 and obtained a bachelor's degree.

Mr. Liu Lijun (劉立軍), aged 54, a doctor of engineering, has been a professor of the School of Energy and Power Engineering and the Dean of Fluid Machinery and Engineering Department at Xi'an Jiaotong University since January 2019. From September 2012 to December 2018, he served as a professor in the School of Energy and Power Engineering and vice director of the Department of Fluid Machinery and Engineering at Xi'an Jiaotong University. He was a professor of the School of Energy and Power Engineering at Xi'an Jiaotong University from April 2007 to August 2012. Mr. Liu served as a postdoctoral fellow, assistant professor and academic researcher at the Graduate School of Applied Science at Kyushu University in Japan from September 2002 to March 2007. He was a Special Foreign Researcher and Postdoctoral Fellow of the Japan Society for the Promotion of Science and Technology (JSPS) at the Department of Mechanical Engineering at Kyushu Institute of Technology in Japan from April 2000 to August 2002. Mr. Liu received his doctorate degree in Engineering from the School of Energy and Power Engineering of Xi'an Jiaotong University with the major of Engineering Thermophysics from September 1995 to June 1999. He obtained his master's degree in Engineering from the School of Energy and Power Engineering of Xi'an Jiaotong University with the major of Engineering Thermophysics from September 1992 to June 1995. He obtained his bachelor's degree from the Department of Mechanical Engineering of Xi'an Jiaotong University with the major of Fluid Machinery September 1988 to July 1992.

Ms. Pu Huayan (蒲華燕), aged 42, is a doctor of electrical mechanical engineering, has been a professor of the National Key Laboratory of High-end Equipment Mechanical Transmission of Chongqing University since January 2023. From September 2011 to December 2022, Ms. Pu was a lecturer, an associate professor and a professor at the School of Electrical and Mechanical Engineering and Automation of Shanghai University. Ms. Pu received her doctorate degree in Mechanical and Electronic Engineering from Huazhong University of Science and Technology from September 2007 to July 2011, her master's degree in Mechanical and Electronic Engineering from Huazhong University of Science and Technology from September 2005 to July 2007, and her bachelor's degree in Electronic Science and Technology from September 2001 to July 2005.

Mr. Wong Chun Wa (王振華), aged 50, is a practising accountant in Hong Kong, a fellow member of the Hong Kong Institute of Certified Public Accountants and the Association of Chartered Certified Accountants in the United Kingdom. Mr. Wong has been the Managing Director of ACT Business Consultants Limited since December 2006. Since April 2008, he has been the Managing Director of RIW C.P.A. Limited. He has served as a Director of Century Foods Ltd.* since April 2015. He was an independent non-executive Director of Chongqing Iron & Steel Company Limited (01053.HK; 601005) from June 2015 to July 2021. Mr. Wong served as an independent non-executive Director and the chairman of the audit committee of China Zhongwang Holdings Limited from August 2008 to October 2021. He was a supervisor of Maanshan Iron & Steel Company Limited (00323.HK; 600808) from August 2011 to November 2017, and an independent non-executive Director and the chairman of the audit committee of Maanshan Iron & Steel Company Limited (00323.HK; 600808) from August 2005 to August 2011. He was the Chief Financial Officer of Sau San Tong Holdings Limited (08200.HK) from December 2004 to December 2005. He worked as a manager at Ernst & Young from February 2001 to December 2004, an assistant manager at KPMG from September 1999 to January 2001. Mr. Wong was a senior auditor at Chu and Chu Certified Public Accountants from July 1996 to August 1999. Mr. Wong studied accounting at the Hong Kong Polytechnic University from 1993 to 1996 and obtained a bachelor's degree in accounting with second class honors (Division I).

Save as disclosed above, as at the date of this circular, Mr. Ke Rui, Mr. Liu Lijun, Ms. Pu Huayan and Mr. Wong Chun Wa did not hold any directorships in any other public companies the securities of which are listed on any securities market in Hong Kong or overseas in the past three years and did not hold any other major appointments and qualifications. Other than the directorship in the Company and various subsidiaries of the Company, Mr. Ke Rui, Mr. Liu Lijun, Ms. Pu Huayan and Mr. Wong Chun Wa do not hold any other positions in the Company or other members of the Group.

Save as disclosed above, Mr. Ke Rui, Mr. Liu Lijun, Ms. Pu Huayan and Mr. Wong Chun Wa do not have any relationship with any other Directors, senior management, Supervisors, substantial or controlling Shareholders of the Company nor had any of them had any interests in the Shares of the Company within the meaning of Part XV of the SFO as at the Latest Practicable Date.

Subject to the approval of the election at the Annual General Meeting, the Group will enter into service contracts with each of Mr. Ke Rui, Mr. Liu Lijun, Ms. Pu Huayan and Mr. Wong Chun Wa for their election as independent non-executive Directors:

- (a) Mr. Ke Rui, Mr. Liu Lijun, Ms. Pu Huayan and Mr. Wong Chun Wa are elected as independent non-executive Directors for a fixed term of three years commencing from the date of the Annual General Meeting subject to retirement by rotation and re-election at the Annual General Meeting in accordance with the Articles of Association;
- (b) the remuneration of Mr. Ke Rui, Mr. Liu Lijun, Ms. Pu Huayan and Mr. Wong Chun Wa are determined with reference to their duties and responsibilities with the Company, and the Management System; and

- (c) Pursuant to the Management System, the remuneration of Mr. Ke Rui, Mr. Liu Lijun, Ms. Pu Huayan as independent non-executive Directors based in the PRC is RMB7,000 per month each, and the remuneration of Mr. Wong Chun Wa as an independent non-executive Director with Hong Kong residency is HK\$13,000 per month each; the Company pays RMB2,000 for transportation fee and meal allowance for each of the external Directors and supervisors attending each of the on-site meetings of the regular Board meetings; and RMB1,000 for transportation fee and meal allowance for each of the interim Directors and Supervisors attending each of the on-site meetings of the interim board of the Company. None of Mr. Ke Rui, Mr. Liu Lijun, Ms. Pu Huayan and Mr. Wong Chun Wa will receive any emoluments from holding other positions in the Company. All the aforesaid emoluments have been included in their service contracts.

Save as disclosed in this circular, there are no other matters relating to the election of Mr. Ke Rui, Mr. Liu Lijun, Ms. Pu Huayan and Mr. Wong Chun Wa that need to be brought to the attention of the Shareholders of the Company or otherwise required to be disclosed pursuant to the provisions of Rule 13.51(2)(h) to (v) of the Listing Rules.

CANDIDATES FOR SUPERVISORS OF THE SEVENTH SESSION OF THE SUPERVISORY COMMITTEE

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

Name	Age	Position
Sun Wenguang	58	Shareholder Supervisor
Wang Haibing	46	Independent Supervisor
Cao Xingquan	52	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 had convened a staff meeting in March 2025 at which the seventh session of Supervisors of staff representatives will be elected. The appointment of the seventh session of Supervisors of staff representatives is not subject to approval by the Shareholders at the AGM.

Mr. Sun Wenguang (孫文廣), aged 58, currently serves 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 the convener of the supervisory committee and supervisor of Chongqing Jilin Chongtong Chengfei New Material Co. (重慶成飛新材料股份公司) since November 2022, 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 ABB Chongqing 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.

Mr. Wang Haibing (王海兵), aged 46, has been an independent supervisor of the Company since June 2019. He is currently a professor and PhD candidate supervisor of the Accounting School of Chongqing University of Technology. He was elected as the high level creative talent of the Fourth "Elite Program" of Banan District, Chongqing in December 2022. 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 Accounting School 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.

Mr. Cao Xingquan (曹興權), aged 52, a professor at Southwest University of Political Science and Law, has been a doctoral tutor of Civil and Commercial Law College of Southwest University of Political Science and Law since September 2003. Mr. Cao has concurrently served as an independent Director of China Construction Industry Group (Yunnan) Co., Ltd. (002265) from August 2023 to the present; and has concurrently served as an independent director of Chongqing Fuling Electric Power Industrial Co., Ltd. (600452) from April 2022 to the present. From September 2016 to September 2017, Mr. Cao was a temporary deputy chief judge of the Fourth Civil Court of the First Intermediate people's court of Chongqing. From March 2011 to March 2014, he served as a deputy head of the postgraduate department and a deputy head of the school discipline construction office of Southwest University of Political Science and Law. From July 1997 to August 2003, he served as a teacher of the legal department of the Party School of Sichuan Provincial Committee. From September 1992 to August 1997, he served as a teacher of Wanhe Middle School in Peng'an County, Sichuan Province. From July 1989 to August 1992, he served as a teacher of Huangping Primary School in Peng'an County, Sichuan Province. Mr. Cao completed the 93th session of independent director training at the Shenzhen Stock Exchange in April 2018. From September 2004 to September 2006, he engaged in post-doctoral research at the Institute of Law of the Chinese Academy of Social Sciences. From September 2000 to January 2004, he completed a major in civil and commercial law and obtained a doctoral degree from Southwest University of Political Science and Law. From September 1997 to July 2000, he completed a major in constitutional and administrative law and obtained a master's degree from Yunnan University. From September 1989 to June 1991, he completed a junior college course in Chinese Language and Literature at Sichuan Normal University.

Save as disclosed above, as at the date of this circular, Mr. Sun Wenguang, Mr. Wang Haibing and Mr. Cao Xingquan did not hold any directorships in any other public companies the securities of which are listed on any securities market in Hong Kong or overseas in the past three years and did not hold any other major appointments and qualifications. Furthermore, they do not hold any other positions in the Company or other members of the Group.

Save as disclosed above, Mr. Sun Wenguang, Mr. Wang Haibing and Mr. Cao Xingquan do not have any relationship with any other Directors, senior management, Supervisors, substantial or controlling Shareholders of the Company nor had any of them had any interests in the Shares of the Company within the meaning of Part XV of the SFO as at the Latest Practicable Date.

Subject to the approval of the election at the Annual General Meeting, the Group will enter into service contracts with each of Mr. Sun Wenguang, Mr. Wang Haibing and Mr. Cao Xingquan for their election as supervisors:

- (a) Mr. Sun Wenguang, Mr. Wang Haibing and Mr. Cao Xingquan are elected as supervisors for a fixed term of three years commencing from the date of the Annual General Meeting subject to retirement by rotation and re-election at the Annual General Meeting in accordance with the Articles of Association;
- (b) the remuneration of Mr. Sun Wenguang, Mr. Wang Haibing and Mr. Cao Xingquan are determined with reference to their duties and responsibilities with the Company, and the Management System; and
- (c) Pursuant to the Management System, the remuneration of Mr. Sun Wenguang as the Chairman of the Board of Supervisors comprises a base annual salary of approximately RMB0.38 million per annum (before tax), an annual performance-based salary and tenure incentive income, and a transportation allowance. The remuneration of Mr. Wang Haibing and Mr. Cao Xingquan as independent Supervisors is RMB5,000 per month each. When the Company convenes on-site meetings of the regular Board of directors, each of the outside Directors and Supervisors attending the on-site meeting is entitled to RMB2,000 for transportation fee and meal allowance; when the Company convenes on-site meetings of the interim Board of Directors, each of the outside Directors and supervisors attending the on-site meeting is entitled to RMB1,000 for transportation fee and meal allowance. None of Mr. Sun Wenguang, Mr. Wang Haibing and Mr. Cao Xingquan will receive any emoluments from holding other positions in the Company. All the aforesaid emoluments have been included in their service contracts.

Save as disclosed in this circular, there are no other matters relating to the election of Mr. Sun Wenguang, Mr. Wang Haibing and Mr. Cao Xingquan that need to be brought to the attention of the Shareholders of the Company or otherwise required to be disclosed pursuant to the provisions of Rule 13.51(2)(h) to (v) of the Listing Rules.

The proposed amendments to the Articles of Association are as follows:

Major amendments comparison table

Before amending	After amending
<p>Article 4</p> <p>The Company's legal representative is the Chairman of the Company.</p>	<p>Article 4</p> <p>The Company's legal representative is <u>the Director (namely the chairman of the Company) who executes the affairs of the Company on behalf of the Company. If the chairman of the Board who serves as the legal representative resigns, he is deemed to have resigned as the legal representative at the same time.</u></p> <p><u>If the legal representative resigns, the Company shall determine a new legal representative within 30 days from the date of the legal representative's resignation.</u></p>
<p>Article 52</p> <p>Holders of ordinary shares of the Company shall have the rights:</p> <p>(1) to claim dividends and distribution of profits in any other form in proportion to the number of shares held;</p> <p>(2) to file a petition according to laws, to convene, hold and attend or to appoint proxy to attend shareholders' general meetings and to vote thereat;</p> <p>(3) to supervise and manage the business activities of the Company and to put forward proposals and raise inquiries;</p> <p>(4) to transfer, donate or pledge the shares he/she held in accordance with laws, administrative regulations and the Articles of Association;</p>	<p>Article 52</p> <p>Holders of ordinary shares of the Company shall have the rights:</p> <p>(1) to claim dividends and distribution of profits in any other form in proportion to the number of shares held;</p> <p>(2) to file a petition according to laws, to convene, hold and attend or to appoint proxy to attend shareholders' general meetings and to vote thereat;</p> <p>(3) to supervise and manage the business activities of the Company and to put forward proposals and raise inquiries;</p> <p>(4) to transfer, donate or pledge the shares he/she held in accordance with laws, administrative regulations and the Articles of Association;</p>

Before amending	After amending
<p>(5) to receive information as provided in the Articles of Association, including:</p> <ol style="list-style-type: none"> 1. copy of the Articles of Association upon payment of the costs thereof; 2. the right to inspect and copy, subject to payment of reasonable charge: <p>all parts of the register of shareholders;</p> <p>personal particulars of the Directors, supervisors, general managers and other senior management member of the Company, including:</p> <ol style="list-style-type: none"> a) present and former forename and surnames and any aliases; b) principal address (domicile); c) nationality; d) occupation and all other part-time occupation and positions; e) identification documents and their number. 	<p>(5) to receive information as provided in the Articles of Association, including:</p> <ol style="list-style-type: none"> 1. copy of the Articles of Association upon payment of the costs thereof; 2. the right to inspect and copy, Articles of Association, the register of members of the Company, counterfoil of debentures, minutes of the general meetings, resolutions passed at the meetings of the Board and the Supervisory Committee, financial statements subject to payment of reasonable charge. <p>(6) other rights conferred by laws, administrative regulations and the Articles of Association.</p>

Before amending	After amending
<p>status of the share capital of the Company;</p> <p>reports showing the total nominal value and number of shares repurchased by the Company since the end of the last financial year, the highest and the lowest prices paid and the aggregate amount paid by the Company in respect of each class of its shares repurchased;</p> <p>Minutes of the general meetings as well as resolutions passed at the meetings of the Board and the Supervisory Committee;</p> <p>counterfoil of debentures of the Company;</p> <p>financial statements;</p> <p>(6) to participate in the distribution of the residual assets of the Company in proportion to the number of shares held in the event of termination or liquidation of the Company;</p> <p>(7) to request the Company to repurchase its shares by the shareholders when they cast votes against the proposal for merger or demerger at the shareholders' general meeting of the Company;</p> <p>(8) other rights conferred by laws, administrative regulations and the Articles of Association.</p> <p>Where any person who directly or indirectly has rights and interests fails to disclose such rights and interests, the Company shall not exercise its rights to freeze or otherwise harm any rights of such person attached to the shares solely for this reason.</p>	

Before amending	After amending
<p>Article 58</p> <p>The powers exercisable by the general meeting are as follows:</p> <p>(1) to decide the Company's operational guidelines and investment schemes;</p> <p>(2) to elect and re-elect the Directors and to determine their remunerations;</p> <p>(3) to elect and re-elect the supervisors who are non-employee representatives and to determine their remunerations;</p> <p>.....</p>	<p>Article 58</p> <p>The powers exercisable by the general meeting are as follows:</p> <p>(1) to elect and re-elect the Directors and to determine their remunerations;</p> <p>(2) to elect and re-elect the supervisors who are non-employee representatives and to determine their remunerations;</p> <p>.....</p>
<p>Article 62</p> <p>If the Company decides to hold a general meeting, shareholders individually or jointly holding 3% or more of the total shares carrying voting right shall be entitled to propose motions in writing to the convener 10 days before the convening of the general meeting. The convener shall dispatch a supplemental notice of the general meeting within 2 days from receipt of the proposal to notify other shareholders and include such proposed motions into the agenda for such general meeting if they are matters falling within the functions and powers of general meeting.</p>	<p>Article 62</p> <p>If the Company decides to hold a general meeting, shareholders individually or jointly holding <u>more than 1% (including 1%)</u> of the total shares carrying voting right shall be entitled to propose motions in writing to the convener 10 days before the convening of the general meeting. The convener shall dispatch a supplemental notice of the general meeting within 2 days from receipt of the proposal to notify other shareholders and include such proposed motions into the agenda for such general meeting if they are matters falling within the functions and powers of general meeting.</p>

Before amending	After amending
<p>Article 65</p> <p>Notice of a general meeting shall:</p> <ol style="list-style-type: none"> (1) be in writing; (2) specify the place, the date and the hour of the meeting; (3) specify the record date for shareholders who are entitled to attend the general meeting; (4) specify the name and telephone number of the contact person; (5) set out the matters to be considered at the meeting; (6) provide shareholders with such information and explanation as necessary for them to make informed decisions on the matters to be considered; This principle includes (but is not limited to) where a proposal is made to amalgamate the Company with another, to repurchase shares, to reorganize the share capital, or to restructure the Company in any other way, the terms of the proposed transaction must be provided in detail together with copies of the proposed agreement, if any, and the cause and effect of such proposal shall be properly explained; 	<p>Article 65</p> <p>Notice of a general meeting shall:</p> <ol style="list-style-type: none"> (1) be in writing; (2) specify the place, the date and the hour of the meeting; (3) specify the record date for shareholders who are entitled to attend the general meeting; (4) specify the name and telephone number of the contact person; (5) set out the matters to be considered at the meeting; (6) contain a striking statement that a shareholder eligible for attending and voting is entitled to appoint one or more proxies to attend and vote on his behalf and that a proxy need not be a shareholder;

Before amending	After amending
<p>(7) disclose the nature and degree of the material interest (if any) of any Director, supervisor, general manager and other senior management members in the matters to be considered; In case that the impact of the matters to be considered on such Director, supervisor, general manager and other senior management members as a shareholder is different from that on other holders of same class of shares, the difference shall be clarified;</p> <p>(8) set out the full text of any special resolution proposed to be approved at the meeting;</p> <p>(9) contain a striking statement that a shareholder eligible for attending and voting is entitled to appoint one or more proxies to attend and vote on his behalf and that a proxy need not be a shareholder;</p> <p>(10) specify the time and place for lodging proxy forms for the relevant meeting.</p>	<p>(7) specify the time and place for lodging proxy forms for the relevant meeting.</p> <p>(8) <u>other contents required to be included by laws and regulations, regulatory requirements, self-regulatory rules, Articles of Association and other relevant regulations.</u></p>
Chapter 9 The Special Voting Procedures of Class Shareholders	No relevant provision after the amendment.

Before amending	After amending
<p>Article 93</p> <p>Shareholders holding different classes of shares are referred to as class shareholders.</p> <p>A class shareholder shall enjoy rights and assume obligations in accordance with laws, administrative regulations and the Articles of Association.</p>	<p>No relevant provision after the amendment.</p>
<p>Article 94</p> <p>Rights conferred on class shareholders may not be varied or abrogated unless approved by way of a special resolution at a general meeting and by the affected class shareholders at a separate shareholders' meeting convened in accordance with Articles 96 to 100.</p>	<p>No relevant provision after the amendment.</p>

Before amending	After amending
<p>Article 95</p> <p>The following circumstances shall be deemed to be a variation or abrogation of the rights of holders of certain class shares:</p> <p>(1) to increase or decrease the number of shares of such class, or to increase or decrease the number of shares of another class having rights on voting, distribution or other privileges equal or superior to those of the shares of such class;</p> <p>(2) to convert all or part of a class of shares into another class, or to convert all or part of another class of shares into that class of shares, or to grant such conversion right;</p> <p>(3) to remove or reduce the rights to accrued dividends or cumulative dividends attached to shares of such class;</p> <p>(4) to reduce or remove a dividend preference or a liquidation preference to distribution of property attached to shares of such class;</p> <p>(5) to add to, remove or reduce the rights to conversion, options, voting, transfer or pre-emptive rights to placement or rights to acquire securities of the Company attached to shares of such class;</p>	<p>No relevant provision after the amendment.</p>

Before amending	After amending
<p>(6) to remove or reduce the rights to receive amounts payable by the Company in particular currencies attached to shares of such class;</p> <p>(7) to create a new class of shares having rights on voting, distribution or other privileges equal or superior to those of the shares of such class;</p> <p>(8) to impose or increase restrictions on the transfer or ownership of the shares of such class;</p> <p>(9) to issue subscription rights or share conversion rights for shares of such class or other classes;</p> <p>(10) to increase the rights and privileges of shares of another class;</p> <p>(11) to restructure the Company where the proposed restructuring scheme will result in different classes of shareholders bearing a disproportionate burden of obligations of such restructuring; and</p> <p>(12) to vary or abrogate the provisions of this chapter.</p>	<p>No relevant provision after the amendment.</p>

Before amending	After amending
<p>Article 96</p> <p>Shareholders of the affected class, whether or not otherwise entitled to vote at the general meetings, shall nevertheless be entitled to vote at the class meetings in respect of matters concerning subparagraphs (2) to (8) and (11) to (12) of Article 95, but interested shareholder(s) shall not be entitled to vote at the class meetings.</p> <p>For the purpose of the preceding paragraph, an “interested shareholder” is:</p> <p>(1) in the case of a repurchase of shares by pro rata offers to all shareholders or through public dealing on a stock exchange under Article 30 of the Articles of Association, a “controlling shareholder” within the meaning of Article 56 in the Articles of Association;</p> <p>(2) in the case of a repurchase of shares under an off-market agreement in accordance with Article 30 of the Articles of Association, a shareholder to whom such agreement relates; and</p> <p>(3) in the case of a restructuring of the Company, a shareholder within a class who bears less than a proportionate burden imposed on other shareholders of that class or who has interests different from those of other shareholders of that class.</p>	<p>No relevant provision after the amendment.</p>

Before amending	After amending
<p>Article 97</p> <p>Resolutions of a class meeting shall be passed by shareholders present at the meeting representing two-thirds or more of the voting rights according to the Article 96.</p>	<p>No relevant provision after the amendment.</p>

Before amending	After amending
<p>Article 98</p> <p>A written notice convening a class meeting shall be given to shareholders whose names appear on the register of shareholders of such class according to the time limit stipulated in the Article 63, specifying the matters proposed to be considered and the date and place of the meeting. The quorum for a class meeting (other than an adjourned meeting) to consider a variation of the rights of any class shares shall be at least one third of the holders of the issued shares of such class.</p> <p>If the number of share carrying voting rights at the meeting represented by the shareholders intending to attend the meeting exceeds half of the total number of shares of such class carrying the voting right at the meeting, the Company may hold the class meeting; Otherwise, the Company shall within 5 days notify the shareholders again, by way of public announcement, of the matters to be considered at, and the place and date for, the meeting before it proceeds to hold the class meeting.</p>	<p>No relevant provision after the amendment.</p>
<p>Article 99</p> <p>Notice of a class meeting need only be served on shareholders entitled to vote thereat.</p> <p>The procedure for a class meeting shall be as similar as possible to that of a general meeting. The provisions of the Articles of Associations which relate to the convening of general meetings shall apply to class meetings.</p>	<p>No relevant provision after the amendment.</p>

Before amending	After amending
<p>Article 100</p> <p>Apart from other class shareholders, holders of domestic-invested shares and overseas listed foreign-invested shares shall be deemed to be shareholders of different classes.</p> <p>The special voting procedures for class meetings do not apply to the following circumstances:</p> <p>(1) where the Company issues, upon approval by a special resolution of its shareholders in a general meeting, either separately or concurrently once every twelve months, not more than twenty per cent of each of the existing issued domestic-invested shares and overseas listed foreign-invested shares of the Company;</p> <p>(2) where the Company's plan to issue domestic-invested shares and overseas listed foreign-invested shares on establishment is implemented within fifteen months from the date of approval by the securities regulatory authority of the State Council.</p>	<p>No relevant provision after the amendment.</p>

Before amending	After amending
<p>Article 101</p> <p>The Party Committee and discipline inspection committee of the Company shall perform their duties in accordance with the Constitution of the Communist Party of China and the relevant regulations of the Party and shall each serve a term of five years, which shall be re-elected on time upon expiry of its term of office.</p> <p>No relevant provision before the amendment.</p>	<p><u>Article 93</u></p> <p><u>Pursuant to the Constitution of the Communist Party of China and Regulations on the Work of Communist Party Grassroots Organizations of the State-owned Enterprises (Trial Implementation), and with the approval of the superior Party organization, the China Communist Party committee of Chongqing Machinery & Electric Co., Ltd.* is established. At the same time, the discipline inspection committee of the Party was established pursuant to the relevant provisions.</u></p> <p><u>The Party Committee of the Company is elected on the general meeting of the Party members or the Party members' representatives, and each term of office shall generally be 5 years. A re-election shall be held on a regular basis upon the expiration of the term of office. The term of office of the Party's discipline inspection committee is the same as that of the Party Committee.</u></p>
<p>No relevant provision before the amendment.</p>	<p><u>Article 95</u></p> <p>The leadership team of the Party Committee of the Company generally consists of 5 to 9 members, not more than 10 members, with a Party Committee secretary and 2 or 1 deputy Party Committee secretary.</p>

Before amending	After amending
<p data-bbox="204 325 320 353"><u>Article 103</u></p> <p data-bbox="204 400 783 619">The Party Committee of the Company shall play a leading role, supervising the Company's direction of development, monitoring the whole picture and ensuring implementation, discussing and making decisions on significant matters of the Company in accordance with the regulations. The main responsibilities are:</p> <ol data-bbox="204 666 783 1896" style="list-style-type: none"> <li data-bbox="204 666 783 1034">(1) to enhance the political construction of the Party in the Company, adhere to and implement the fundamental system, basic system and important system of socialism with Chinese characteristics as well as educate and guide all the Party members to maintain a high degree of consistency with the Party Central Committee with Comrade Xi Jinping as the core in the political stance, political direction, political principles and political path; <li data-bbox="204 1081 783 1406">(2) to thoroughly study and implement Xi Jinping's Socialism Ideology with Chinese characteristics in the new era, learn and propagate the Party's theory, thoroughly implement the Party's line, principles and policies as well as supervise and guarantee the implementation of major strategy deployments of the Party Central Committee as well as the resolutions of the Party organization at a higher level in the Company; <li data-bbox="204 1453 783 1672">(3) to investigate and discuss the significant operation and management matters of the Company and support the shareholders, the Board of Directors, the Supervisory Committee and the management to exercise their rights and perform their duties in accordance with the laws; <li data-bbox="204 1719 783 1896">(4) to strengthen the leadership and gatekeeping role in the process of selection and appointment of personnel of the Company, and the building of the leading team, cadre and talents team of the Company; 	<p data-bbox="813 325 922 353"><u>Article 96</u></p> <p data-bbox="813 400 1393 619">The Party Committee of the Company shall play a leading role, supervising the Company's direction of development, monitoring the whole picture and ensuring implementation, discussing and making decisions on significant matters of the Company in accordance with the regulations. The main responsibilities are:</p> <ol data-bbox="813 666 1393 1896" style="list-style-type: none"> <li data-bbox="813 666 1393 1034">(1) to enhance the political construction of the Party in the Company, adhere to and implement the fundamental system, basic system and important system of socialism with Chinese characteristics as well as educate and guide all the Party members to maintain a high degree of consistency with the Party Central Committee with Comrade Xi Jinping as the core in the political stance, political direction, political principles and political path; <li data-bbox="813 1081 1393 1406">(2) to thoroughly study and implement Xi Jinping's Socialism Ideology with Chinese characteristics in the new era, learn and propagate the Party's theory, thoroughly implement the Party's line, principles and policies as well as supervise and guarantee the implementation of major strategy deployments of the Party Central Committee as well as the resolutions of the Party organization at a higher level in the Company; <li data-bbox="813 1453 1393 1672">(3) to investigate and discuss the significant operation and management matters of the Company and support the shareholders, the Board of Directors, the Supervisory Committee and the management to exercise their rights and perform their duties in accordance with the laws; <li data-bbox="813 1719 1393 1896">(4) to strengthen the leadership and gate keeping role in the process of selection and appointment of personnel of the Company, and the building of the leading team, cadre and talents team of the Company;

Before amending	After amending
<p>(5) to undertake the main responsibility in improving the Party's conduct and upholding integrity, lead and support discipline inspection institutions to fulfil their supervisory and disciplining responsibilities as well as exercise strict administrative discipline and political rules and promote the Party's self-governance fully and with rigor into the grassroots level;</p> <p>(6) to strengthen the building of grassroot Party organizations and teams of Party members, unite and lead officials and employees to devote themselves into the reform and development of the Company;</p> <p>(7) to lead the Company's ideological and political work, the spirit and civilization progress, the united front work and lead mass organizations such as the Labour Union, Communist Youth League and Women's Organization of the Company.</p>	<p>(5) to undertake the main responsibility in improving the Party of the Company's conduct and upholding integrity, lead and support discipline inspection institutions to fulfil their supervisory and disciplining responsibilities as well as exercise strict administrative discipline and political rules and promote the Party's self-governance fully and with rigor into the grassroots level;</p> <p>(6) to strengthen the building of grassroot Party organizations and teams of Party members, unite and lead officials and employees to devote themselves into the reform and development of the Company;</p> <p>(7) to lead the Company's ideological and political work, the spirit and civilization progress, the united front work and lead mass organizations such as the Labour Union, Communist Youth League and Women's Organization of the Company;</p> <p><u>(8) to conduct inspection as needed, establish inspection body, and, in principle, carry out inspection and supervision over the subordinate Party organizations in accordance with the Party's organizational hierarchy and the authority over cadre management;</u></p> <p><u>(9) to discuss and decide on other important matters within the scope of duties of the Party Committee.</u></p>

Before amending	After amending
<p data-bbox="204 325 336 353">Article 105</p> <p data-bbox="204 393 783 457">The Party Committee shall consider and make important decisions on the followings:</p> <p data-bbox="204 495 783 623">(1) major measures in carrying out the directions and policies of the Party by the Company and important decisions made by Party organizations of a higher level;</p> <p data-bbox="204 661 783 857">(2) political construction, ideological construction, organization construction, work style construction, discipline construction, system construction, anti-corruption work and other aspect of Party of the Company;</p> <p data-bbox="204 895 783 1155">(3) confirming personnel appointment and removal, reward and punishment of the Company within the administrative authority, or recommending candidates to the Board or general manager according to certain procedures, considering and providing opinions and advice on the nominated candidates;</p> <p data-bbox="204 1193 783 1257">(4) important matters in relation to supervision and rectification, inspection and audit;</p> <p data-bbox="204 1295 783 1402">(5) important matters in relation to the Party's management of talents, united front work and mass organization;</p> <p data-bbox="204 1440 783 1547">(6) important matters to be consulted with and reported to the higher Party organizations of a higher level;</p> <p data-bbox="204 1585 783 1649">(7) other matters to be considered and decided by the Party Committee.</p>	<p data-bbox="813 325 1310 353">No relevant provision after the amendment.</p>

Before amending	After amending
<p>Article 106</p> <p>The Party Committee shall conduct preliminary studies and discussion on the following material matters:</p> <p>(1) thorough implementation of the decisions and deployments of the Party Central Committee and important measures of national development strategies;</p> <p>(2) the development strategies, mid to long term development plans and important reform proposals of the Company;</p> <p>(3) principal and directional matters in respect of the asset restructuring, asset transfer, capital operation and significant investment of the Company;</p> <p>(4) the establishment of and adjustment to the Company's organizational structure and the formulation and modification of the Company's important rules and regulations;</p> <p>(5) important matters regarding the Company's safe production, maintenance of stability, interests of staff and social responsibilities;</p> <p>(6) other material matters required to be studied and decided by the Party Committee.</p>	<p>No relevant provision after the amendment.</p>

Before amending	After amending
<p data-bbox="204 325 309 353">Article 107</p> <p data-bbox="204 391 783 453">Major procedures for the Party Committee to conduct preliminary studies and discussion:</p> <ol data-bbox="204 487 783 1832" style="list-style-type: none"> <li data-bbox="204 487 783 1064">(1) Prior consideration by the Party Committee. The Party Committee shall convene meetings of the Party Committee to provide opinions and advice on the matters requiring preliminary studies and discussion. In the event that the Party Committee finds the matters proposed to be considered and decided by the Board of Directors and the management are not in conformity with the policies of the Party and the State's laws and regulations, or which may undermine the interests of the State and the public or the legitimate interests of the Company and its employees, it shall suggest withdrawing or suspending the proposed matters. If the Party Committee considers that other material matters are required to be decided by the Board of Directors and the management, such material matters may be proposed to the Board of Directors and the management by the Party Committee. <li data-bbox="204 1098 783 1385">(2) Communication before the meeting. Members of the Party Committee who also serve as members of the Board of Directors and the management (especially the Chairman of the Board of Directors or the general manager) shall communicate with other members of the Board of Directors and the management regarding the relevant advice and recommendations of the Party Committee before submitting the proposals to the Board of Directors or general manager's office. <li data-bbox="204 1419 783 1608">(3) Expression during the meeting. Members of the Party Committee who also serve as members of the Board of Directors and the management shall fully express their advice and recommendations to the Party Committee during the decision-making process of the Board of Directors and the management. <li data-bbox="204 1642 783 1832">(4) Reporting after the meeting. Members of the Party Committee who also serve as members of the Board of Directors and the management shall report to the Party Committee in respect of the decisions of the Board of Directors and the management in a timely manner. 	<p data-bbox="813 325 919 353"><u>Article 97</u></p> <p data-bbox="813 391 1393 704"><u>Formulate a list of matters for the Communist Party Committee for study and discussion of major operation and management issues in advance pursuant to relevant regulations. Major operation and management issues must be studied and discussed by the Party Committee in advance before being decided by the Board or other bodies in accordance with their authority and prescribed procedures. The major procedures for the Communist Party Committee's research and discussion in advance are as follows:</u></p> <ol data-bbox="813 738 1393 1959" style="list-style-type: none"> <li data-bbox="813 738 1393 1257">(1) Prior consideration by the Party Committee. The Party Committee shall convene meetings of the Party Committee to provide opinions and advice on the matters requiring preliminary studies and discussion. In the event that the Committee Party finds the matters proposed to be considered and decided by the Board of Directors are not in conformity with the policies of the Party and the State's laws and regulations, or which may undermine the interests of the State and the public or the legitimate interests of the Company and its employees, it shall suggest withdrawing or suspending the proposed matters. If the Party Committee considers that other material matters are required to be decided by the Board of Directors, such material matters may be proposed to the Board of Directors by the Party Committee. <li data-bbox="813 1291 1393 1578">(2) Communication before the meeting. Members of the Party Committee who also serve as members of the Board of Directors (especially the Chairman of the Board of Directors or the general manager) shall communicate with other members of the Board of Directors regarding the relevant advice and recommendations of the Party Committee before submitting the proposals to the Board of Directors or general manager's office. <li data-bbox="813 1613 1393 1768">(3) Expression during the meeting. Members of the Party Committee who also serve as members of the Board of Directors shall fully express their advice and recommendations to the Party Committee during the decision-making process of the Board of Directors. <li data-bbox="813 1802 1393 1959">(4) Reporting after the meeting. Members of the Party Committee who also serve as members of the Board of Directors shall report to the Party Committee in respect of the decisions of the Board of Directors in a timely manner.

Before amending	After amending
<p>Article 112</p> <p>The Board report to general meetings and exercise the following powers:</p> <p>(1) to convene the general meetings and report its work to the general meeting;</p> <p>(2) to implement resolutions of the general meetings;</p> <p>(3) to decide on the operational plan and investment proposal of the Company;</p> <p>.....</p>	<p><u>Article 100</u></p> <p>The Board report to general meetings and exercise the following powers:</p> <p>(1) to convene the general meetings and report its work to the general meeting;</p> <p>(2) to implement resolutions of the general meetings;</p> <p>(3) to decide on the operational plan and investment proposal <u>and plan</u> of the Company;</p> <p>.....</p>
<p>Article 122</p> <p>.....</p> <p>If any Director is associated with the enterprises that are involved in the matters to be resolved at the Board meetings, he/she shall not exercise his voting rights for such matters, nor shall such Director exercises voting rights on behalf of other Directors. Such Board meeting may be convened with attendance of more than half of non-connected Directors, and resolutions shall be passed by more than half of non-connected Directors at the Board meeting. If the number of non-connected Directors attending the Board meetings is less than three, such matters shall be submitted to the general meeting of the Company for approval.</p>	<p><u>Article 110</u></p> <p>.....</p> <p>If any Director is associated with the enterprises <u>or individuals</u> that are involved in the matters to be resolved at the Board meetings, <u>such Director shall promptly submit a written report to the Board of Directors. The associated Director</u> shall not exercise his voting rights for such matters, nor shall such Director exercises voting rights on behalf of other Directors. Such Board meeting may be convened with attendance of more than half of non-connected Directors, and resolutions shall be passed by more than half of non-connected Directors at the Board meeting. If the number of non-connected Directors attending the Board meetings is less than three, such matters shall be submitted to the general meeting of the Company for approval.</p>
<p>Article 139</p> <p>.....</p> <p>Each supervisor has a ballot of voting right. Resolutions of the supervisory committee shall be approved by two-thirds or more of its members.</p>	<p><u>Article 127</u></p> <p>.....</p> <p><u>Resolutions of the supervisory committee shall be approved by a simple majority of all supervisors. Voting on resolutions of the supervisory committee shall be conducted on a one-person-one-vote basis.</u></p>

Before amending	After amending
<p>Article 145</p> <p>A person in any of the following circumstances may not serve as the Company's Director, supervisor, general manager and other senior management members:</p> <ol style="list-style-type: none"> (1) a person who does not have or who has limited capacity for civil conduct; (2) a person who has been found guilty for corruption, bribery, infringement of property or misappropriation of property or other crimes which destroy the social economic order, and has been the subject of the sentence for which not more than five (5) years have lapsed since the sentence was served, or a person who has been deprived of his political rights and not more than five (5) years have lapsed since the sentence was served; (3) a person who is a former director, factory manager or president of a company or enterprise which has been dissolved or put into liquidation and who was personally liable for the winding up of such company or enterprise, where no more than three (3) years have elapsed since the date of completion of the insolvent liquidation of the company or enterprise; (4) a person who is a former legal representative of a company or enterprise the business license of which was revoked due to violation of law and who is personally liable for such revocation, where no more than three (3) years have elapsed since the date of the revocation of the business license; 	<p><u>Article 133</u></p> <p>A person in any of the following circumstances may not serve as the Company's Director, supervisor, general manager and other senior management members:</p> <ol style="list-style-type: none"> (1) a person who does not have or who has limited capacity for civil conduct; (2) a person who has been found guilty for corruption, bribery, infringement of property or misappropriation of property or other crimes which destroy the social economic order, and has been the subject of the sentence for which not more than five (5) years have lapsed since the sentence was served, or a person who has been deprived of his political rights and not more than five (5) years have lapsed since the sentence was served; <u>or a person who has been pronounced on probation and not more than two (2) years have lapsed since from the date of the expiration of the probationary period;</u> (3) a person who is a former director, factory manager or president of a company or enterprise which has been dissolved or put into liquidation and who was personally liable for the winding up of such company or enterprise, where no more than three (3) years have elapsed since the date of completion of the insolvent liquidation of the company or enterprise; (4) a person who is a former legal representative of a company or enterprise the business license of which was revoked due to violation of law and who is personally liable for such revocation, where no more than three (3) years have elapsed since the date of the revocation of the business license <u>and being ordered to close;</u>

Before amending	After amending
<p>(5) a person who holds a relatively large amount of debts which have fallen due and outstanding;</p> <p>(6) a person who is currently under investigation by the judicial authorities for violation of criminal law, and the legal procedures are pending;</p> <p>(7) a person who, according to laws and administrative regulations, cannot act as a leader of an enterprise;</p> <p>(8) a person other than a natural person;</p> <p>(9) a person who has been adjudged by the competent authority for violation of relevant securities regulations and such conviction involves a finding that such person has acted fraudulently or dishonestly, where not more than five (5) years have lapsed from the date of such conviction.</p>	<p>(5) a person who holds a relatively large amount of debts which have fallen due and outstanding <u>and is listed as a dishonest person subject to enforcement by the people's court;</u></p> <p>(6) a person who is currently under investigation by the judicial authorities for violation of criminal law, and the legal procedures are pending;</p> <p>(7) a person who, according to laws and administrative regulations, cannot act as a leader of an enterprise;</p> <p>(8) a person other than a natural person;</p> <p>(9) a person who has been adjudged by the competent authority for violation of relevant securities regulations and such conviction involves a finding that such person has acted fraudulently or dishonestly, where not more than five (5) years have lapsed from the date of such conviction.</p>
<p>Article 171</p> <p>.....</p> <p>If the general meeting or the Board violates the provisions in the preceding paragraph of this Article and profits are distributed to the shareholders before the Company makes up losses or makes allocations to the statutory reserve fund, the profits distributed in violation of the provisions must be returned to the Company.</p>	<p><u>Article 159</u></p> <p>.....</p> <p><u>If the Company violates the provisions in the preceding paragraph of this Article and profits are distributed to the shareholders, the profits distributed in violation of the provisions shall be returned to the Company by the Shareholders; if losses are caused to the Company, the shareholders and responsible Directors, supervisors and senior management personnel shall be liable for compensation.</u></p>

Before amending	After amending
<p data-bbox="204 325 336 353">Article 193</p> <p data-bbox="204 400 783 506">The merger of the Company may take the form of either merger by absorption or merger by the establishment of a new company.</p> <p data-bbox="204 551 783 1144">In the event of a merger, the parties to the merger shall enter into a merger agreement and prepare balance sheets and inventories of assets. The Company shall notify its creditors within ten (10) days after the date of the Company's resolution on merger and shall make announcements for three times in China Securities Journal or other national newspapers in PRC within thirty (30) days after the date of the Company's resolution on merger. Creditors may, within thirty (30) days after receipt of such notice from the Company, or within forty-five (45) days after the date of the newspapers announcement for those who do not receive such notice, to demand that the Company repay their debts to that creditor or provide a corresponding guarantee for such debts.</p>	<p data-bbox="813 325 946 353"><u>Article 181</u></p> <p data-bbox="813 400 1393 506">The merger of the Company may take the form of either merger by absorption or merger by the establishment of a new company.</p> <p data-bbox="813 551 1393 1178">In the event of a merger, the parties to the merger shall enter into a merger agreement and prepare balance sheets and inventories of assets. The Company shall notify its creditors within ten (10) days after the date of the Company's resolution on merger and shall make announcements for three times in newspapers <u>or the National Enterprise Credit Information Publicity System</u> within thirty (30) days after the date of the Company's resolution on merger. Creditors may, within thirty (30) days after receipt of such notice from the Company, or within forty-five (45) days after the date of the newspapers announcement for those who do not receive such notice, to demand that the Company repay their debts to that creditor or provide a corresponding guarantee for such debts.</p>

Before amending	After amending
<p>Article 196</p> <p>The Company shall be dissolved and liquidated upon the occurrence of any of the following events:</p> <ol style="list-style-type: none"> (1) a resolution on dissolution is passed by shareholders at a general meeting; (2) dissolution is necessary due to a merger or demerger of the Company; (3) the Company is legally declared bankrupt due to its failure to repay debts due; (4) the Company's business license is revoked or it is ordered to close down or it is cancelled according to law due to the violation of laws and administrative regulations; (5) the Company is dissolved by the people's court in accordance with Article 183 of the Company Law. 	<p><u>Article 184</u></p> <p>The Company shall be dissolved and liquidated upon the occurrence of any of the following events:</p> <ol style="list-style-type: none"> (1) a resolution on dissolution is passed by shareholders at a general meeting; (2) dissolution is necessary due to a merger or demerger of the Company; (3) the Company is legally declared bankrupt due to its failure to repay debts due; (4) the Company's business license is revoked or it is ordered to close down or it is cancelled according to law due to the violation of laws and administrative regulations; (5) the Company is dissolved by the people's court in accordance with <u>Article 231</u> of the Company Law. <p><u>If the Company is dissolved for any of the reasons set forth in the preceding paragraph, it shall, within ten (10) days, make public the reasons for dissolution through the National Enterprise Credit Information Publication System.</u></p>

Before amending	After amending
<p>Article 197</p> <p>Where the Company is dissolved under subparagraphs (1), (4) and (5) of the preceding Article, a liquidation committee shall be set up within fifteen (15) days of the occurrence of the dissolution events, and its members shall be determined by shareholders at a general meeting by way of ordinary resolution. If a liquidation committee is not set up within the specified period to carry out liquidation procedures, creditors may apply to the people's court for appointment of relevant persons to form a liquidation committee so as to proceed with the liquidation.</p> <p>Where the Company is dissolved under subparagraph (2) of the preceding Article, the liquidation shall be transacted by the parties involved in merger or demerger in accordance with the contract entered into at the time of merger or demerger.</p> <p>Where the Company is dissolved pursuant to subparagraph (3) of the preceding Article, the people's court shall, according to the relevant laws, organise to form a liquidation committee comprising the shareholders, relevant authorities and relevant professionals to carry out liquidation procedures.</p>	<p><u>Article 185</u></p> <p>Where the Company is dissolved under subparagraphs (1), (2), (4) and (5) of the preceding Article, <u>it shall be liquidated. The directors are the Company's liquidators and shall set up</u> a liquidation committee <u>to carry out the liquidation</u> within fifteen (15) days of <u>the occurrence of the dissolution events. The liquidation committee shall consist of the directors, unless otherwise provided in the articles of association or the general meeting elects another person.</u> If a liquidation committee is not set up within the specified period to carry out liquidation procedures, the stakeholders may apply to the people's court for appointment of relevant persons to form a liquidation committee so as to proceed with the liquidation.</p> <p><u>If a liquidation obligor fails to fulfill its liquidation obligations in a timely manner and causes losses to the Company or its creditors, it shall be liable for compensation.</u></p> <p>Where the Company is dissolved under subparagraph (2) of the preceding Article, the liquidation shall be transacted by the parties involved in merger or demerger in accordance with the contract entered into at the time of merger or demerger.</p> <p>Where the Company is dissolved pursuant to subparagraph (3) of the preceding Article, <u>the department that made the decision to revoke the business license, ordered the closure or revocation or the company registration authority may apply to a people's court to appoint relevant persons to form a liquidation committee for liquidation.</u></p>

Note: The final revision is subject to the approval and filing by the market supervisory and management department.

**CQME****Chongqing Machinery & Electric Co., Ltd.*****重慶機電股份有限公司***(a joint stock limited company incorporated in the People's Republic of China with limited liability)**(Stock Code: 02722)***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, 12 June 2025 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 of 2024;
2. To consider and approve the report of the supervisory committee of the Company (the “**Supervisory Committee**”) for the year of 2024;
3. To consider and approve the audited financial statements of the Company and its subsidiaries and the auditor’s report for the year of 2024;
4. To consider and approve the annual final accounts plan of the Company for the year of 2024;
5. To consider and approve the profit appropriation proposal of the Company for the year of 2024 and the declaration of the final dividend of RMB0.035 per share (tax inclusive);
6. To consider and approve the 2025 annual budget plan 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 2025 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 2025 interim financial report and 2025 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 23 April 2025 (the “**2026-2028 Master Sales Agreement**”) and the transactions contemplated thereunder as well as the proposed annual caps for such transactions for the three years ending 31 December 2028; 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 2026-2028 Master Sales Agreement and the transactions contemplated thereunder, 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 financial services framework agreement entered into between the Company and Chongqing Machinery and Electric Holding (Group) Finance Co., Ltd. on 23 April 2025 (the “**2026-2028 Group Financial Services Framework Agreement**”) and the transactions in respect of the deposit services contemplated thereunder as well as the proposed annual caps for such transactions for the three years ending 31 December 2028; 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 2026-2028 Group Financial Services Framework Agreement and the transactions in respect of the deposit services contemplated thereunder, 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 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 23 April 2025 (the “**2026-2028 Parent Group Financial Services Framework Agreement**”) and the transactions in respect of the loan services contemplated thereunder as well as the proposed annual caps for such transactions for the three years ending 31 December 2028 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 2026-2028 Parent Group Financial Services Framework Agreement and the transactions in respect of the loan services contemplated thereunder, 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. Yue Xiangjun 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 determine the remuneration of Mr. Yue Xiangjun pursuant to the Administrative Measures on Directors’ and Supervisors’ Remuneration and the remuneration management system for senior management of the Company 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 Mr. Qin Shaobo 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 determine the remuneration of Mr. Qin Shaobo pursuant to the Administrative Measures on Directors' and Supervisors' Remuneration and the remuneration management system for senior management of the Company 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;
13. To consider and approve the appointment of Mr. Deng Rui 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 determine the remuneration of Mr. Deng Rui pursuant to the Administrative Measures on Directors' and Supervisors' Remuneration and the remuneration management system for senior management of the Company 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. Lei Bin 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 determine the remuneration of Mr. Lei Bin 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. Zhu Ying 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 determine the remuneration of Ms. Zhu Ying 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;
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 determine 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 determine 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. Ke Rui 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 determine the remuneration of Mr. Ke Rui 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. Liu Lijun 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 determine the remuneration of Mr. Liu Lijun 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 Ms. Pu Huayan 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 determine the remuneration of Ms. Pu Huayan 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;
21. To consider and approve the appointment of Mr. Wong Chun Wa 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 determine the remuneration of Mr. Wong Chun Wa 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 determine the remuneration of Mr. Sun Wenguang pursuant to the Administrative Measures on Directors' and Supervisors' Remuneration and the remuneration management system for senior management of the Company 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 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 determine 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;
24. To consider and approve the appointment of Mr. Cao Xingquan 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 determine the remuneration of Mr. Cao Xingquan 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 provision of guarantee by the Group for the financing of its subsidiaries;

SPECIAL RESOLUTION

26. To consider and approve the proposed amendments to the Articles of Association;
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 equity structure of the Company.”

By Order of the Board

Chongqing Machinery & Electric Co., Ltd.*

Yue Xiangjun

Executive Director and General Manager

(performing duties and powers of the chairman of the Board)

Chongqing, the PRC
22 May 2025

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 Monday, 9 June 2025 to Thursday, 12 June 2025, 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 Friday, 6 June 2025.
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, 18 June 2025 to Wednesday, 25 June 2025, 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, 17 June 2025.

As at the date of the notice, the executive Directors are Mr. Yue Xiangjun and Mr. Qin Shaobo; the non-executive Directors are Mr. Fu Yihong, Ms. Zhu Ying, Mr. Dou Bo and Mr. Cai Zhibin; and the independent non-executive Directors are Mr. Lo Wah Wai, Mr. Ren Xiaochang, Mr. Liu Wei and Mr. Ke Rui.