
THIS DOCUMENT IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

If you are in any doubt as to any aspect of the Merger, this document or as to the action to be taken, you should consult a licensed securities dealer or other registered institution in securities, a bank manager, solicitor, professional accountant or other professional adviser.

If you have sold or transferred all your shares in the Company, you should at once hand this document and the accompanying forms of proxy to the purchaser(s) or the transferee(s), or to the bank, licensed securities dealer or registered institution in securities, or other agent through whom the sale or the transfer was effected for transmission to the purchaser(s) or the transferee(s).

The Hong Kong Exchanges and Clearing Limited and The Stock Exchange of Hong Kong Limited take no responsibility for the contents of this document and the accompanying forms of proxy, make no representation as to their accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this document and the accompanying forms of proxy.

**China SUMEC Automotive Industry
Consulting Development Co., Ltd.***

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



中国机械设备工程股份有限公司
China Machinery Engineering Corporation*

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

(Stock code: 1829)

**(1) PROPOSED MERGER
BY ABSORPTION OF THE COMPANY BY THE OFFEROR
(2) PROPOSED WITHDRAWAL OF LISTING
(3) NOTICE OF THE EXTRAORDINARY GENERAL MEETING
AND
(4) NOTICE OF THE H SHAREHOLDERS' CLASS MEETING**

Financial Adviser to the Offeror



Independent Financial Adviser to the Independent Board Committee



SOMERLEY CAPITAL LIMITED

Capitalised terms used on this cover page shall have the same meanings as those defined in the section headed "Definitions" in this document.

A letter from the Board is set out on pages 7 to 23 of this document. A letter from the Independent Board Committee to the Independent H Shareholders is set out on pages 24 to 25 of this document. A letter from Somerley Capital Limited, the Independent Financial Adviser, containing its advice to the Independent Board Committee, is set out on pages 26 to 67 of this document.

The notices convening the EGM and the H Shareholders' Class Meeting to be held at Meeting Room, CMEC Building, No. 165 Jinze Road, Fengtai District, Beijing, the PRC on Wednesday, 28 July 2021 (i) in relation to the EGM, at 9:00 a.m., and (ii) in relation to the H Shareholders' Class Meeting, at 9:30 a.m., or immediately following the conclusion of the EGM or any adjournment thereof are contained in this document. Shareholders are advised to read the notices and to complete and return the enclosed forms of proxy for use at the EGM and the H Shareholders' Class Meeting in accordance with the instructions printed thereon.

Whether or not you are able to attend and vote at the EGM and the H Shareholders' Class Meeting or any adjournment thereof in person, you are urged to complete and return the accompanying forms of proxy in accordance with the instructions printed thereon. 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, in case of H Shareholders, with the Company's H share registrar Computershare Hong Kong Investor Services Limited at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, and in case of Domestic Shareholders, to the Company's correspondence address at CMEC Building, No. 165 Jinze Road, Fengtai District, Beijing, the PRC, as soon as possible and in any event not later than 24 hours before the time appointed for holding the EGM and the H Shareholders' Class Meeting or any adjournment thereof (as the case may be).

In view of the ongoing Novel Coronavirus (COVID-19) epidemic, the Company strongly recommends Shareholders to exercise their voting rights by appointing the chairman of the EGM and the H Shareholders' Class Meeting as their proxy to vote on the relevant resolutions at the EGM and the H Shareholders' Class Meeting as an alternative to attending the meetings in person.

If no name is inserted in the enclosed corresponding forms of proxy, the chairman of the EGM and the H Shareholders' Class Meeting (as the case may be) will act as your proxy. An independent non-executive director of the Company (who is not a party acting/presumed to be acting in concert with the Offeror and/or its concert parties) will be appointed as the chairman of each of the EGM and the H Shareholders' Class Meeting.

Completion and return of the forms of proxy will not preclude you from attending and voting in person at the EGM, the H Shareholders' Class Meeting or any adjournment thereof should you so wish and in such event, the forms of proxy shall be deemed to be revoked.

This document is jointly issued by the Offeror and the Company.

* For identification purpose only

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PRECAUTIONARY MEASURES FOR THE EGM AND THE H SHAREHOLDERS’ CLASS MEETING

Taking into account the recent development of the epidemic caused by the coronavirus disease (COVID-19), the Company will implement the following measures at the EGM and the H Shareholders’ Class Meeting including:

- compulsory body temperature checks
- refusal of entry of those with a body temperature of over 37.3 degrees Celsius (but will be able to vote by submitting a voting slip to the scrutineer at the entrance of the venue)
- wearing of face masks throughout the EGM and the H Shareholders’ Class Meeting
- no distribution of corporate gifts and refreshments
- seating at the EGM and the H Shareholders’ Class Meeting will be arranged so as to allow for appropriate social distancing. The Company may limit the number of attendees at the EGM and the H Shareholders’ Class Meeting as may be necessary
- no entry will be allowed to any person who (i) is subject to mandatory quarantine or self-quarantine order in relation to COVID-19; (ii) has close contact with any person under mandatory quarantine or self-quarantine order in relation to COVID-19 or with recent travel history; or (iii) does not comply with the precautionary measures

Those being refused entry at the meeting venue would still be allowed to vote by submitting a voting slip to the scrutineer at the entrance of the venue.

Any person who does not comply with the precautionary measures will be denied entry into the venue of the EGM and the H Shareholders’ Class Meeting.

EXPECTED TIMETABLE

The expected timetable set out below is indicative only and may be subject to change. Further announcement(s) will be made as and when appropriate.

Unless otherwise expressly stated, references to times and dates in this document are to Hong Kong times and dates.

Latest time for lodging transfers of H Shares in order
to be entitled to attend and vote at the EGM and
the H Shareholders' Class Meeting 4:30 p.m. on Thursday, 22 July 2021

Closure of registers for transfers of Shares for
determination of the Shareholders entitled to
attend and vote at the EGM and
the H Shareholders' Class Meeting Friday, 23 July 2021 to
Wednesday, 28 July 2021
(both dates inclusive)

Latest time for lodging proxy forms
in respect of the EGM 9:00 a.m. on Tuesday, 27 July 2021

Latest time for lodging proxy forms
in respect of the H Shareholders' Class Meeting 9:30 a.m. on Tuesday, 27 July 2021

Record date for Shareholders for the EGM
and the H Shareholders for
the H Shareholders' Class Meeting Wednesday, 28 July 2021

EGM 9:00 a.m. on Wednesday, 28 July 2021

H Shareholders' Class Meeting 9:30 a.m. on Wednesday, 28 July 2021
or immediately following the conclusion
of the EGM or any adjournment thereof
on Wednesday, 28 July 2021

Announcement of the results of the EGM and
the H Shareholders' Class Meeting by 7:00 p.m. on Wednesday,
28 July 2021

Expected date for all Conditions to
effectiveness to be satisfied⁽¹⁾ Wednesday, 28 July 2021

EXPECTED TIMETABLE

Announcement of the satisfaction of all Conditions to effectiveness, last day for dealings in H Shares and expected date of withdrawal of listing of H Shares ⁽¹⁾	Wednesday, 28 July 2021
Resumption of registers for transfer of Shares	Thursday, 29 July 2021
Each of the Offeror and the Company notifies its creditors and makes a public announcement of the Merger pursuant to the PRC Company Law	Within 10 days (for the notice to creditors) and 30 days (for the announcement) following the EGM and the H Shareholders' Class Meeting
Last day for dealings in H Shares	Thursday, 29 July 2021
Latest time for lodging transfers of H Shares in order to be entitled to receive the Cancellation Price	4:30 p.m. on Monday, 2 August 2021
Closure of registers of members of the Company (until the Company's deregistration occurs)	From Tuesday, 3 August 2021 onward
Expected date and time of withdrawal of listing of H Shares	9:00 a.m. on Friday, 6 August 2021
Announcement that all the Conditions to implementation are satisfied (or waived, as applicable) ⁽¹⁾	Friday, 6 August 2021
Latest date for payment of the Cancellation Price ⁽²⁾	Tuesday, 17 August 2021
End of the period during which creditors may request the Offeror and the Company to pay off their respective indebtedness or provide guarantees	Within 30 days after the receipt of notice by creditors or 45 days after the issue of announcement to creditors (whichever is the latest)

EXPECTED TIMETABLE

Notes:

- (1) The Offeror and the Company will jointly publish announcement(s) when or as soon as reasonably practicable after all Conditions to effectiveness of the Merger Agreement have been satisfied and the Conditions to implementation of the Merger have been satisfied or waived, as appropriate.
- (2) Pursuant to the Merger Agreement, if any Dissenting Shareholder is to exercise its right to request the Company and/or the Consenting Shareholders to acquire its Shares at a “fair price” during the Declaration Period (the “**Right**”), the Dissenting Shareholder must refund the Cancellation Price (if received) to the Offeror in order to be entitled to exercise the Right, failing which the Dissenting Shareholder will be deemed to have waived, and will no longer be able to exercise, the Right. The Offeror (if so elected by the Company and/or the Consenting Shareholders) will make the payment separately upon agreement on matters regarding the Right. For the avoidance of doubt, regardless of when the Dissenting Shareholder exercises the Right, the Dissenting Shareholder will be deemed to have ceased to have any right in respect of the Shares (other than the right to request for consideration pursuant to exercise of the Right) on the date for payment of the Cancellation Price.

The Shareholders and potential investors in the securities of the Company should be aware that the Merger is subject to the conditions set out in this document being satisfied or waived, as applicable, and neither the Offeror nor the Company provides any assurance that any or all of the conditions can be satisfied, and thus the Merger Agreement may or may not become effective or, if effective, may or may not be implemented or completed. The Shareholders and potential investors in the securities of the Company should therefore exercise caution when dealing in the Shares. Persons who are in doubt as to the action they should take should consult their stockbroker, bank manager, solicitor or other professional advisers.

IMPORTANT NOTICES

IMPORTANT: You must read the following disclaimer before continuing. The following disclaimer applies to this document following this disclaimer page and you are therefore advised to read this disclaimer page carefully before accessing, reading or making any other use of this document. In, and as a result of, accessing this document you agree, and you are deemed to agree, to be bound by the following terms and conditions.

NOTICE TO SHAREHOLDERS OUTSIDE OF HONG KONG

Overseas Shareholders will be entitled to receive this document and the notices of the relevant meetings, as well as to attend and vote at the relevant meetings. The making of the proposal of the Merger to the overseas Shareholders may be subject to the laws of the relevant jurisdictions. Overseas Shareholders should observe any applicable legal or regulatory requirements. It is the responsibility of the overseas Shareholders wishing to accept the proposal to satisfy themselves as to the full observance of the laws of the relevant jurisdiction in connection therewith, including the obtaining of any governmental, exchange control or other consents which may be required, or the compliance with other necessary formalities and the payment of any issue, transfer or other taxes due by the overseas Shareholders in such jurisdiction.

NOTICE TO SHAREHOLDERS IN THE UNITED STATES

The Merger will involve the cancellation of the securities of a company incorporated in the PRC with limited liability by means of a merger by absorption provided for under the laws of the PRC. The Merger is subject to Hong Kong disclosure requirements, which are different from those of the United States. The financial information included in this document has been prepared in accordance with International Financial Reporting Standards and thus may not be comparable to financial information of U.S. companies or companies whose financial statements are prepared in accordance with generally accepted accounting principles in the United States.

The receipt of cash pursuant to the Merger by a U.S. holder of Shares as consideration for the cancellation of its Shares pursuant to the Merger may be a taxable transaction for U.S. federal income tax purposes and under applicable state and local, as well as foreign and other tax laws. Each holder of Shares is urged to consult his/her/its independent professional advisor immediately regarding the tax consequences of the implementation of the Merger.

U.S. holders of Shares may encounter difficulty enforcing their rights and any claims arising out of the U.S. federal securities laws, as the Offeror and the Company are located in a country outside the United States and some or all of their respective officers and directors may be residents of a country other than the United States. U.S. holders of Shares may not be able to sue a non-U.S. company or its officers or directors in a non-U.S. court for violations of the U.S. securities laws. Further, U.S. holders of Shares may encounter difficulty compelling a non-U.S. company and its affiliates to subject themselves to a U.S. court's judgment.

IMPORTANT NOTICES

In accordance with normal Hong Kong practice, the Offeror hereby discloses that it or its affiliates, or its nominees, or their respective brokers (acting as agents) may from time to time make certain purchases of, or arrangements to purchase, Shares outside of the United States, before or during the Offer Period. In accordance with the Takeovers Code and Rule 14e-5(b) of the U.S. Exchange Act, CICC and its affiliates may continue to act as exempt principal traders in the Shares on the Stock Exchange. These purchases may occur either in the open market at prevailing prices or in private transactions at negotiated prices, provided that any such purchase or arrangement complies with applicable law, including but not limited to the Takeovers Code, and is made outside the United States. Any information about such purchases will be reported to the SFC in accordance with the requirements of the Takeovers Code and, to the extent made public by the SFC, will be available on the website of the SFC at <http://www.sfc.hk>.

ACTIONS TO BE TAKEN

Whether or not they are able to attend the EGM or the H Shareholders' Class Meeting (where applicable) in person, the Shareholders are strongly urged to complete and sign the enclosed form of proxy in respect of the EGM in accordance with the instructions printed thereon and the H Shareholders are strongly urged to complete and sign the enclosed form of proxy in respect of the H Shareholders' Class Meeting in accordance with the instructions printed thereon as soon as possible, but in any case not later than the following respective times:

- (1) in the case of the form of proxy for use at the EGM, the Shareholders are requested to deposit such form of proxy no later than 9:00 a.m. on Tuesday, 27 July 2021 at the Company's registrar for H Shares (in respect of H Shareholders) at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong or the Company's correspondence address (in respect of Domestic Shareholders) at CMEC Building, No. 165 Jinze Road, Fengtai District, Beijing, the PRC; and
- (2) in the case of the form of proxy for use at the H Shareholders' Class Meeting, the H Shareholders are requested to deposit such form of proxy no later than 9:30 a.m. on Tuesday, 27 July 2021 at the Company's registrar for H Shares at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong.

The completion and return of a form of proxy for any of the meetings will not preclude you from attending and voting in person at the relevant meetings or any adjournment thereof, should you so wish. In the event that you attend and vote at any of the meetings or any adjournment thereof after having deposited the relevant form of proxy, that form of proxy will be deemed to have been revoked.

For the purpose of determining the entitlements of the Shareholders to attend and vote at the EGM and the H Shareholders to attend and vote at the H Shareholders' Class Meeting, the Company's registers of members will be closed from Friday, 23 July 2021 to Wednesday, 28 July 2021 (both dates inclusive). During such period, no transfer of Shares will be effected.

IMPORTANT NOTICES

Only Shareholders whose names are on the Company's registers of members on Wednesday, 28 July 2021 are entitled to vote at the relevant meetings. Each Shareholder on the Company's registers of members on Wednesday, 28 July 2021 is entitled to cast one vote per Share in respect of the Merger at the EGM. Each H Shareholder on the Company's registers of members on Wednesday, 28 July 2021 is entitled to cast one vote per H Share in respect of the Merger at the H Shareholders' Class Meeting.

An announcement will be made by the Company in relation to the results of EGM and the H Shareholders' Class Meeting. Further announcement(s) will be made in respect of the satisfaction or waiver, as applicable, of the Conditions to effectiveness of the Merger Agreement and Conditions to implementation of the Merger, if and when appropriate in accordance with the requirements under the Takeovers Code and/or the Listing Rules.

DEFINITIONS

In this document, the following expressions have the meanings set out below, unless the context requires otherwise:

“acting in concert”	has the meaning ascribed to it in the Takeovers Code, and “concert parties” shall be construed accordingly;
“Articles”	the articles of association of the Company (including the rules of procedures for shareholders’ general meetings and the rules of procedures for board meetings);
“Board”	the board of directors of the Company;
“Business Day”	a day on which the Stock Exchange is open for the transaction of business;
“Cancellation Price”	the cancellation price of HK\$3.70 per H Share payable in cash by the Offeror to the H Shareholders and RMB3.082692 per Domestic Share which is to be satisfied through the issuance of registered capital of the Offeror to the Domestic Shareholders as described in the section headed “3. PRINCIPAL TERMS OF THE MERGER AGREEMENT” in the “LETTER FROM THE BOARD” in this document;
“China United”	China United Engineering Corporation Limited* (中國聯合工程有限公司), a limited liability company incorporated in the PRC and a wholly-owned subsidiary of SINOMACH, which directly holds approximately 0.78% of the Company’s issued share capital as at the Latest Practicable Date;
“CICC”	China International Capital Corporation Hong Kong Securities Limited, the financial adviser to the Offeror. CICC is a licensed corporation under the SFO, licensed to carry out Type 1 (dealing in securities), Type 2 (dealing in futures contracts), Type 4 (advising on securities), Type 5 (advising on futures contracts) and Type 6 (advising on corporate finance) regulated activities;
“CNEEC”	China National Electric Engineering Corporation (中國電力工程有限公司), a wholly-owned subsidiary of the Company as at the Latest Practicable Date;

DEFINITIONS

“Company”	China Machinery Engineering Corporation* (中國機械設備工程股份有限公司), a joint stock limited company incorporated in the PRC with limited liability, whose H Shares are listed and traded on the Stock Exchange (stock code: 1829);
“Conditions”	has the meaning given to it in the section headed “3. <i>PRINCIPAL TERMS OF THE MERGER AGREEMENT</i> ” in the “ <i>LETTER FROM THE BOARD</i> ” in this document;
“Conditions to effectiveness”	has the meaning given to it in the section headed “3. <i>PRINCIPAL TERMS OF THE MERGER AGREEMENT</i> ” in the “ <i>LETTER FROM THE BOARD</i> ” in this document;
“Conditions to implementation”	has the meaning given to it in the section headed “3. <i>PRINCIPAL TERMS OF THE MERGER AGREEMENT</i> ” in the “ <i>LETTER FROM THE BOARD</i> ” in this document;
“Consenting Shareholders”	has the meaning given to it in the section headed “3. <i>PRINCIPAL TERMS OF THE MERGER AGREEMENT</i> ” in the “ <i>LETTER FROM THE BOARD</i> ” in this document;
“Declaration Period”	a period commencing on the Delisting Date and expiring on the fifth (5th) Business Day from (and including) the Delisting Date, during which any Dissenting Shareholder may declare to exercise its right;
“Delisting Date”	the date on which the listing of the Company on the Stock Exchange has been withdrawn;
“Director(s)”	the director(s) of the Company;
“Dissenting Shareholder”	a Shareholder who has validly voted against the resolutions in respect of the Merger at the EGM and (if applicable) the H Shareholders’ Class Meeting and has requested the Company or the Consenting Shareholders (or the Offeror, if so elected by the Company and/or the Consenting Shareholders) to acquire its Shares at a “fair price”;
“Domestic Share(s)”	the domestic shares of the Company, with a RMB denominated par value of RMB1.00 each, representing approximately 77.99% of the issued share capital of the Company as at the Latest Practicable Date;

DEFINITIONS

“Domestic Shareholder(s)”	the holder(s) of Domestic Share(s);
“EGM”	the extraordinary general meeting of the Company to be convened, or any adjournment thereof, to consider and, if thought fit, approve the Merger Agreement, the Merger and relevant arrangements;
“Exchange Rate”	the exchange rate of HK\$1: RMB0.83316, which is the central parity rate of RMB to Hong Kong Dollar as at the date of the Joint Announcement as announced by the People’s Bank of China;
“Executive”	the Executive Director of the Corporate Finance Division of the SFC or any delegate of the Executive Director;
“Exercise Date”	the date on which the Company and/or the Consenting Shareholders (or the Offeror, if so elected by the Company and/or the Consenting Shareholders) pays cash consideration to Dissenting Shareholders who exercise their right to acquire the Shares held and effectively declared by them at “fair price”, which will be decided and announced by the Company;
“Group”	the Company and its subsidiaries;
“H Share(s)”	the ordinary shares issued by the Company, with a RMB denominated par value of RMB1.00 each, which are subscribed for and paid up in Hong Kong dollars and are listed and traded on the Stock Exchange, representing approximately 22.01% of the issued share capital of the Company as at the Latest Practicable Date;
“H Shareholder(s)”	the holder(s) of H Shares;
“H Shareholders’ Class Meeting”	the class meeting of the Company to be convened for H Shareholders, or any adjournment thereof, to consider and, if thought fit, approve the Merger Agreement, the Merger and relevant arrangements;
“HK\$” or “Hong Kong Dollar”	Hong Kong dollars, the lawful currency of Hong Kong;
“Hong Kong”	the Hong Kong Special Administrative Region of the People’s Republic of China;

DEFINITIONS

“Independent Board Committee”	the independent board committee of the Company established by the Company for the purposes of considering the Merger, which comprises all of the independent non-executive Directors of the Company, being Mr. LIU Li, Ms. LIU Hongyu, Mr. FANG Yongzhong and Mr. WU Tak Lung;
“Independent Financial Adviser”	Somerley Capital Limited, the independent financial adviser appointed by the Independent Board Committee to advise the Independent Board Committee in respect of the Merger;
“Independent H Shareholders”	H Shareholders other than (where applicable) the Offeror, SINOMACH and their respective concert parties (including China United);
“Joint Announcement”	the announcement jointly published by the Offeror and the Company dated 13 January 2021, which states, amongst other things, the proposal of the Merger of the Offeror and the Company in accordance with the Merger Agreement;
“Last Trading Date”	7 January 2021, the last trading day prior to the suspension of trading in the H Shares on the Stock Exchange pending the issue of the Joint Announcement;
“Latest Practicable Date”	2 July 2021, being the latest practicable date prior to the printing of this document for the purpose of ascertaining certain information contained therein;
“Listing Rules”	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited;
“Long-stop Date”	13 January 2022, being the last date the Pre-Condition, the Conditions to effectiveness and the Conditions to implementation can be satisfied, unless the Offeror and the Company otherwise agree, subject to the consent of the SFC;
“Merger”	the proposed merger by absorption of the Company by the Offeror in accordance with the PRC Company Law and other applicable PRC Laws as contemplated under the Merger Agreement;

DEFINITIONS

“Merger Agreement”	the merger agreement entered into between the Offeror and the Company on 13 January 2021 in relation to the Merger;
“Offer Period”	has the meaning ascribed to it under the Takeovers Code, being the period commencing on 13 January 2021 (the date of the Joint Announcement) and ending on the Delisting Date;
“Offeror”	中國蘇美達汽車工業諮詢發展有限公司 (China SUMEC Automotive Industry Consulting Development Co., Ltd.*), a company incorporated in the PRC with limited liability which is wholly-owned by SINOMACH;
“PRC” or “China”	the People’s Republic of China, which for this document does not include Hong Kong, the Macau Special Administrative Region and Taiwan unless the context otherwise specifies;
“PRC Company Law”	the Company Law of the PRC, as amended, supplemented or otherwise modified from time to time;
“PRC Laws”	any and all laws, regulations, statutes, rules, decrees, notices, and supreme court’s judicial interpretations as may be in force and publicly available in the PRC from time to time;
“Pre-Condition”	has the meaning given to it in the section headed “3. <i>PRINCIPAL TERMS OF THE MERGER AGREEMENT</i> ” in the “ <i>LETTER FROM THE BOARD</i> ” in this document;
“Relevant Period”	the period commencing from 13 July 2020 (i.e. the date that is six months prior to the publishing date of the Joint Announcement) and ending on the Latest Practicable Date;
“RMB”	Renminbi, the lawful currency of the PRC;
“SFC”	the Securities and Futures Commission of Hong Kong;
“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) (as revised, supplemented or otherwise modified from time to time);

DEFINITIONS

“Shareholders”	H Shareholders and Domestic Shareholders;
“Shares”	collectively, H Shares and Domestic Shares;
“SINOMACH”	China National Machinery Industry Corporation* (中國機械工業集團有限公司), a state-owned enterprise wholly-owned by the State Council of the PRC, which directly and indirectly holds (i) 100% of the shares of the Offeror and (ii) approximately 77.99% of the Company’s issued share capital as at the Latest Practicable Date;
“SINOMACH HK”	SINOMACH (Hong Kong) Company Limited, a company incorporated in Hong Kong with limited liability which is wholly-owned by SINOMACH;
“Stock Exchange”	The Stock Exchange of Hong Kong Limited;
“Takeovers Code”	the Codes on Takeovers and Mergers published by the SFC (as revised, supplemented or otherwise modified from time to time);
“trading day”	a day on which the Stock Exchange is open for dealing or trading in securities;
“U.S. Exchange Act”	the U.S. Securities Exchange Act of 1934, as amended;
“United States” or “U.S.”	the United States of America, its territories and possessions, any State of the United States and the District of Columbia;
“%”	per cent.

* *For identification purpose only*

LETTER FROM THE BOARD



中國機械設備工程股份有限公司
China Machinery Engineering Corporation*

(a joint stock limited company incorporated in the People's Republic of China with limited liability)
(Stock code: 1829)

Executive Directors:

Mr. FANG Yanshui
Ms. AI Wei

Registered Office:

No. 178 Guang'anmenwai Street
Xicheng District, Beijing, the PRC

Non-executive Directors:

Mr. BAI Shaotong
Mr. MA Jian
Mr. ZHANG Zhiyu

*Principal Place of Business
in Hong Kong:*

Room 804, 8/F, Tower 1
South Sea Centre
75 Mody Road
Tsimshatsui East
Kowloon, Hong Kong

Independent Non-executive Directors:

Mr. LIU Li
Ms. LIU Hongyu
Mr. FANG Yongzhong
Mr. WU Tak Lung

6 July 2021

To the Shareholders

PROPOSED MERGER BY ABSORPTION OF THE COMPANY BY THE OFFEROR

1. INTRODUCTION

On 13 January 2021, the Offeror and the Company published the Joint Announcement to announce that the two companies have entered into the Merger Agreement with respect to the Merger. After the completion of the Merger, the Company will be merged into and absorbed by the Offeror in accordance with the PRC Company Law and other applicable PRC Laws.

2. THE PROPOSED MERGER

Pursuant to the Merger Agreement, conditional upon, among others, the fulfilment (or waiver, as applicable) of the Pre-Condition and the Conditions set out in the section headed "3. PRINCIPAL TERMS OF THE MERGER AGREEMENT" below, the Offeror will pay the Cancellation Price in the amount of:

- (i) HK\$3.70 per H Share to the H Shareholders in cash; and

LETTER FROM THE BOARD

- (ii) RMB3.082692 per Domestic Share, which is equivalent of the Cancellation Price of each H Share based on the Exchange Rate, to the Domestic Shareholders (being SINOMACH and China United, the parent of the Offeror and one of the parent's wholly-owned subsidiaries, respectively), which will be satisfied through the issuance of registered capital of the Offeror to the Domestic Shareholders as described in the section headed "3. *PRINCIPAL TERMS OF THE MERGER AGREEMENT*" below.

The Cancellation Price has been determined on a commercial basis after taking into account, among other things, the prices of the Shares traded on the Stock Exchange and with reference to other similar transactions in Hong Kong in recent years.

The amount of aggregate Cancellation Price required to be paid by the Offeror to cancel the H Shares held by the H Shareholders is HK\$3,360,599,000.

After the completion of the Merger, the Offeror will assume all assets, liabilities, interests, businesses, employees, contracts and all other rights and obligations of the Company and the Company will be eventually deregistered.

On 3 June 2021, the Offeror and the Company jointly announced that the Pre-Condition had been satisfied.

3. **PRINCIPAL TERMS OF THE MERGER AGREEMENT**

The principal terms and conditions of the Merger Agreement include:

- Parties**
- (1) The Offeror; and
 - (2) the Company.

Overview of the Merger

Subject to the terms and conditions of the Merger Agreement, the Merger will be implemented by the Offeror merging the Company by way of merger by absorption.

After the completion of the Merger, the Offeror will assume all assets, liabilities, interests, businesses, employees, contracts and all other rights and obligations of the Company and the Company will be eventually deregistered.

LETTER FROM THE BOARD

Consideration

Pursuant to the Merger Agreement, conditional upon, among others, the fulfilment (or waiver, as applicable) of the Pre-Condition, the Conditions to effectiveness and the Conditions to implementation set out in the paragraphs headed “*Pre-Condition to the Merger Agreement becoming effective*”, “*Conditions to effectiveness*” and “*Conditions to implementation*” below, the Offeror will pay the Cancellation Price (a) in the amount of HK\$3.70 per H Share to the H Shareholders in cash and (b) in the amount of RMB3.082692 per Domestic Share, which is equivalent of the Cancellation Price of each H Share based on the Exchange Rate, to the Domestic Shareholders (being SINOMACH and China United, the parent of the Offeror and one of the parent’s wholly-owned subsidiaries, respectively), which will be satisfied through the issuance to the Domestic Shareholders RMB3.082692 registered capital of the Offeror for each Domestic Share (equivalent to the amount of Cancellation Price per Domestic Share) based on the total amount of the consideration to be paid to the Domestic Shareholders (equalling to the aforementioned cancellation price per Domestic Share multiplied by the number of Domestic Shares held by the Domestic Shareholders, and rounded down to two decimal places) and the Offeror’s audited net asset value as at 31 December 2020, *i.e.* RMB9,819,162,264.34 and RMB99,183,457.21 registered capital of the Offeror will be issued to SINOMACH and China United, respectively, representing 99.00% and 1.00% of the registered capital of the Offeror after the completion of such issuance.

Pre-Condition to the Merger Agreement becoming effective

The Merger Agreement is subject to the satisfaction of a pre-condition, being the filing, registration or approval, as applicable, with or by (a) the National Development and Reform Commission of the PRC (as applicable), (b) Ministry of Commerce of the PRC (as applicable) and (c) the State Administration of Foreign Exchange of the PRC or its local authorities (as applicable), and such other applicable governmental approvals in respect of the Merger having been obtained or completed (the “**Pre-Condition**”). Save for the governmental approvals as mentioned in (a), (b) and (c) above, the Offeror is not currently aware of any other applicable governmental approvals which are required in respect of the Merger.

The above Pre-Condition is not waivable. If the Pre-Condition is not satisfied by the Long-stop Date, the Merger Agreement will not become effective and will be automatically terminated.

LETTER FROM THE BOARD

Conditions to effectiveness

After the Pre-Condition is satisfied, the Merger Agreement shall become effective upon satisfaction of all of the following conditions (none of which is capable of being waived) (the “**Conditions to effectiveness**”):

- (1) the passing of special resolution(s) by a majority of not less than two-thirds of the votes cast by way of poll by the Shareholders present and voting in person or by proxy at the EGM to approve the Merger under the Merger Agreement in accordance with the Articles and the PRC Laws;
- (2) the passing of special resolution(s) by way of poll approving the Merger under the Merger Agreement at the H Shareholders’ Class Meeting to be convened for this purpose, provided that: (a) approval is given by at least 75% of the votes attaching to the H Shares held by the Independent H Shareholders that are cast either in person or by proxy; and (b) the number of votes cast against the resolution(s) is not more than 10% of the votes attaching to all H Shares held by the Independent H Shareholders.

If the above Conditions to effectiveness are not satisfied by the Long-stop Date, the Merger Agreement may be terminated by either party. Please also refer to the paragraph headed “*Termination*” in this section.

Conditions to implementation

After the Merger Agreement becomes effective upon satisfaction of the Pre-Condition and all the Conditions to effectiveness, the implementation of the Merger shall be subject to the following conditions being satisfied or waived, as applicable (the “**Conditions to implementation**”, together with the Conditions to effectiveness, collectively, the “**Conditions**”):

- (1) there being no material breach of the representations, warranties or undertakings given by the Offeror in the Merger Agreement on the Delisting Date which has a material adverse impact on the Merger;
- (2) there being no material breach of the representations, warranties or undertakings given by the Company in the Merger Agreement on the Delisting Date which has a material adverse impact on the Merger; and

LETTER FROM THE BOARD

- (3) there being no law, restriction or prohibition of any governmental authority or any judgment, decision or adjudication of any court on the Delisting Date which restricts, prohibits or terminates the Merger.

The Company shall be entitled to waive Condition (1) above and the Offeror shall be entitled to waive Condition (2) above. Condition (3) above is not capable of being waived. If the above Conditions to implementation are not satisfied or if applicable, waived, by the Long-stop Date, the Merger Agreement will be automatically terminated.

**Payment of
consideration**

The Offeror shall, as soon as possible and in any event no later than seven (7) Business Days after fulfilment (or waiver, if applicable) of the Pre-Condition and all the Conditions (being the Conditions to effectiveness and the Conditions to implementation), pay the Cancellation Price to all H Shareholders and all Domestic Shareholders.

After payment of consideration is made to the H Shareholders and the Domestic Shareholders by or on behalf of the Offeror, all rights attaching to such Shares shall cease to have effect and the relevant Shares shall be cancelled. The share certificates for the H Shares and the Domestic Shares will cease to have effect as documents or evidence of title.

Payment of consideration to the H Shareholders is deemed to be completed once the Offeror or any entity designated by it has despatched to the H Shareholders the cheques for such consideration, while payment of consideration to the Domestic Shareholders is deemed to be completed once the Offeror has delivered to SINOMACH and China United the Offeror's register of members and certification of capital contribution affixed with the Offeror's official seal reflecting the Offeror's shareholding structure after the issuance of the registered capital of the Offeror to SINOMACH and China United in accordance with the Merger Agreement.

LETTER FROM THE BOARD

The Company's Undertakings

Unless with the prior written consent of the Offeror, the Company shall not issue any Shares, conduct any major acquisitions or disposals which may constitute a discloseable transaction under Chapter 14 of the Listing Rules (*i.e.* any acquisitions or disposals which may constitute a discloseable transaction or above under Chapter 14 of the Listing Rules) or declare, make or pay any dividend or other distribution (whether in cash or in kind) to the Shareholders since the date of the Merger Agreement till the termination of the Merger Agreement or the end of the Offer Period (whichever is earlier).

As at the date of this document, the Company has no outstanding dividend that has been declared, made but not yet paid. From the Latest Practicable Date to the close of the Offer Period, the Company does not have intention to propose, declare or pay any dividends or make other distributions nor the Cancellation Price is subject to any dividend proposed or declared but not yet paid.

Right of a Dissenting Shareholder

According to the Articles, any Dissenting Shareholder may by written notice request the Company and/or other Shareholders who have approved the Merger (collectively the “**Consenting Shareholders**”) to acquire its Shares at a “fair price”.

If any Dissenting Shareholder exercises its right, the Offeror, if so elected by the Company and/or the Consenting Shareholders, will assume the obligation which the Company and/or the Consenting Shareholders may have towards such Dissenting Shareholder to acquire the Shares held by that Dissenting Shareholder at a “fair price”.

The exercise of its right by a Dissenting Shareholder is subject to the following criteria:

- (1) such Dissenting Shareholder having validly voted against the resolutions in respect of the Merger at the EGM and (if applicable) the H Shareholders' Class Meeting;
- (2) such Dissenting Shareholder having been validly registered as a shareholder on the share register of the Company since the record date for the EGM and (if applicable) the H Shareholders' Class Meeting, and having held such Share(s) in respect of which it intends to exercise its right until the Exercise Date; and
- (3) such Dissenting Shareholder having exercised its right during the Declaration Period.

LETTER FROM THE BOARD

A Shareholder is not entitled to exercise its right in respect of such Share(s) held by it if:

- (1) such Shareholder has undertaken to the Company to waive its right;
- (2) such Shareholder is prohibited from exercising its right in accordance with applicable laws; or
- (3) any Share held by such Shareholder is subject to pledge, other third-party rights or judicial moratorium, without having legally obtained written consent or approval from the relevant pledgee, third party or competent authority.

There is no applicable PRC law or guidance with respect to how the “fair price” will be determined from the PRC law perspective. Under the Articles, whenever any disputes or claims arise between the H Shareholders and the Company, the H Shareholders and the Company’s directors, supervisors, general manager or other senior management officers, or the H Shareholders and the Domestic Shareholders, in respect of any rights or obligations arising from the Articles, the PRC Company Law or any rights or obligations conferred or imposed by any other relevant laws and administrative regulations concerning the affairs of the Company, such disputes or claims shall be referred by the relevant parties to arbitration.

Termination

The Merger Agreement may be terminated in any of the following circumstances:

- (1) by either the Offeror or the Company, if
 - (a) any competent governmental authority issues any order, decree, ruling or take any other actions which permanently restricts, impedes or otherwise prohibits the Merger and which is final, binding and not capable of being appealed (both the Offeror and the Company shall use reasonable endeavours to procure the withdrawal of such order, decree, ruling or action prior to exercising any right of termination); or
 - (b) the Conditions to effectiveness not having been satisfied on or before the Long-stop Date;

LETTER FROM THE BOARD

- (2) by the Offeror, if the Company commits a material breach of the representations, warranties and undertakings under the Merger Agreement or any other agreement related to the Merger Agreement which has a material impact on the Merger and such breach is not remedied by the Company within 30 days following written notice from the Offeror; or
- (3) by the Company, if the Offeror commits a material breach of the representations, warranties and undertakings under the Merger Agreement or any other agreement related to the Merger Agreement which has a material impact on the Merger and such breach is not remedied by the Offeror within 30 days following written notice from the Company.

Pursuant to Note 2 to Rule 30.1 of the Takeovers Code, the Offeror and the Company may only invoke any or all of the conditions (1) to (3) set out in the paragraph headed “*Conditions to implementation*” in this section or terminate the Merger Agreement in accordance with the paragraph headed “*Termination*” in this section as a basis for not proceeding with the Merger only if the circumstances which give rise to the right to invoke any such condition or termination right are of material significance to the Offeror or the Company in the context of the Merger.

4. CANCELLATION PRICE

Comparisons of value

The Cancellation Price is HK\$3.70 per H Share and RMB3.082692 per Domestic Share (equivalent to the Cancellation Price of HK\$3.70 per H Share based on the Exchange Rate).

The Cancellation Price per H Share represents:

- (a) a premium of approximately 45.10% over the closing price per H Share of HK\$2.55 on the Stock Exchange on the Last Trading Date;
- (b) a premium of approximately 73.71% over the average closing price of HK\$2.13 per H Share based on the daily closing prices of H Shares as quoted on the Stock Exchange for the five consecutive trading days immediately prior to and including the Last Trading Date;
- (c) a premium of approximately 93.72% over the average closing price of HK\$1.91 per H Share based on the daily closing prices of H Shares as quoted on the Stock Exchange for the ten consecutive trading days immediately prior to and including the Last Trading Date;

LETTER FROM THE BOARD

- (d) a premium of approximately 118.93% over the average closing price of HK\$1.69 per H Share based on the daily closing prices of H Shares as quoted on the Stock Exchange for the 30 trading days immediately prior to and including the Last Trading Date;
- (e) a premium of approximately 126.99% over the average closing price of HK\$1.63 per H Share based on the daily closing prices of H Shares as quoted on the Stock Exchange for the 60 trading days immediately prior to and including the Last Trading Date;
- (f) a premium of approximately 126.99% over the average closing price of HK\$1.63 per H Share based on the average closing price of H Shares on the Stock Exchange for the 90 trading days immediately prior to and including the Last Trading Date;
- (g) a discount of approximately 23.40% to the Group's audited net asset value attributable to the Shareholders per Share of approximately HK\$4.83 as at 31 December 2019 (without taking into account the restatement made when preparing the Group's annual results for the year ended 31 December 2020), based on the exchange rate of HK\$1: RMB0.89578, being the central parity rate of RMB to Hong Kong Dollar on 31 December 2019 as announced by the People's Bank of China;
- (h) a discount of approximately 21.61% to the Group's unaudited net asset value attributable to the Shareholders per Share of approximately HK\$4.72 as at 30 June 2020, based on the exchange rate of HK\$1: RMB0.91344, being the central parity rate of RMB to Hong Kong Dollar on 30 June 2020 as announced by the People's Bank of China; and
- (i) a discount of approximately 29.39% to the Group's audited net asset value attributable to the Shareholders per Share of approximately HK\$5.24 as at 31 December 2020, based on the exchange rate of HK\$1: RMB0.84164, being the central parity rate of RMB to Hong Kong Dollar on 31 December 2020 as announced by the People's Bank of China.

The Cancellation Price will not be increased and the Offeror does not reserve the right to do so.

Highest and lowest prices

During the Relevant Period, the highest closing price of the H Shares as quoted on the Stock Exchange was HK\$3.63 on 15 June 2021 and the lowest closing price of the H Shares as quoted on the Stock Exchange was HK\$1.47 on 2 November 2020.

LETTER FROM THE BOARD

Funding for the Merger

On the basis of (i) the Cancellation Price of HK\$3.70 per H Share, (ii) 908,270,000 H Shares in issue as at the date of this document, and (iii) the Cancellation Price for all the Domestic Shares (which comprise 3,185,255,700 Domestic Shares held directly by SINOMACH and 32,174,300 Domestic Shares held directly by China United) is to be satisfied through the issuance of the registered capital of the Offeror to the Domestic Shareholders as described in the section headed “3. *PRINCIPAL TERMS OF THE MERGER AGREEMENT*” above, the amount of aggregate Cancellation Price required to be paid by the Offeror in cash to cancel the H Shares held by H Shareholders is HK\$3,360,599,000.

SINOMACH HK has undertaken with the Offeror to pay on its behalf the total consideration for cancellation of the H Shares.

The payment of the total consideration for cancellation of the H Shares will be financed by external and/or intra-group borrowings from SINOMACH and its subsidiaries.

Settlement of the consideration to which any Shareholder is entitled will be implemented in full in accordance with the terms of the Merger Agreement without regard to any lien, right of set-off, counterclaim or other analogous right to which the Offeror may otherwise be, or claim to be, entitled against such Shareholder.

The Offeror has appointed CICC as its financial adviser in connection with the Merger. CICC, being the financial adviser to the Offeror, is satisfied that sufficient financial resources are available to the Offeror for the satisfaction of the Offeror’s obligations in respect of the full implementation of the Merger (excluding all the Cancellation Price payable to the Domestic Shareholders which is to be satisfied through the issuance of the registered capital of the Offeror to the Domestic Shareholders).

5. REASONS AND BENEFITS OF THE MERGER

The reasons and benefits of the Merger include:

- (A) **The Company has lost the advantage as a listing platform with limited equity fund-raising ability.** Since the listing of the H Shares on the Stock Exchange, the Company has not raised any funds through equity issuance. As the Company’s H Shares have been trading at a relatively low price range given its sluggish trading volume for most of the time, its ability to raise funds from the equity market is significantly limited. After the Merger is implemented, the H Shares will be delisted from the Stock Exchange, which may benefit the Company from saving in the costs related to compliance and maintenance of the listing status of the Company.

LETTER FROM THE BOARD

- (B) **Affected by the international situation, the Company's operating results are under pressure, and it can formulate long-term strategic directions with more flexibility after the delisting of H Shares.** Under the influence of the international COVID-19 pandemic and the global economic environment, the Company's overseas business principally in Asia, Africa, South America and North America, representing approximately 75.33% and 66.59% of the revenue generated from external customers of the Company for the year ended 31 December 2019 (without taking into account the restatement made when preparing the Group's annual results for the year ended 31 December 2020) and 2020, respectively, are facing major challenges with greater uncertainties in future operations. In order to maintain core competitiveness, the Company needs to unify and sort out its strategy and business direction, exploring new development opportunities and long-term growth strategies, which may cause uncertainty in the Company's financial performance in the short term, thereby causing losses to H Shareholders. After the completion of the Merger, the Company can formulate long-term strategies with more flexibility and avoid the pressure from market expectations and stock price fluctuation risks as a listed company.
- (C) **The delisting of the H Shares offers the H Shareholders an excellent exit opportunity to dispose of the H Shares in relatively low liquidity with a premium.** The Cancellation Price represents a premium over the market price of H Shares of the Company as disclosed in paragraph headed "*Comparisons of value*" in section "*4. CANCELLATION PRICE*" above. Therefore, the Merger, if implemented, will offers the H Shareholders a valuable opportunity to realise their investments in the Company with an attractive premium and reallocate the proceeds from the disposal of the H Shares to alternative investment opportunities with more liquidity.

The Board (other than members of the Independent Board Committee, whose views are given in the section headed "*LETTER FROM THE INDEPENDENT BOARD COMMITTEE*" in this document) is of the view that the terms of the Merger are fair and reasonable and in the interests of the Company and its Shareholders as a whole.

6. FUTURE INTENTION OF THE OFFEROR

After completion of the Merger, the Company will merge into the Offeror, with the Offeror as the surviving entity, and will cease to exist as a separate legal entity. It is the intention of the Offeror that it will continue to carry on the existing business of the Company.

While the Offeror does not intend to introduce any major changes to the existing business of the Company (including any redeployment of the fixed assets of the Company) after the Merger, the Offeror does not rule out the possibility of any changes in the future if and when it thinks needed in order to benefit the Offeror.

The Offeror does not intend to make any significant changes to the continued employment of the employees of the Company and its subsidiaries. Following completion of the Merger, the employment contracts of all employees of the Company will continue with the Offeror as the surviving corporation.

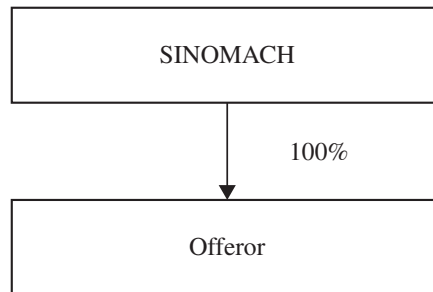
The Board is willing to cooperate with the Offeror and act in the best interests of the Company and the Shareholders as a whole.

LETTER FROM THE BOARD

7. INFORMATION ON THE OFFEROR AND THE COMPANY

Information on the Offeror

The Offeror is a company incorporated in the PRC with limited liability on 5 December 1987. The Offeror is wholly-owned by SINOMACH, which is in turn wholly-owned by the State Council of the PRC. The Offeror had been primarily engaged in management consulting business but does not have any substantive operations as at the Latest Practicable Date.



Information on the Company

The Company is a joint stock company with limited liability incorporated in the PRC. The Group is an international engineering contractor and service provider with a primary focus on the engineering, procurement construction (EPC) projects and particular expertise in the power sector, capable of providing one-stop customized and integrated engineering contracting solutions and services. The Group is also engaged in trading, services, design consultation and other emerging sector business.

The Company is owned directly and indirectly as to approximately 77.99% by SINOMACH, among which, approximately 77.21% is held by SINOMACH directly and approximately 0.78% by China United, a wholly-owned subsidiary of SINOMACH.

Set out below is the financial information of the Group for the three years ended 31 December 2018, 2019 and 2020 (as extracted from the annual reports of the Company for the years ended 31 December 2018, 2019 and 2020 respectively):

	For the year ended 31 December 2020 (RMB'000) (audited)	For the year ended 31 December 2019 (RMB'000) (Restated ^) (audited)	For the year ended 31 December 2018 (RMB'000) (audited)
Total assets	51,019,228	53,999,884	56,114,617
Revenue	19,100,165	28,348,250	28,862,688
Profit for the year	1,200,246	2,200,263	2,135,841

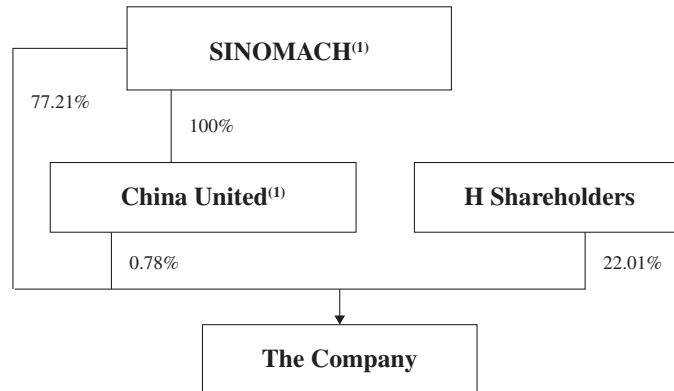
[^] As disclosed in the Company's annual report for the year ended 31 December 2020, the restatement is due to the consolidation of business under common control as a result of the acquisition of Harbin Power System Engineering and Research Institute Co., Ltd.* (哈爾濱電站設備成套設計研究所有限公司) in April 2020.

LETTER FROM THE BOARD

Shareholding in the Company

As at the Latest Practicable Date, the issued share capital of the Company is comprised of 4,125,700,000 Shares, of which there were 908,270,000 H Shares and 3,217,430,000 Domestic Shares.

Set out below is the shareholding structure of the Company as at the Latest Practicable Date:



Notes:

- (1) The Shares held by SINOMACH and China United are Domestic Shares.
- (2) The percentages in the diagram above are expressed as percentages of the total issued Shares of the Company.

As at the Latest Practicable Date, the Offeror does not own any Share. SINOMACH, which directly and beneficially owns the entire equity interest of the Offeror, owns 3,185,255,700 Domestic Shares directly in the Company, and 32,174,300 Domestic Shares through China United, representing approximately 77.21% and 0.78% of the voting interests in the Company respectively, and together representing approximately 77.99% of the voting interests in the Company.

As at the Latest Practicable Date, there are no outstanding options, warrants or convertible securities issued by the Company, and the Company has no other relevant securities (as defined in Note 4 to Rule 22 of the Takeovers Code) other than the Shares as disclosed above.

LETTER FROM THE BOARD

The table below is the shareholding structure of the Company as at the Latest Practicable Date:

Shareholders	Approximate%		Approximate%		Approximate%	
	Number of H Shares interested	of the H Shares in issue	Number of Domestic Shares interested	of the Domestic Shares in issue	Number of Shares interested	of the Shares in issue
The Offeror and its concert parties						
The Offeror	–	–	3,217,430,000	100%	3,217,430,000	77.99%
SINOMACH	–	–	3,185,255,700	99.00%	3,185,255,700	77.21%
China United	–	–	32,174,300	1.00%	32,174,300	0.78%
Independent H Shareholders	<u>908,270,000</u>	<u>100%</u>	<u>–</u>	<u>–</u>	<u>908,270,000</u>	<u>22.01%</u>
Total number of Shares in issue	<u>908,270,000</u>	<u>100%</u>	<u>3,217,430,000</u>	<u>100%</u>	<u>4,125,700,000</u>	<u>100%</u>

8. ARRANGEMENTS FOR IMPLEMENTATION OF THE MERGER AGREEMENT

The Pre-Condition has been fulfilled on 3 June 2021. None of the Conditions to effectiveness and the Conditions to implementation has been fulfilled or waived as at the Latest Practicable Date.

The Merger complies with Rule 2.10 of the Takeovers Code and is governed by the Takeovers Code. Upon satisfaction of all the Conditions to effectiveness, the Company does not intend to retain its listing on the Stock Exchange and will apply to the Stock Exchange for voluntary withdrawal of the listing of the H Shares from the Stock Exchange in accordance with Rule 6.15(2) of the Listing Rules.

The Company will issue separate announcement(s) notifying H Shareholders of the proposed withdrawal of listing and the exact dates and relevant arrangements for the last day for dealing in H Shares on the Stock Exchange as well as when the formal delisting of the H Shares will become effective.

The listing of the H Shares on the Stock Exchange will not be withdrawn if the Merger is not approved or lapses or does not become unconditional for any reason. In such cases, no cancellation of the Shares will take place pursuant to the Merger Agreement and the Company's public float would not be affected as a result of the Merger not being approved or otherwise lapses or does not become unconditional.

LETTER FROM THE BOARD

9. INDEPENDENT BOARD COMMITTEE AND INDEPENDENT FINANCIAL ADVISER

The Board has established the Independent Board Committee, consisting of all of the independent non-executive Directors of the Company, being Mr. LIU Li, Ms. LIU Hongyu, Mr. FANG Yongzhong and Mr. WU Tak Lung. As Mr. BAI Shaotong, a non-executive Director, holds positions in SINOMACH and Mr. MA Jian and Mr. ZHANG Zhiyu, non-executive Directors, were nominated by SINOMACH, each of them is or may be regarded as being interested in the Merger and is not included as a member of the Independent Board Committee. Such committee will advise the Independent H Shareholders as to: (a) whether the terms of the Merger is fair and reasonable for the purpose of the Takeovers Code; and (b) whether to vote in favour of the Merger at the EGM and the H Shareholders' Class Meeting.

The Independent Board Committee has appointed Somerley Capital Limited as its Independent Financial Adviser to provide advice to the Independent Board Committee in respect of the Merger. For the opinions and advice of the Independent Financial Adviser, please refer to section headed "*LETTER FROM THE INDEPENDENT FINANCIAL ADVISER*" in this document.

10. EGM AND H SHAREHOLDERS' CLASS MEETING

The Company will convene the EGM and the H Shareholders' Class Meeting for the Shareholders to consider and, if thought fit, approve matters including the Merger.

In compliance with Rule 2.10 of the Takeovers Code, which is applicable to the Merger, the Merger Agreement and the Merger are conditional on (i) the approval by way of poll by at least 75% of the votes attaching to the H Shares held by the Independent H Shareholders that are cast either in person or by proxy at the H Shareholders' Class Meeting; and (ii) the number of votes cast against the resolution at the H Shareholders' Class Meeting is not more than 10% of the votes attaching to all the H Shares held by the Independent H Shareholders.

The H Shareholders who have been registered as holders of H Shares on the register of members of the Company kept by the registrar of H Shares, Computershare Hong Kong Investor Services Limited, on Wednesday, 28 July 2021 and who have completed all necessary registration procedures will be entitled to attend the EGM and the H Shareholders' Class Meeting.

No reply slip is required for shareholders to attend the Company's general meetings or class meetings pursuant to the Articles as amended on 29 June 2020.

Suspension of registration of Share transfers

The register of members of the Company will be closed from Friday, 23 July 2021 to Wednesday, 28 July 2021, during which no registration of transfers of Shares will be processed. If applicable, the Shareholders and the H Shareholders intending to attend the EGM and the H

LETTER FROM THE BOARD

Shareholders' Class Meeting respectively must lodge their respective transfer documents and relevant share certificates 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 (for H Shareholders) or the Company's correspondence address at CMEC Building, No. 165 Jinze Road, Fengtai District, Beijing, the PRC (for Domestic Shareholders) no later than 4:30 p.m. on Thursday, 22 July 2021.

Proxy forms

Whether or not you intend to attend the EGM or the H Shareholders' Class Meeting, you are strongly urged to complete and return the proxy forms in accordance with the instructions printed thereon. The proxy forms should be returned as soon as possible (but in any event not less than 24 hours before the appointed time for holding the relevant meeting or any adjournment thereof). After completion and return of the proxy forms, you may still attend and vote at the relevant meetings should you so wish.

Voting at the EGM and the H Shareholders' Class Meeting

Pursuant to Rule 13.39(4) of the Listing Rules and Rule 2.9 of the Takeovers Code, all resolutions will be passed by way of poll at the EGM and the H Shareholders' Class Meeting.

The PRC Company Law does not require any Shareholders to abstain from voting in respect of the Merger in the EGM. The Offeror and its concert parties will be required to abstain from voting at the H Shareholders' Class Meeting in accordance with the Takeovers Code. There are no other restrictions imposed on any Independent H Shareholders to cast votes on the relevant resolutions at the H Shareholders' Class Meeting.

11. TAXATION

Non-tax advice

You should consult with your professional adviser to understand the possible tax implications of the Merger or the exercise of the Dissenting Shareholders' rights. None of the Company, the Offeror, CICC or the Independent Financial Adviser, nor their respective directors or any person participating in the Merger, assume any liability in respect of any tax incurred or other implication of any exercise of the Dissenting Shareholders' rights.

Hong Kong stamp duty

When the Cancellation Price is paid, the corresponding H Shares will be cancelled. Therefore, the implementation of the Merger does not involve the sale and purchase of Hong Kong stock, and in this respect only, no stamp duty will be payable pursuant to the Stamp Duty Ordinance, Chapter 117 of the Laws of Hong Kong.

LETTER FROM THE BOARD

For the Dissenting Shareholders who exercise their right to require acquisition of their H Shares, Hong Kong stamp duty is payable at the rate of 0.1% of the consideration by each of the seller and the buyer. The stamp duty payable will be deducted from the cash received by the relevant Dissenting Shareholders who exercise such right.

12. RECOMMENDATION OF THE BOARD

The Board (other than members of the Independent Board Committee, whose views are given in the section headed “*LETTER FROM THE INDEPENDENT BOARD COMMITTEE*” in this document) is of the view that the terms of the Merger Agreement and the proposed Merger are fair and reasonable and in the interests of the Company and the Shareholders as a whole. Having considered the terms of the Merger Agreement and taken into account the advice from the Independent Financial Adviser, the Independent Board Committee is of the view that the terms of the Merger Agreement and the proposed Merger are fair and reasonable so far as the Independent H Shareholders are concerned. Therefore, the Board recommends that the Shareholders vote in favour of the resolutions in relation to the Merger at the EGM and the H Shareholders’ Class Meeting.

13. OTHER INFORMATION

Your attention is drawn to other information set out in the appendices to this document.

By order of the board of
China Machinery Engineering Corporation*
BAI Shaotong
Chairman

LETTER FROM THE INDEPENDENT BOARD COMMITTEE



中國機械設備工程股份有限公司
China Machinery Engineering Corporation*

(a joint stock limited company incorporated in the People's Republic of China with limited liability)
(Stock code: 1829)

6 July 2021

To the Shareholders

Dear Sir or Madam,

**(1) PROPOSED MERGER
BY ABSORPTION OF THE COMPANY BY THE OFFEROR
(2) PROPOSED WITHDRAWAL OF LISTING
(3) NOTICE OF THE EXTRAORDINARY GENERAL MEETING
AND
(4) NOTICE OF THE H SHAREHOLDERS' CLASS MEETING**

INTRODUCTION

We refer to the composite document dated 6 July 2021 jointly issued by the Company and the Offeror (the “**Composite Document**”), of which this letter forms part. Unless the context otherwise requires, terms defined in the Composite Document shall have the same meaning when used in this letter.

We have been appointed by the Board to form the Independent Board Committee to consider and to advise and make a recommendation to the Independent H Shareholders as to whether the terms of the Merger are, or are not, fair and reasonable and as to voting.

Somerley Capital Limited has been appointed as the Independent Financial Adviser to advise and make a recommendation to us as to whether or not the terms of the Merger are fair and reasonable so far as the Independent H Shareholders are concerned and as to voting. Details of its advice and the principal factors taken into consideration in arriving at its recommendation are set out in the letter from the Independent Financial Adviser on pages 26 to 67 of the Composite Document. We also wish to draw your attention to, and advise you to read, the letter from the Board on pages 7 to 23 of the Composite Document, the letter from Independent Financial Adviser on pages 26 to 67 of the Composite Document and the appendices to the Composite Document.

We, being the members of the Independent Board Committee, have declared that, we are independent and do not have any conflict of interest in respect of the Merger and are therefore able to consider the terms of the Merger and to make recommendations to the Independent H Shareholders.

LETTER FROM THE INDEPENDENT BOARD COMMITTEE

RECOMMENDATIONS

Having considered the principal factors and reasons considered by, and the advice of the Independent Financial Adviser as set out in its letter, we concur with the view of the Independent Financial Adviser and consider the terms of Merger to be fair and reasonable so far as the Independent H Shareholders are concerned.

Accordingly, we concur with the recommendation of the Independent Financial Adviser, and would recommend the Independent H Shareholders to vote in favour of the Merger.

Notwithstanding our views and recommendation in respect of the terms of the Merger, the Shareholders are strongly advised that their decision to vote for or against the resolutions in respect of the Merger depends on their own individual circumstances and investment objectives. If in doubt, the Shareholders should consult their own professional advisers for professional advice.

Yours faithfully,
For and on behalf of
Independent Board Committee

Mr. LIU Li
Independent
non-executive
Director

Ms. LIU Hongyu
Independent
non-executive
Director

Mr. FANG Yongzhong
Independent
non-executive
Director

Mr. WU Tak Lung
Independent
non-executive
Director

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Set out below is the letter of advice from the Independent Financial Adviser, Somerley Capital Limited, to the Independent Board Committee, which has been prepared for the purpose of inclusion in this Composite Document.



SOMERLEY CAPITAL LIMITED

20th Floor
China Building
29 Queen's Road Central
Hong Kong

6 July 2021

To: the Independent Board Committee

Dear Sirs,

**(1) PROPOSED MERGER BY ABSORPTION OF
THE COMPANY BY THE OFFEROR;
AND
(2) PROPOSED WITHDRAWAL OF LISTING**

INTRODUCTION

We refer to our appointment to advise the independent board committee of China Machinery Engineering Corporation (the “**Company**”) in connection with the proposed merger by absorption (the “**Merger**”) of the Company by China SUMEC Automotive Industry Consulting Development Co., Ltd. (the “**Offeror**”). Details of the Merger are set out in the composite document jointly issued by the Offeror and the Company dated 6 July 2021 (the “**Composite Document**”), of which this letter forms part. Capitalised terms used in this letter shall have the same meanings as those defined in the Composite Document unless the context otherwise requires.

On 13 January 2021, the Offeror and the Company published the Joint Announcement that they have entered into the Merger Agreement pursuant to which the Offeror and the Company will implement the Merger subject to the terms and conditions of the Merger Agreement. On 3 June 2021, the Offeror and the Company jointly announced that the Pre-Condition has been satisfied. After the Merger, the Company will be merged into and absorbed by the Offeror in accordance with the PRC Company Law and other applicable PRC Laws.

The Independent Board Committee comprising all independent non-executive Directors, namely Mr. LIU Li, Ms. LIU Hongyu, Mr. FANG Yongzhong and Mr. WU Tak Lung, has been established to advise the Independent H Shareholders as to whether the terms of the Merger are, or are not, fair and reasonable and as to voting. The Independent Board Committee has

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

approved our appointment as the Independent Financial Adviser to advise the Independent Board Committee in this regard. Mr. BAI Shaotong, Mr. MA Jian and Mr. ZHANG Zhiyu, each a non-executive Director, are not included as a member of the Independent Board Committee as they either hold positions in SINOMACH or were nominated by SINOMACH.

We are not associated and have no significant financial or other connection with the Company, the Offeror, SINOMACH or their respective substantial shareholders or any party acting, or presumed to be acting, in concert with any of them and, accordingly, are considered eligible to give independent advice on the Merger. During the past two years, there have been no engagements between the Group and/or SINOMACH and its subsidiaries and Somerley Capital Limited. During the past two years, apart from normal professional fees paid or payable to us in connection with this appointment, no arrangement exists whereby we will receive any fees or benefits from the Company, the Offeror, SINOMACH, their respective substantial shareholders or any party acting, or presumed to be acting, in concert with any of them.

In formulating our opinion, we have reviewed, among other things, (i) the Composite Document; (ii) the annual reports of the Company for the three years ended 31 December 2018, 2019 and 2020 (respectively the “**2018 Annual Report**”, the “**2019 Annual Report**” and the “**2020 Annual Report**”); and (iii) the material change statement set out in Appendix I to the Composite Document, together with the future prospects of the Group, which we have discussed with the management of the Group (the “**Management**”).

We have relied on the information and facts supplied by the Company and the opinions expressed by the Management and the Directors, and have assumed that the information and facts provided and opinions expressed to us are true, accurate and complete in all material aspects as at the Latest Practicable Date. We have further assumed that all representations contained or referred to in the Composite Document were true at the time they were made and at the date of the Composite Document and will continue to be true until the end of the Offer Period. Shareholders will be informed by the Offeror, SINOMACH and the Company as soon as reasonably possible if there is any material change to such representations during the Offer Period. We have sought and received confirmation from the Directors that no material facts have been omitted from the information supplied and opinions expressed to us. We consider that the information we have received is sufficient for us to reach our opinion and give the advice and recommendation set out in this letter. We have no reason to believe that any material information has been omitted or withheld, or to doubt the truth or accuracy of the information provided. We have, however, not conducted any independent investigation into the business and affairs of the Group, the Offeror, SINOMACH or any of their respective associates or any party acting, or presumed to be acting, in concert with any of them; nor have we carried out any independent verification of the information supplied.

We have not considered the tax and regulatory implications on the Independent H Shareholders in connection with the Merger since these are particular to their individual circumstances. In particular, Independent H Shareholders who are overseas residents or subject to overseas taxation or Hong Kong taxation on security dealings should consider their own tax position and, if in any doubt, should consult their own professional advisers.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

PRINCIPAL TERMS OF THE MERGER

Pursuant to the Merger Agreement, if the Merger is implemented, the Offeror will pay the Cancellation Price in the amount of:

- (i) **HK\$3.70 per H Share** to the H Shareholders in cash; and
- (ii) RMB3.082692 per Domestic Share, which is equivalent to the Cancellation Price of each H Share based on the Exchange Rate, to the Domestic Shareholders (namely SINOMACH and China United, being the parent of the Offeror and a wholly-owned subsidiary of SINOMACH, respectively), which will be satisfied through the issuance of registered capital of the Offeror to the Domestic Shareholders.

The Cancellation Price has been determined on a commercial basis after taking into account, among other things, the prices of the H Shares traded on the Stock Exchange and with reference to other similar transactions in Hong Kong in recent years.

It is stated in the Composite Document that the Cancellation Price will not be increased and the Offeror does not reserve the right to do so.

Set out below is a summary of the terms of the Merger Agreement, further details of which are set out in the “Letter from the Board” contained in the Composite Document. Independent H Shareholders are encouraged to read the Composite Document and the appendices in full.

Parties

- (1) The Offeror; and
- (2) the Company.

Overview of the Merger

Subject to the terms and conditions of the Merger Agreement, the Merger will be implemented by the Offeror merging the Company by way of merger by absorption.

After the completion of the Merger, the Offeror will assume all assets, liabilities, interests, businesses, employees, contracts and all other rights and obligations of the Company and the Company will be eventually deregistered.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Consideration

As set out above, if the Merger is implemented, the Offeror will pay the Cancellation Price in the amount of (a) HK\$3.70 per H Share to the H Shareholders in cash; and (b) RMB3.082692 per Domestic Share to the Domestic Shareholders (being SINOMACH and China United) through the issuance to the Domestic Shareholders RMB3.082692 registered capital of the Offeror for each Domestic Share (equivalent to the amount of Cancellation Price per Domestic Share) based on the total amount of the consideration to be paid to the Domestic Shareholders (equal to the aforementioned cancellation price per Domestic Share multiplied by the number of Domestic Shares held by the Domestic Shareholders, and rounded down to two decimal places) and the Offeror's audited net asset value as at 31 December 2020.

Pre-Condition to the Merger Agreement becoming effective

The Merger Agreement is subject to the satisfaction of a Pre-Condition, being the filing, registration or approval, as applicable, with or by:

- (a) the National Development and Reform Commission of the PRC (as applicable); and
- (b) Ministry of Commerce of the PRC (as applicable); and
- (c) the State Administration of Foreign Exchange of the PRC or its local authorities (as applicable), and such other applicable governmental approvals in respect of the Merger having been obtained or completed.

The Pre-Condition has been fulfilled on 3 June 2021.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Conditions

The Merger will only be effective and implemented after satisfaction or waiver (as applicable) of certain Conditions, including the followings:

Conditions to effectiveness

After the Pre-Condition is satisfied, the Merger Agreement shall become effective upon satisfaction of all of the following conditions (none of which is capable of being waived):

- (1) the passing of special resolution(s) by a majority of not less than two-thirds of the votes cast by way of poll by the Shareholders present and voting in person or by proxy at the EGM to approve the Merger under the Merger Agreement in accordance with the Articles and the PRC Laws; and
- (2) the passing of special resolution(s) by way of poll approving the Merger under the Merger Agreement at the H Shareholders' Class Meeting to be convened for this purpose, provided that: (a) approval is given by at least 75% of the votes attaching to the H Shares held by the Independent H Shareholders that are cast either in person or by proxy; and (b) the number of votes cast against the resolution(s) is not more than 10% of the votes attaching to all H Shares held by the Independent H Shareholders.

If the above Conditions to effectiveness are not satisfied by the Long-stop Date, the Merger Agreement may be terminated by either party.

Conditions to implementation

After the Merger Agreement becomes effective upon satisfaction of the Pre-Condition and all the Conditions to effectiveness, the implementation of the Merger shall be subject to satisfaction or waiver (as applicable) of certain Conditions to implementation, details of which are set out in the "Letter from the Board" contained in the Composite Document.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Payment of consideration

The Offeror shall, as soon as possible and in any event no later than seven (7) business days after fulfilment (or waiver, if applicable) of the Pre-Condition and all the Conditions (being the Conditions to effectiveness and the Conditions to implementation), pay the Cancellation Price to all H Shareholders and all Domestic Shareholders.

After payment of consideration is made to the H Shareholders and the Domestic Shareholders by or on behalf of the Offeror, all rights attaching to such Shares shall cease to have effect and the relevant Shares shall be cancelled. The share certificates for H Shares and Domestic Shares will cease to have effect as documents or evidence of title.

Payment of consideration to the H Shareholders is deemed to be completed once the Offeror or any entity designated by it has despatched to the H Shareholders the cheques for such consideration, while payment of consideration to the Domestic Shareholders is deemed to be completed once the Offeror has delivered to SINOMACH and China United the Offeror's register of members and certification of capital contribution affixed with the Offeror's official seal reflecting the Offeror's shareholding structure after the issuance of the registered capital of the Offeror to SINOMACH and China United in accordance with the Merger Agreement.

The Company's undertakings

Unless with the prior written consent of the Offeror, the Company shall not issue any Shares, conduct any major acquisitions or disposals which may constitute a discloseable transaction under Chapter 14 of the Listing Rules (i.e. any acquisitions or disposals which may constitute a discloseable transaction or above under Chapter 14 of the Listing Rules) or declare, make or pay any dividend or other distribution (whether in cash or in kind) to the Shareholders since the date of the Merger Agreement till the termination of the Merger Agreement or the end of the Offer Period (whichever is earlier).

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

As at the Latest Practicable Date, the Company has no outstanding dividend that has been declared, made but not yet paid. From the Latest Practicable Date to the end of the Offer Period, the Company does not have intention to propose, declare or pay any dividends or make other distributions nor the Cancellation Price is subject to any dividend proposed or declared but not yet paid.

Right of a Dissenting Shareholder

According to the Articles, any Dissenting Shareholder may by written notice request the Company and/or other Shareholders who have approved the Merger (collectively the “**Consenting Shareholders**”) to acquire its Shares at a “fair price”.

If any Dissenting Shareholder exercises its right, the Offeror, if so elected by the Company and/or the Consenting Shareholders, will assume the obligation which the Company and/or the Consenting Shareholders may have towards such Dissenting Shareholder to acquire the Shares held by that Dissenting Shareholder at a “fair price”.

The exercise of its right by a Dissenting Shareholder is subject to the following criteria:

- (1) such Dissenting Shareholder having validly voted against the resolutions in respect of the Merger at the EGM and (if applicable) the H Shareholders’ Class Meeting;
- (2) such Dissenting Shareholder having been validly registered as a shareholder on the share register of the Company since the record date for the EGM and (if applicable) the H Shareholders’ Class Meeting, and having held such Share(s) in respect of which it intends to exercise its right until the Exercise Date; and
- (3) such Dissenting Shareholder having exercised its right during the Declaration Period.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

A Shareholder is not entitled to exercise its right as a Dissenting Shareholder in respect of such Share(s) held by it if:

- (1) such Shareholder has undertaken to the Company to waive its right;
- (2) such Shareholder is prohibited from exercising its right in accordance with applicable laws; or
- (3) any Share held by such Shareholder is subject to pledge, other third-party rights or judicial moratorium, without having legally obtained written consent or approval from the relevant pledgee, third party or competent authority.

The Independent H Shareholders should note that there is no administrative guidance on the substantive as well as procedural rules as to how the “fair price” will be determined under the PRC Laws. Thus, no assurance can be given as to (i) the time required for the process to take; (ii) any favourable results to be granted to the Dissenting Shareholders; and (iii) the cost may be incurred by the Dissenting Shareholders in such process for determining the “fair price”. For the avoidance of doubt, if the Merger does not proceed as a result of the Conditions not being fulfilled in full or waived (if applicable) or the Merger Agreement being terminated, the Dissenting Shareholders (if any) shall not be entitled to exercise their right as described above. Under the Articles, whenever any disputes or claims arise between the H Shareholders and the Company, the H Shareholders and the Company’s directors, supervisors, general manager or other senior management officers, or the H Shareholders and the Domestic Shareholders, in respect of any rights or obligations arising from the Articles, the PRC Company Law or any rights or obligations conferred or imposed by any other relevant laws and administrative regulations concerning the affairs of the Company, such disputes or claims shall be referred by the relevant parties to arbitration.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

As at the Latest Practicable Date, the Pre-Condition had been fulfilled and none of the Conditions have been fulfilled or waived (as applicable). The Merger complies with Rule 2.10 of the Takeovers Code. Upon satisfaction of all the Conditions to effectiveness, the Company does not intend to retain its listing on the Stock Exchange and will apply to the Stock Exchange for voluntary withdrawal of the listing of the H Shares from the Stock Exchange in accordance with Rule 6.15(2) of the Listing Rules. The listing of the H Shares on the Stock Exchange will not be withdrawn if the Merger is not approved or lapses or does not become unconditional for any reason. In such cases, no cancellation of the Shares will take place pursuant to the Merger Agreement and the Company's public float would not be affected as a result of the Merger not being approved or otherwise lapses or does not become unconditional. If the Conditions are not fulfilled or waived (as applicable) on or before the Long-stop Date, being 13 January 2022, the Merger will lapse.

PRINCIPAL FACTORS AND REASONS CONSIDERED

In formulating our opinion and recommendations with regard to the Merger, we have taken into account the following principal factors and reasons:

1. Information and prospects of the Group

(i) Information on the background of the Group

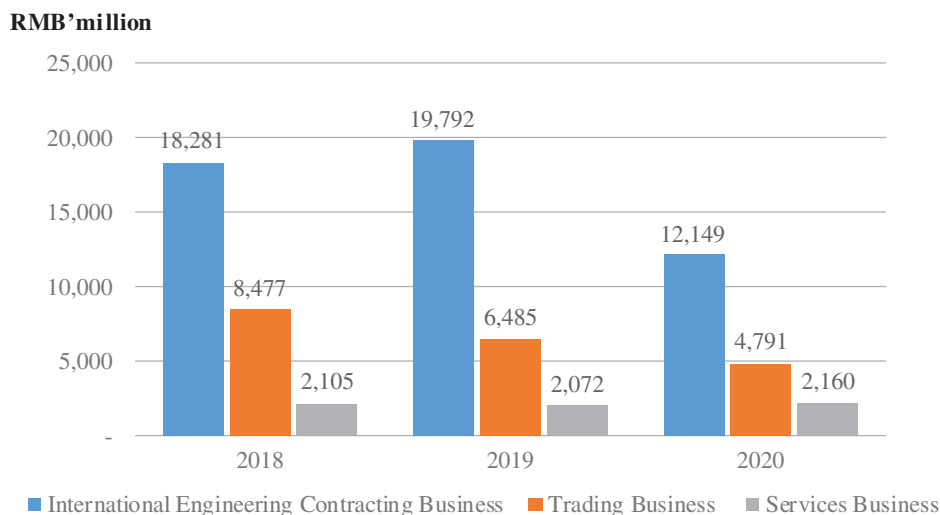
The Company is a joint stock company with limited liability incorporated in the PRC and was listed on the Main Board of the Stock Exchange on 21 December 2012. The Group is an international engineering contractor and service provider with a primary focus on the engineering, procurement and construction (“EPC”) projects and particular expertise in the power sector, capable of providing one-stop customised and integrated engineering contracting solutions and services. The Group is also engaged in trading, services, design consultation and other emerging sector business. Set out below are the details of the three business segments of the Group:

- (a) International Engineering Contracting Business: mainly EPC contracting business of overseas infrastructure-related construction projects (including hydropower, thermal power or other engineering projects) in various countries
- (b) Trading Business: mainly business of importing and/or exporting various machinery, electrical and instrumental products for domestic and overseas customers
- (c) Services Business: mainly providing export-import agency services, design consulting services, tendering agency services, logistics services and other services

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

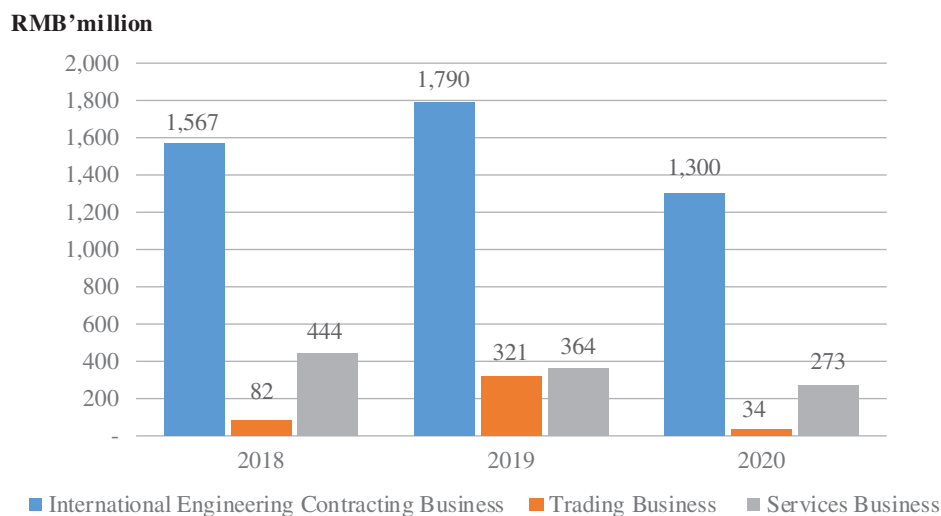
International Engineering Contracting Business has been the largest business segment of the Group in terms of revenue and profits. The charts below show the trend of segment revenue and segment profits of the Group for the past three financial years ended 31 December 2018, 2019 and 2020:

Segment revenue



** based on revenue from external customers only*

Segment profit



** before reconciliation for unallocated items for segment reporting*

Further details of the fluctuations of the Group's revenue and profits are set out in the sub-section headed "(ii) Financial information of the Group" below.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

(ii) Financial information of the Group

Details of the financial information of the Group are set out in Appendix I to the Composite Document. We have reviewed such financial information and other financial reports of the Company (including the 2018 Annual Report, the 2019 Annual Report and the 2020 Annual Report) and discussed with the Management the financial information of the Group. Details of the Group's historical financial information are set out below.

(a) Financial performance

The following is a summary of the financial results of the Group for the three years ended 31 December 2018, 2019 and 2020 (extracted from the 2019 Annual Report and the 2020 Annual Report respectively).

<i>(Amounts in RMB'000)</i>	For the year ended 31 December		
	2020	2019	2018
	<i>(audited)</i>	<i>(audited and restated)</i>	<i>(audited)</i>
Revenue	19,100,165	28,348,250	28,862,688
Gross profit	3,673,370	4,831,423	4,695,953
Profit from operations	1,764,061	1,957,260	1,551,938
Profit for the year	1,200,246	2,200,263	2,135,841
Profit attributable to owners of the Company	1,186,591	2,193,493	2,131,540
Earnings per Share attributable to ordinary equity holders of the Company	RMB0.29	RMB0.53	RMB0.52
Dividend per Share	–	RMB0.1586	RMB0.2067

(i) Revenue and gross profit

As set out in the table above, revenue and gross profit of the Group did not record material changes between the two years ended 31 December 2018 and 2019, but showed a significant decrease during the year ended 31 December 2020 as compared to 2019. The Group has customers around the world with most of the revenue generated from customers outside China. Revenue generated from external customers of the Company outside China contributed to approximately 66.4%, 75.2%, and 66.6% of the Group's total revenue in the year ended 31 December 2018, 2019 and 2020 respectively.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

We have further reviewed the Group's revenue and gross profit from different business segments as follows:

Segment revenue:

<i>(Amounts in RMB'million)</i>	For the year ended 31 December		
	2020	2019	2018
	<i>(audited)</i>	<i>(audited and restated)</i>	<i>(audited)</i>
International Engineering Contracting Business	12,148.7	19,791.9	18,280.9
Trading Business	4,791.1	6,484.6	8,476.5
Services Business	2,160.4	2,071.7	2,105.2

Segment gross profit:

<i>(Amounts in RMB'million)</i>	For the year ended 31 December		
	2020	2019	2018
	<i>(audited)</i>	<i>(audited and restated)</i>	<i>(audited)</i>
International Engineering Contracting Business	2,702.7	3,563.2	3,486.1
Trading Business	441.6	607.7	489.4
Services Business	529.1	660.5	720.5

(a) International Engineering Contracting Business

This is the core business segment of the Group, contributing to approximately 63%, 70% and 64% of the Group's total revenue, and approximately 74%, 74% and 74% of the Group's total gross profit in the year ended 31 December 2018, 2019 and 2020 respectively. The Group has particular expertise in engineering contracting business for power industry, and revenue from power sector represented approximately 69%, 62% and 57% of total revenue of this business segment for the year ended 31 December 2018, 2019 and 2020 respectively. The remaining revenue was contributed by transportation and telecommunications sector and other non-core sectors.

Revenue from the International Engineering Contracting Business segment increased by approximately 8.3% during the year ended 31 December 2019 as compared to the year ended 31 December 2018, primarily due to the increase in revenue generated from non-core sectors as a result of significant progress in the water plant projects in Africa and Asia and the lithium carbonate plant project in South America during the year. As a result of such increase in revenue, gross profit from the International Engineering Contracting Business increased in 2019 as compared to 2018.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

During the year ended 31 December 2020, the Group's revenue and gross profit generated from the International Engineering Contracting Business recorded a decrease of approximately 38.6% and 24.1% respectively as compared to 2019. Such decreases were mainly due to the decrease in revenue caused by the COVID-19 epidemic which caused delayed progress of different projects. The value of newly signed contracts of the International Engineering Contracting Business for the year ended 31 December 2020 also decreased by approximately 37.6% as compared to 2019.

(b) Trading Business

Revenue generated from the Trading Business segment decreased by approximately 23.5% for the year ended 31 December 2019 as compared to the year ended 31 December 2018. As set out in the 2019 Annual Report, such decrease was mainly due to the decrease in the revenue from international trade and domestic trade, which was primarily due to the reduction in the trading businesses with low gross profit margin and high capital occupation pressure, as well as reduction in trading activities after the Group's disposal and adjustments to certain trading subsidiaries. As a result of the aforesaid strategic actions of the Group, gross profit margin of the Trading Business segment increased from approximately 5.8% in 2018 to approximately 9.4% in 2019, which led to the increase in gross profit despite a decrease in revenue.

During the year ended 31 December 2020, the Group's revenue and gross profit from the Trading Business segment decreased by approximately 26.1% and 27.3% respectively as compared to 2019, which was primarily due to the decreases in revenue from both international trade and domestic trade as a result of the COVID-19 epidemic.

(c) Services Business

Revenue generated from the Services Business segment was relatively stable between 2018 and 2019, with a slight decrease of approximately 1.6% for the year ended 31 December 2019 as compared to the year ended 31 December 2018. We note from the 2019 Annual Report that such decrease was primarily due to decrease in revenue from franchise electricity sale as a result of the local drought. Gross profit from the Services Business segment decreased from approximately RMB720.5 million in 2018 to approximately RMB660.5 million in 2019, mainly due to the aforesaid decrease in revenue generated during the year, while the daily operating costs maintained basically the same level with the previous year.

During the year ended 31 December 2020, the Group's revenue from the Services Business segment continued to remain stable with a slight increase of approximately 4.3% as compared to 2019, primarily due to the increase in revenue generated from design consulting services and survey and supervision services provided. We understand from the Management that the impact of COVID-19 pandemic on this business segment is relatively smaller due to the fact that revenue from this business segment in 2020 was mainly generated from customers within China, which economic activities have resumed

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

sooner than other countries comparatively, while revenue from other business segments was mainly generated from external customers of the Company outside China. On the other hand, gross profit from the Services Business segment showed a decrease of approximately 19.9% for the year ended 31 December 2020 as compared to 2019, mainly attributable to decrease in gross profit of the logistics services as a result of increasing operating costs during the year under the COVID-19 pandemic.

(ii) Net profit

Profit attributable to owners of the Company increased from approximately RMB2,131.5 million for the year ended 31 December 2018 to approximately RMB2,193.5 million for the year ended 31 December 2019, representing an increase of approximately 2.9%. We have reviewed the 2019 Annual Report and note that such increase was mainly due to (a) increase in gross profit as discussed above; (b) decrease in selling and distribution expenses of approximately RMB141.5 million mainly because of the decrease in labour costs; and (c) decrease in net impairment losses on financial and contract assets of approximately RMB238.1 million, partially offset by decrease in net finance income of approximately RMB451.5 million mainly as a result of decrease in exchange gain.

During the year ended 31 December 2020, the Group's profit attributable to owners of the Company decreased by approximately RMB1.0 billion to approximately RMB1.2 billion for the year ended 31 December 2020 as compared to 2019, representing a decrease of approximately 45.9%. We have reviewed the 2020 Annual Report and note that such decrease was mainly due to (a) decrease in gross profit during the year as discussed above; and (b) increase in net finance expenses due to foreign exchange losses recorded during the year as a result of the appreciation of RMB, partially offset by (a) decreases in selling and distribution expenses and administrative expenses primarily due to decreases in labour costs, business trip expenses and intermediary services expenses; and (b) increase in other income as a result of the net gains from fair value changes of foreign currency forward exchange contracts.

(iii) Earnings per share

Earnings per Share attributable to ordinary equity holders of the Company for the years ended 31 December 2018, 2019 and 2020 were approximately RMB0.52, RMB0.53 and RMB0.29 respectively. Movement in earnings per share of the Group is generally in line with the changes in the Group's profit attributable to owners of the Company.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

(iv) Dividends

	For the year ended 31 December		
	2020	2019	2018
Total dividend per Share (RMB)	–	0.1586	0.2067
Earnings per Share (RMB)	0.29	0.53	0.52
Dividend payout ratio	Not applicable	29.9%	39.8%
Dividend yield	Not applicable	5.7%	6.3%

Note: Dividend payout ratios are calculated as yearly dividends per Share divided by earnings per Share. Dividend yields are calculated as dividend per Share divided by closing Share price and exchange rate between RMB and HK\$ at respective year end as sourced from Bloomberg.

The dividend yield of the Group was approximately 6.3% and 5.7% for each of the year ended 31 December 2018 and 2019 respectively while dividend payout ratio was approximately 40% and 30% respectively for the two years. No dividend was declared for the year ended 31 December 2020. As set out in the section headed “3. Principal terms of the Merger Agreement” of the “Letter from the Board” contained in the Composite Document, unless with the prior written consent of the Offeror, the Company has undertaken, among other things, that it shall not declare, make or pay any dividend or other distribution (whether in cash or in kind) to the Shareholders since the date of the Merger Agreement till the termination of the Merger Agreement or the end of the Offer Period (whichever is earlier). Based on the Cancellation Price of HK\$3.70 per H Share (equivalent to RMB3.082692 based on the Exchange Rate) and dividend of RMB0.1586 per Share in 2019, the implied dividend yield is approximately 5.1%. The lower implied dividend yield of approximately 5.1% as compared with historical dividend yield of approximately 5.7% in 2019 is a result of the premium of the Cancellation Price over the historical share price, representing a favourable exit option for the Independent H Shareholders.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

(b) *Financial position*

Set out below is a summary of the financial position of the Group as at 31 December 2018, 2019 and 2020 (as extracted from the 2019 Annual Report and the 2020 Annual Report).

<i>(Amounts in RMB'000)</i>	As at 31 December		
	2020	2019	2018
	<i>(audited)</i>	<i>(audited and restated)</i>	<i>(audited)</i>
Non-current assets	14,466,983	14,892,763	12,428,161
Current assets	<u>36,552,245</u>	<u>39,107,121</u>	<u>43,686,456</u>
Total assets	<u>51,019,228</u>	<u>53,999,884</u>	<u>56,114,617</u>
Non-current liabilities	1,811,355	1,713,618	1,409,869
Current liabilities	<u>30,897,452</u>	<u>34,252,526</u>	<u>38,191,494</u>
Total liabilities	<u>32,708,807</u>	<u>35,966,144</u>	<u>39,601,363</u>
Net current assets	5,654,793	4,854,595	5,494,962
Total equity attributable to owners of the Company	18,197,456	17,895,019	16,427,408

Amounts of non-current assets, current assets, non-current liabilities and current liabilities of the Group were relatively stable between 31 December 2019 and 31 December 2020, resulting in a relatively stable total equity attributable to owners of the Company. Key assets of the Group as at 31 December 2020 included (i) cash and cash equivalents of approximately RMB14.8 billion; (ii) current and non-current trade and other receivables of approximately RMB17.2 billion; (iii) contract assets arising from construction services of approximately RMB4.6 billion; and (iv) property, plant and equipment of approximately RMB2.7 billion. Key liabilities of the Group as at 31 December 2020 included current and non-current trade and other payables of approximately RMB18.3 billion and contract liabilities representing mainly advances received from customers of approximately RMB12.5 billion. The Group did not incur significant borrowings and its gearing ratio (as calculated by dividing total borrowings by total assets) was approximately 1.8% as at 31 December 2020.

We have reviewed the 2020 Annual Report and note that the International Engineering Contracting Business accounted for majority of the reporting segment assets and liabilities of the Group as at 31 December 2020. As set out in the 2020 Annual Report, reportable segment non-current assets of the Group amounted to approximately RMB5,582.7 million as at 31 December 2020, of which approximately 98.6% was located within mainland China.

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(c) Summary of financial information of the Group

Financial performance of the Group was relatively stable between 2018 and 2019. The International Engineering Contracting Business has been the largest business segment of the Group and it played an important role in the Group's performance. Results of the Group were adversely affected as a result of the COVID-19 epidemic and as a result the Group recorded a decrease of approximately 45.9% in profit attributable to owners of the Company for the year ended 31 December 2020 as compared to the year ended 31 December 2019.

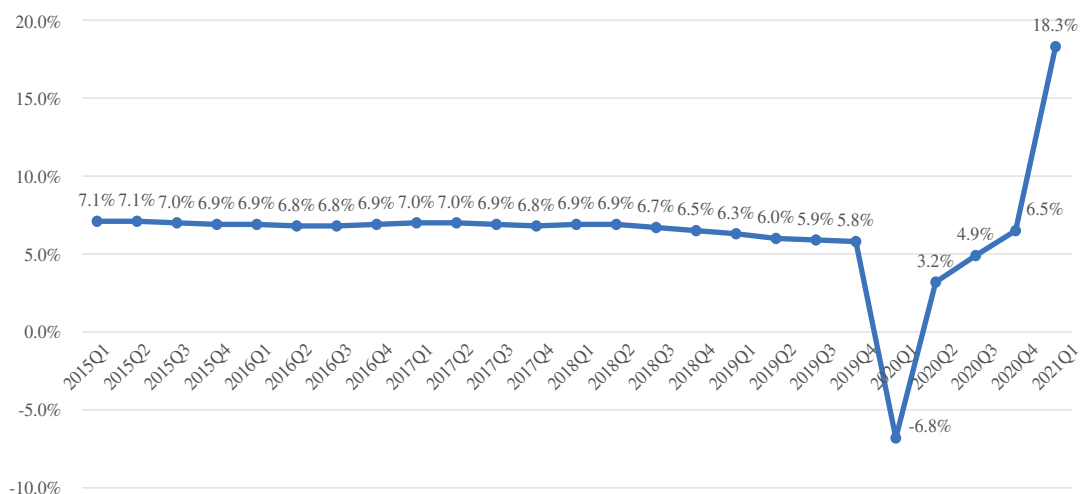
Financial position of the Group has been healthy over the period we have reviewed in this section above. The Group had total equity attributable to owners of the Company of approximately RMB18.2 billion as at 31 December 2020, with a low gearing ratio of approximately 1.8%.

(iii) Prospects of the Group

Overview of economy and industry

The Company was incorporated in the PRC with a significant portion of non-current assets held within the mainland China. At the same time, the Group has been operating its businesses with customers around the world with majority of its revenue generated from customers outside China. The Group's businesses will be affected by both the PRC economic environment and global economic environment. Set out below are two charts illustrating the gross domestic product ("GDP") of China and the world economic projections:

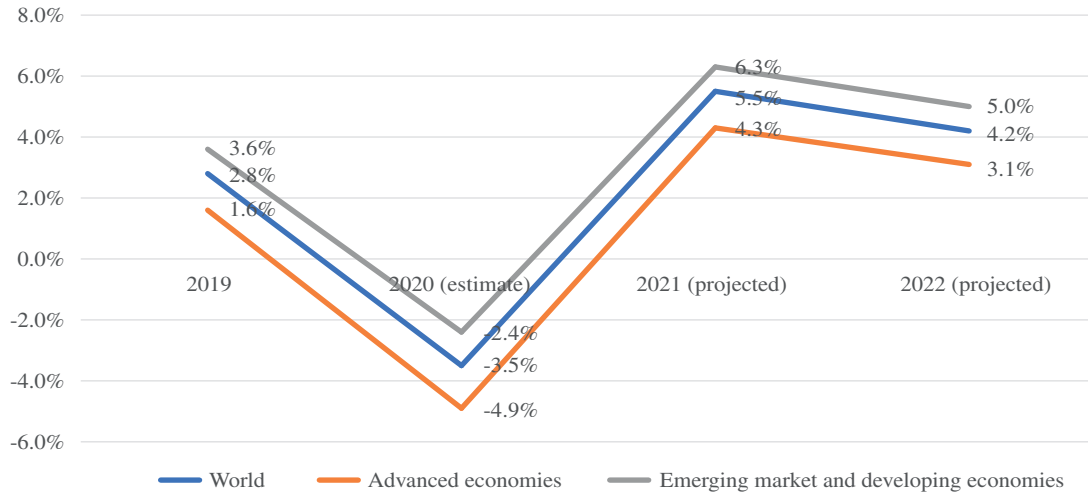
GDP growth of China by quarter (year-on-year comparison)



Source: preliminary data from National Bureau of Statistics of China

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World economic outlook – output (year-on-year comparison)



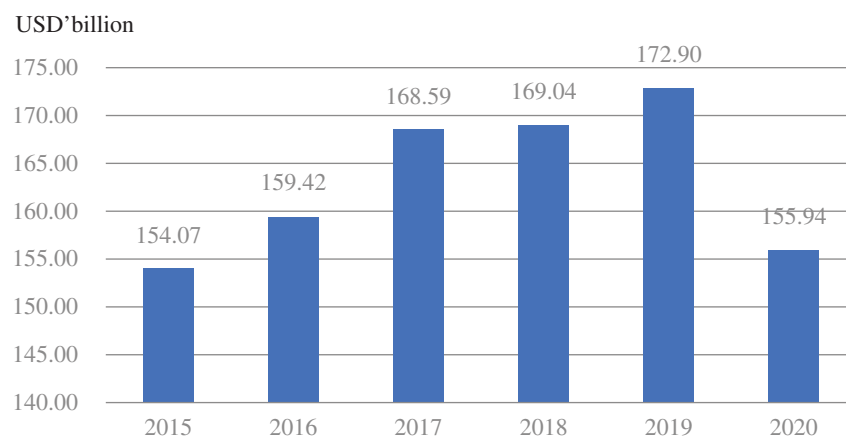
Source: world economic outlook update published by International Monetary Fund in January 2021

As set out in the charts above, the economies of China and the world (including advanced economies and emerging market and developing economies) were adversely affected in year 2020. The GDP of China recorded a significant decrease of approximately 6.8% in the first quarter of 2020. Based on the data from National Bureau of Statistics of China, the GDP of China in 2020 recorded an annual growth of approximately 2.3%, the lowest annual growth rate over the past 20 years. At the same time, the output of the world economies (including advanced economies and emerging market and developing economies) were estimated to recorded a decline in 2020 based on the world economic outlook update published by International Monetary Fund in January 2021. As set out in the charts above, the economy of China was recovering since the second quarter of 2020 and International Monetary Fund estimates that the world economy will recover in 2021 and 2022. It shall be noted that International Monetary Funds pointed out certain risks in its world economic outlook update published in January 2021, among which there might be upside and downside as a result of the development of the COVID-19 pandemic including among others, number of infections and deaths, vaccine progress and pandemic prevention measures.

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As discussed in this section above, the International Engineering Contracting Business has been the core business segment of the Group. We have also reviewed the information of foreign contracted engineering business in China, details of which are set out in the chart below:

**Foreign contracted engineering business in China
(year-on-year comparison)**



Source: National Bureau of Statistics of China and Ministry of Commerce of the PRC

As set out in the chart above, the amount of foreign contracted engineering business in China has been increasing from 2015 to 2019, but recorded a decrease of approximately 9.8% from 2019 to 2020.

Prospects of the Group

As discussed with the Management and as set out in the 2020 Annual Report, the Group will continue to stabilise its International Engineering Contracting Business, and at the same time promote transformation of its Trading Business and its Services Business, including, among other things, promoting its design consulting business. The Group will also pay attention to the development of emerging business with an aim to expanding its businesses. The Group will continue to stay close and be more active adapting to changes in energy trends and new technologies to maintain its competitive strengths. In addition, the Group will take the opportunities to develop the domestic market while maintaining its strength in the overseas market in respond to the “dual circulation” as promoted in the 14th Five-year plan of the government in the PRC.

Our view

The business environment of the Group was under a downturn in 2020 as evidenced by the decrease in foreign contracted engineering business in China and the deterioration in the Group’s financial results which were adversely affected by the COVID-19 pandemic. Further, economic environment of both China and the world was adversely

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affected by the COVID-19 pandemic in 2020. There are positive signs of the Chinese economy since second quarter of 2020 and the world economies are expected to record growth in both 2021 and 2022. The Group will continue to stabilise and to promote transformation of its existing businesses. However, there are still uncertainties in the future economic development, including, among other things, development of the COVID-19 pandemic and its impact on the global economy, which in turn will cast uncertainties on the future business and financial performance of the Group.

2. Reasons and benefits of the Merger

Reasons and benefits of the Merger are set out in the section headed “6. Reasons and benefits of the Merger” in the “Letter from the Board” contained in the Composite Document. As set out in the aforesaid section in the Composite Document, the Company has not raised any funds through equity issuance since the listing of the H Shares on the Stock Exchange. The Company’s H Shares have been trading at a relatively low price range in 2020 as compared to 2019, with an average closing H Share price of approximately HK\$3.5 per H Share and HK\$2.1 per H Share in 2019 and 2020 respectively, with sluggish trading volume for most of the time since 2019 up to the last trading date before the publication of the Joint Announcement, with the percentages of monthly total trading volumes of the H Shares to the total issued H Shares in public float below 10% (other than December 2020 and January 2021 as further discussed in the section headed “4. Analysis of price performance and trading liquidity of the H Shares” of this letter below). As a result, the Company’s ability to raise funds from the equity market is significantly limited. The Company has lost the advantage as a listing platform with limited equity fund-raising ability. The Company may benefit from saving in the costs related to compliance and maintenance of the listing status after the Merger is implemented and the H Shares are delisted from the Stock Exchange.

Also, under the influence of the international COVID-19 pandemic and the global economic environment, the Company’s overseas business principally in Asia, Africa, South America and North America, representing approximately 75.33% and 66.59% of the revenue generated from external customers of the Company for the year ended 31 December 2019 (without taking into account the restatement made when preparing the Group’s annual results for the year ended 31 December 2020) and 2020 respectively, are facing major challenges with uncertainties in future operations. In order to maintain core competitiveness, the Company needs to unify and sort out its strategy and business direction, exploring new development opportunities and long-term growth strategies, which may cause uncertainty in the Company’s financial performance in the short term, thereby causing losses to H Shareholders as a result of possible share price fluctuation arising from market’s reaction to the Company’s financial performance. After the completion of the Merger, the Company can formulate long-term strategies with more flexibility and avoid the pressure from market expectations and stock price fluctuation risks as a listed company.

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In addition, the Cancellation Price represents a premium over the market price of H Shares of the Company. Therefore, the Merger, if implemented, will offer the H Shareholders a valuable opportunity to realise their investments in the Company with an attractive premium and reallocate the proceeds from the disposal of the H Shares to alternative investment opportunities with more liquidity. Further details on the comparison of the Cancellation Price and trading liquidity of the H Shares are set out in the section headed “4. Analysis of price performance and trading liquidity of the H Shares” of this letter below.

3. Information on the Offeror and its intention regarding the Company

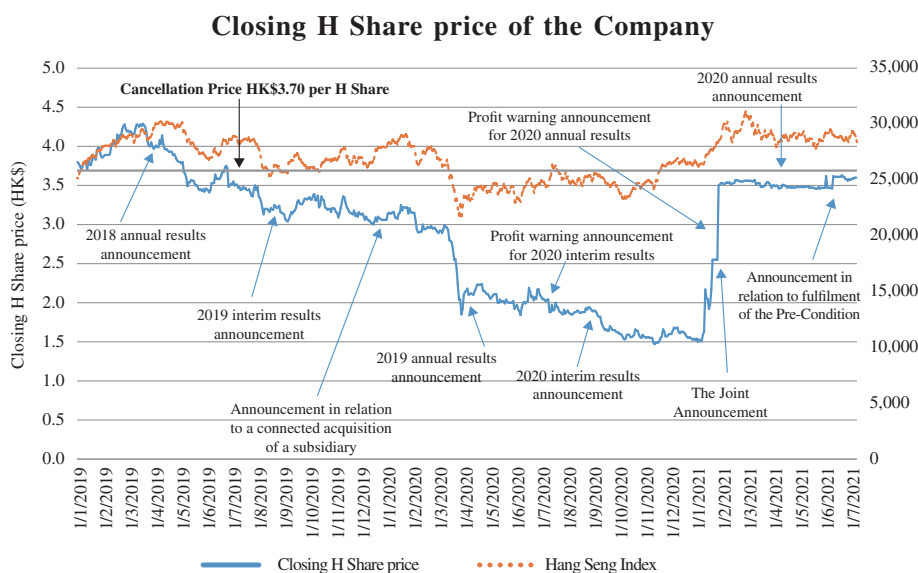
The Offeror is a company incorporated in the PRC with limited liability on 5 December 1987. The Offeror is wholly-owned by SINOMACH, which is in turn wholly-owned by the State Council of the PRC. The Offeror had been primarily engaged in management consulting business but does not have any substantive operations as at the Latest Practicable Date. Based on the information on its website, SINOMACH is an international, diversified, comprehensive industrial equipment company committed to providing quality services globally. Its primary businesses cover five main areas of equipment manufacturing and modern manufacturing services, including mechanical manufacturing, technical research and development, engineering project contracting, trade and services, and finance and investment.

After the Merger, the Company will merge into the Offeror, with the Offeror as the surviving entity, and will cease to exist as a separate legal entity. As set out in the “Letter from the Board” contained in the Composite Document, it is the intention of the Offeror that it will continue to carry on the existing business of the Company. While the Offeror does not intend to introduce any major changes to the existing business of the Company (including any redeployment of the fixed assets of the Company) after the Merger, the Offeror does not rule out the possibility of any changes in the future if and when it thinks needed in order to benefit the Offeror. The Offeror does not intend to make any significant changes to the continued employment of the employees of the Company and its subsidiaries. Following completion of the Merger, the employment contracts of all employees of the Company will continue with the Offeror as the surviving corporation. We note from the “Letter from the Board” contained in the Composite Document that the Board is willing to cooperate with the Offeror and act in the best interests of the Company and the Shareholders as a whole.

4. Analysis of price performance and trading liquidity of the H Shares

(i) Historical price performance of the H Shares

In assessing the recent H Share price performance, we consider a review period commencing from 1 January 2019 to the Latest Practicable Date would be useful for the Independent H Shareholders in considering the Merger as it demonstrates the H Share price performance under recent market sentiments. The chart below illustrates the daily H Share closing prices from 1 January 2019 up to and including the Latest Practicable Date (the “**Review Period**”), and the comparison of the H Share price performance with Hang Seng Index and the Cancellation Price.



Source: Bloomberg

During the Review Period before the publication of the Joint Announcement, the H Share price closed in a range of HK\$1.47 to HK\$4.29 per H Share, with an average of approximately HK\$2.79 per H Share. Approximately 83% of the trading days during the Review Period (up to the date of the Joint Announcement) saw a closing H Share price below the Cancellation Price of HK\$3.70 per H Share.

From January 2019 to mid-March 2019, the closing H Share price demonstrated a general upward trend, reaching a highest of HK\$4.29 on 19 March 2019. The performance of the H Shares was generally in line with that of the Hang Seng Index during such period. After that, the H Share price showed a generally decreasing trend in the rest of 2019 and has slightly underperformed the Hang Seng Index. On 26 March 2019 (after trading hours), the Company released its annual results announcement for the year ended 31 December 2018, showing an increase in net profit attributable to owners of the Company of approximately 20.1% as compared to 2017. Subsequently, the closing H Share price increased slightly from HK\$4.0 per H Share on 27 March 2019 to HK\$4.14 per H Share on 10 April 2019. On 26 August 2019 (after trading hours), the Company released its interim results for the six months ended 30 June 2019. The results showed that there was

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an increase in net profit attributable to owners of the Company of approximately 10.0% as compared to the same period in 2018. Since then, the closing H Share price fluctuated between HK\$3.00 and HK\$3.39 per H Share from 27 August 2019 to 17 December 2019.

On 17 December 2019 (after trading hours), the Company published an announcement in relation to a connected acquisition of a subsidiary which is principally engaged in the whole process of design and technical consulting service in the power station field from a fellow subsidiary. After the announcement, the H Share price of the Company was relatively stable in the remaining period in 2019 and closed at HK\$3.14 per H Share on 31 December 2019.

The closing H Share price demonstrated a general downward trend in the first three months in 2020, fluctuating between HK\$1.85 (23 March 2020) and HK\$3.25 (13 January 2020), which is generally in line with the performance of Hang Seng Index. It is noted that the H Share price declined materially from HK\$2.99 per H Share on 3 March 2020 to HK\$1.85 per H Share on 23 March 2020, and the Hang Seng Index also showed a consistent movement during such period. Such decrease in closing H Share prices and Hang Seng Index may possibly be due to the outbreak of COVID-19 in various countries, affecting the market sentiments.

On 30 March 2020 (after trading hours), the Company released its annual results announcement for the year ended 31 December 2019, showing an increase of net profit attributable to owners of the Company of approximately 2.3%. The H Shares price closed between HK\$1.84 and HK\$2.24 per H Share from 31 March 2020 to 3 July 2020.

The Company released a profit warning announcement on 3 July 2020, stating that a substantial decrease in net profit was expected in the first half of 2020, mainly due to the impact of the outbreak of the COVID-19 pandemic on the market conditions. Subsequently, the Company released its interim results for the six months ended 30 June 2020 on 26 August 2020, showing a decrease in the net profit attributable to the owners of the company of approximately 36.5% compared to the respective period in 2019. From 27 August 2020 to 29 December 2020, the H Share price experienced a slight downward trend from a closing price of HK\$1.83 per H Share on 27 August 2020 to HK\$1.63 per H Share on 29 December 2020.

It is noted that shortly before the Joint Announcement, closing H Share price showed a significant increase of approximately 56.4% from HK\$1.63 per H Share on 29 December 2020 to HK\$2.55 per H Share on 7 January 2021, i.e. the Last Trading Date. Meanwhile, the trading volume of the H Shares substantially increased since 30 December 2020 until the Last Trading Date, with an aggregate of approximately 144.4 million H Shares traded and an average daily trading volume of approximately 24.1 million H Shares during such period, which was substantially higher than the average daily trading volume of approximately 1.8 million H Shares from 1 December 2020 to 29 December 2020. We have inquired the Management and understand that they are not aware of the reasons for such increases in H Share price and trading volume during the

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period. Trading of the H shares was suspended from 9:00 a.m. on 8 January 2021 to 13 January 2021, pending the publication of the Joint Announcement. The Joint Announcement was published on 13 January 2021 and trading of the Company's H shares resumed on 14 January 2021. The closing H Share price surged to HK\$3.5 per H Share on 14 January 2021 (the first trading day after the release of the Joint Announcement), representing an increase of approximately 37.3% compared to the closing price of HK\$2.55 per H Share on the Last Trading Date. The closing H Share prices fluctuated between HK\$3.46 per H Share and HK\$3.63 per H Share afterwards and closed at HK\$3.60 per H Share as at the Latest Practicable Date.

In view of the performance of the H Share prices during the Review Period before the publication of the Joint Announcement, Independent H Shareholders should be aware that the current H Share price may not be sustained if the Merger is not approved or otherwise lapses.

(ii) Trading liquidity

Set out in the table below are the monthly total trading volumes of the H Shares and the percentages of such monthly total trading volumes to the total issued H Shares in public float during the Review Period:

	Monthly total trading volume of the H Shares (Note 1)	Approximate percentage of the monthly total trading volume of the H Shares to the total issued H Shares in public float (Note 2)
2019		
January	44,499,842	4.90%
February	65,748,761	7.24%
March	32,545,847	3.58%
April	61,480,602	6.77%
May	37,169,618	4.09%
June	31,743,386	3.49%
July	15,576,669	1.71%
August	15,993,205	1.76%
September	15,981,109	1.76%
October	27,547,915	3.03%
November	18,471,140	2.03%
December	26,013,824	2.86%

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	Monthly total trading volume of the H Shares (Note 1)	Approximate percentage of the monthly total trading volume of the H Shares to the total issued H Shares in public float (Note 2)
2020		
January	41,636,866	4.58%
February	21,750,659	2.39%
March	74,998,666	8.26%
April	33,638,559	3.70%
May	50,527,309	5.56%
June	69,651,487	7.67%
July	56,789,424	6.25%
August	28,216,480	3.11%
September	30,314,512	3.34%
October	24,853,430	2.74%
November	52,145,331	5.74%
December	107,962,867	11.89%
2021		
January (Note 3)	454,543,312	50.04%
February	99,718,927	10.98%
March	121,959,685	13.43%
April	47,317,214	5.21%
May	53,350,282	5.87%
June	133,168,750	14.66%
July (up to the Latest Practicable Date)	355,622	0.04%

Notes:

1. Source: Bloomberg
2. The calculation is based on the monthly total trading volume of the H Shares divided by the total issued H Shares capital of the Company at the end of each month (or at the Latest Practicable Date for July 2021). As the core connected persons (as defined in the Listing Rules) of the Company do not legally or beneficially own any H Shares, the total issued H Share capital represents the total number of H Shares in public float.
3. Trading of the H Shares was suspended from 8 January 2021 to 13 January 2021 pending the publication of the Joint Announcement.

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From the table above, in general, we note that the monthly total trading volume of the H Shares (as a percentage to the total issued H Shares in public float) was not consistently active from 1 January 2019 up to the date of the Joint Announcement. The percentages of monthly total trading volumes of the H Shares to the total issued H Shares in public float were below 10% during such period except for December 2020 and January 2021. It is noted that the trading volume of the H Shares increased substantially between 30 December 2020 and 7 January 2021, period shortly before the publication of the Joint Announcement, of which the average daily trading volume was approximately 24.1 million H Shares during such period, which was substantially higher than the average daily trading volume of approximately 1.8 million H Shares from 1 December 2020 to 29 December 2020. Trading volume of the H Shares surged after publication of the Joint Announcement on 13 January 2021 with the total monthly trading volume of H Shares increasing to 454,543,312 H Shares in January 2021 (representing approximately 50.04% of the total issued H Shares in public float), with 180,968,481 H Shares traded on 14 January 2021 (the trading day immediately after publication of the Joint Announcement).

Given the relatively thin trading volume in the H Shares in general during the Review Period prior to the publication of the Joint Announcement, if the H Shareholders wish to sell a significant number of H Shares within a short period in the market, it is possible that a downward pressure would be exerted on the market price of the H Shares. The higher level of trading volume subsequent to the publication of the Joint Announcement may not, in our view, be sustained if the Merger lapses. Therefore, the Merger provides an opportunity for the H Shareholders, especially those holding a large block of H Shares, to dispose of their holdings at a fixed cash price if they so wish.

(iii) Cancellation Price comparisons

The Cancellation Price of HK\$3.70 per H Share in cash represents:

- (i) a premium of approximately 45.10% over the closing price per H Share of HK\$2.55 on the Stock Exchange on the Last Trading Date;
- (ii) a premium of approximately 73.71% over the average closing price of approximately HK\$2.13 per H Share based on the daily closing prices of H Shares as quoted on the Stock Exchange for the five consecutive trading days immediately prior to and including the Last Trading Date;
- (iii) a premium of approximately 93.72% over the average closing price of approximately HK\$1.91 per H Share based on the daily closing prices of H Shares as quoted on the Stock Exchange for the ten consecutive trading days immediately prior to and including the Last Trading Date;

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- (iv) a premium of approximately 118.93% over the average closing price of approximately HK\$1.69 per H Share based on the daily closing prices of H Shares as quoted on the Stock Exchange for the 30 trading days immediately prior to and including the Last Trading Date;
- (v) a premium of approximately 126.99% over the average closing price of approximately HK\$1.63 per H Share based on the daily closing prices of H Shares as quoted on the Stock Exchange for the 60 trading days immediately prior to and including the Last Trading Date;
- (vi) a premium of approximately 126.99% over the average closing price of approximately HK\$1.63 per H Share based on the daily closing price of H Shares as quoted on the Stock Exchange for the 90 trading days immediately prior to and including the Last Trading Date;
- (vii) a premium of approximately 2.78% over the closing price of HK\$3.6 per H Share as quoted on the Stock Exchange on the Latest Practicable Date;
- (viii) a discount of approximately 23.40% to the Group's audited net asset value attributable to the Shareholders per Share of approximately HK\$4.83 as at 31 December 2019 (without taking into account the restatement made when preparing the Group's annual results for the year ended 31 December 2020), based on the exchange rate of HK\$1:RMB0.89578, being the central parity rate of RMB to Hong Kong Dollar on 31 December 2019 as announced by the People's Bank of China; and
- (ix) a discount of approximately 29.39% to the Group's audited net asset value attributable to the Shareholders per Share of approximately HK\$5.24 as at 31 December 2020, based on the exchange rate of HK\$1:RMB0.84164, being the central parity rate of RMB to Hong Kong Dollar on 31 December 2020 as announced by the People's Bank of China.

In summary, the Cancellation Price of HK\$3.70 per H Share represents premia in a range of approximately 45.1% to 127.0% over the closing H Share prices for different periods before the Last Trading Date, which is considered favourable to the Independent H Shareholders.

As set out above, the Cancellation Price also represents a discount of approximately 29.4% to the audited consolidated net asset value attributable to the Shareholders per H Share as at 31 December 2020, which is further discussed in the section headed "5. Peer company analysis" of this letter below.

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5. Peer company analysis

As mentioned in the section headed “1. Information and prospects of the Group” of this letter above, the Group is principally engaged in three business segments, namely the International Engineering Contracting Business, the Trading Business and the Services Business. The International Engineering Contracting Business has been the core business segment contributing to major part of revenue (approximately 63% to 70% of the total segment revenue) and profits (approximately 72% to 81% of the total segment profit) of the Group from 2018 to 2020. Furthermore, majority of the assets (approximately 69% of the total segment assets) and liabilities (approximately 70% of the total segment liabilities) of the Group as at 31 December 2020 were related to the International Engineering Contracting Business. Given such domination in terms of revenue, profits and book values, we consider that the International Engineering Contracting Business is more relevant for assessment of the terms of the Merger, especially we are performing analysis based on the two most commonly used multiples in assessing valuation of companies, namely the price-to-earnings ratio (“P/E”) and the price-to-book ratio (“P/B”).

For comparison purpose, we have conducted a search for companies listed on the Main Board of the Stock Exchange (the “Comparable Companies”) which are incorporated in the PRC and based on their latest published annual reports available as at the date immediately before the Latest Practicable Date and information available on the website of the Stock Exchange, are principally engaged in, with majority of the revenue generating from, engineering and construction contracting business, excluding those only focusing on providing contracting services for commercial premises and/or residential developments, as those are not operating in similar sectors compared to the Group. We have excluded companies which are under prolonged suspension as published on the website of the Stock Exchange, given that latest market multiples of those companies are not meaningful for assessment. The Comparable Companies set out in the table below represent an exhaustive list of companies comparable to the Group based on the above criteria. Given that the Comparable Companies are from similar industry as the Group, i.e. engineering contracting industry, and the Company and the Comparable Companies are incorporated in the PRC, the Comparable Companies are considered comparable to the Company and therefore are meaningful for Independent H Shareholders’ assessment of the Cancellation Price. The comparison of the P/E ratio and the P/B ratio of the Merger with those of the Comparable Companies is set out below.

Comparable Companies	Principal activities (Note 1)	Market	Historical P/E (Approximate times) (Note 2)	Historical P/B (Approximate times) (Note 2)
		capitalisation HK\$ million (Note 2)		
China Railway Group Limited (stock code: 390.HK)	Principally engaged in infrastructure construction business, including railway, highway and municipal works	144,266	3.2	0.4

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Comparable Companies	Principal activities (Note 1)	Market	Historical P/E	Historical P/B
		capitalisation <i>HK\$ million</i> (Note 2)	(Approximate <i>times</i>) (Note 2)	(Approximate <i>times</i>) (Note 2)
China Railway Construction Corporation Limited (stock code: 1186.HK)	Principally engaged in construction and engineering contracting business which mainly includes railways, highways, urban rails, water conservancy and hydropower projects, housing construction, municipal engineering, bridges, tunnels, airports and wharfs	112,024	2.6	0.3
China Communications Construction Company Limited (stock code: 1800.HK)	Principally engaged in infrastructure construction business, including road and bridge construction, municipal and other projects and port construction	107,762	3.1	0.2
Metallurgical Corporation of China Ltd. (stock code: 1618.HK)	Principally engaged in engineering construction business, mainly include metallurgical engineering and non-steel engineering	68,393	4.5	0.4
China Energy Engineering Co., Ltd. (stock code: 3996.HK)	Principally engaged in construction and contracting business, primarily undertaking large-scale power generation projects, power transmission and transformation projects and various infrastructure construction projects	23,116	4.2	0.3
SINOPEC Engineering (Group) Co., Ltd. (stock code: 2386.HK)	Principally engaged in EPC contracting and construction in oil refining and petrochemical industry	21,830	7.7	0.6

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Comparable Companies	Principal activities (Note 1)	Market	Historical P/E	Historical P/B
		capitalisation	(Approximate	(Approximate
		HK\$ million	times)	times)
		(Note 2)	(Note 2)	(Note 2)
China Aluminium International Engineering Corporation Limited (stock code: 2068.HK)	Principally engaged in the provision of engineering and construction contracting service which covers metallurgical industry, housing construction, highways, building materials, electricity, water conservancy, chemical industry, mining, municipal utilities, steel structure and other fields	11,122	N/A (Note 3)	0.6
Hebei Construction Group Corporation Limited (stock code: 1727.HK)	Provision of construction project contracting services mainly as a general contractor for building construction projects and infrastructure construction projects	4,175	4.6	0.6
Beijing Urban Construction Design & Development Group Co., Limited (stock code: 1599.HK)	Provision of urban rail transit construction contracting services and design, survey and consultancy services on urban rail transit engineering	2,724	2.9	0.4
Baoye Group Company Limited (stock code: 2355.HK)	Principally engaged in the provision of construction service, including buildings, urban facilities and infrastructure, installation of electrical and electronic, fireproof facilities and curtain wall	2,453	2.6	0.2
	Maximum		7.7	0.6
	Minimum		2.6	0.2
	Average		3.9	0.4
	Median		3.2	0.4
	The Merger		10.7	0.7
			(Note 4)	(Note 5)

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Notes:

1. The information is based on the latest annual reports of the Comparable Companies and the website of the Stock Exchange.
2. The market capitalisations, historical P/Es and P/Bs of the Comparable Companies are sourced from Bloomberg as at the Latest Practicable Date.
3. The historical P/E is unavailable due to recorded loss attributable to equity holders for the year ended 31 December 2020 according to the latest annual report published by China Aluminium International Engineering Corporation Limited.
4. The implied P/E of the Company is calculated based on the Cancellation Price of HK\$3.70 per H Share and the earnings per Share for the year ended 31 December 2020 of approximately RMB0.29 (equivalent to approximately HK\$0.34 based on HK\$1:RMB0.84164, being the median exchange rate on 31 December 2020 as announced by the People's Bank of China).
5. The implied P/B of the Company is calculated based on the Cancellation Price of HK\$3.70 per H Share and the consolidated net asset value attributable to the Shareholders per Share as at 31 December 2020 of approximately RMB4.41 per Share (equivalent to approximately HK\$5.24 based on HK\$1:RMB0.84164, being the median exchange rate on 31 December 2020 as announced by the People's Bank of China).

We have identified ten Comparable Companies based on our aforesaid criteria. As set out in the table above, the implied P/E of the Company at the Cancellation Price of approximately 10.7 times is higher than the upper range of historical P/Es of the Comparable Companies. In terms of historical P/Bs, the Comparable Companies had an average historical P/Bs of approximately 0.4 times, with a median of approximately 0.4 times. The implied P/B of the Cancellation Price as discussed above of approximately 0.7 times is close to the upper range of historical P/Bs of those of the Comparable Companies. The implied P/B of the Cancellation Price of approximately 0.7 times implies a discount of approximately 29.4% to the audited consolidated net asset value attributable to the Shareholders per Share as at 31 December 2020. Such discount is considered to be acceptable, given that the implied P/B of the Cancellation Price is above the average and median of historical P/Bs of the Comparable Companies as shown above.

Based on the above analysis of the Comparable Companies, we are of the view that the Cancellation Price is fair and reasonable as far as the Independent Shareholders are concerned.

6. Privatisation precedents

We have compared the Merger to privatisation proposals of other companies listed on the Main Board of the Stock Exchange announced since 1 January 2019 and up to the Latest Practicable Date (a period which is considered appropriate to demonstrate the pricing of recent privatisations of Main Board listed companies in the Hong Kong stock market as a whole under recent market sentiments towards privatisations), excluding privatisation proposals which were not/yet to be approved or were not successful (or, where applicable, required acceptance level were not or yet to be achieved) or without a cash cancellation consideration (the “**Privatisation Precedents**”), which represents an exhaustive list of privatisation proposals we were able to identify from the Stock Exchange’s website satisfying the above selection criteria. As the market sentiments towards successful privatisation proposals can be illustrated through the comparison between the cancellation consideration/offer price and the then prevailing market prices per share, we consider the Privatisation Precedents an appropriate basis in assessing the reasonableness of the Cancellation Price. The table below illustrates the premia/discounts represented by the cancellation consideration/offer price over/to the respective last trading day and respective last 5 days, 10 days, 30 days, 60 days and 90 days average share prices in respect of such privatisation proposals.

Date of the announcement pursuant to Rule 3.5 of the Takeovers Code	Company name and stock code	Cancellation/consideration/offer price	Premium/(discount) of the cancellation consideration/offer price over/(to)					
			closing price per share for the last 5 trading days up to and including the last trading day	average price per share for the last 10 trading days up to and including the last trading day	average price per share for the last 30 trading days up to and including the last trading day	average price per share for the last 60 trading days up to and including the last trading day	average price per share for the last 90 trading days up to and including the last trading day	average closing price per share for the last 90 trading days up to and including the last trading day
12-Mar-21	Zhejiang Cangnan Instrument Group Company Limited (stock code: 1743)	22.00	13.6	13.1	18.0	25.2	4.4	(%) (Note 2)
28-Feb-21	Xiezhong International Holdings Limited (stock code: 3663)	0.80	17.6	20.8	25.9	38.7	41.8	(%)

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Date of the announcement pursuant to Rule 3.5 of the Takeovers Code	Company name and stock code	Cancellation consideration/offer price	closing price per share on the last trading day	Premium/(discount) of the cancellation consideration/offer price over/(to)				
				average closing price per share for the last 5 trading days up to and including the last trading day	average closing price per share for the last 10 trading days up to and including the last trading day	average closing price per share for the last 30 trading days up to and including the last trading day	average closing price per share for the last 60 trading days up to and including the last trading day	average closing price per share for the last 90 trading days up to and including the last trading day
		HK\$	(%)	(%)	(%)	(%)	(%)	(%)
27-Jan-21	New Century Real Estate Investment Trust (stock code: 1275) (Note 3)	2.00	14.3	22.7	23.5	34.0	52.6	61.6
22-Jan-21	Zhuhai Holdings Investment Group Limited (stock code: 908)	3.06	37.8	36.7	37.5	52.4	56.1	57.4
21-Jan-21	Polytec Asset Holdings Limited (stock code: 208)	1.50	61.3	58.6	63.2	72.5	94.2	104.1
20-Jan-21	Zhejiang New Century Hotel Management Co., Ltd. (stock code: 1158)	18.15	24.7	23.9	22.3	20.8	19.7	20.3
17-Jan-21	HKC (Holdings) Limited (stock code: 190) (Note 4)	8.00	128.6	130.7	131.4	127.7	116.7	107.0
22-Dec-20	Huifu Payment Limited (stock code: 1806) (Note 5)	3.50	26.8	39.1	41.8	47.0	55.4	44.9
18-Dec-20	SHK Hong Kong Industries Limited (stock code: 666)	0.21	50.0	54.4	52.5	57.1	66.2	69.4
6-Dec-20	I.T Limited (stock code: 999)	3.00	84.0	93.5	105.3	141.2	165.9	175.6
13-Nov-20	CAR Inc (stock code: 699)	4.0	18.0	22.3	31.4	52.2	55.8	57.1

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Date of the announcement pursuant to Rule 3.5 of the Takeovers Code	Company name and stock code	Cancellation consideration/offer price	closing price per share on the last trading day	Premium/(discount) of the cancellation consideration/offer price over/(to)			
				average closing price per share for the last 5 trading days up to and including the last trading day	average closing price per share for the last 10 trading days up to and including the last trading day	average closing price per share for the last 30 trading days up to and including the last trading day	average closing price per share for the last 60 trading days up to and including the last trading day
		HK\$	(%)	(%)	(%)	(%)	(%)
30-Oct-20	Tonly Electronics Holdings Limited (stock code: 1249)	12.00	19.0	19.7	21.2	28.0	35.8
15-Oct-20	Shanghai Prime Machinery Company Limited (stock code: 2345)	1.60	107.8	111.6	114.2	112.7	131.3
4-Oct-20	CIMC-TianDa Holdings Company Limited (stock code: 445)	0.266	20.4	21.9	21.2	18.5	26.8
27-Sep-20	China Zhongdi Dairy Holdings Company Ltd (stock code: 1492)	1.132	11.0	16.9	20.0	22.8	77.6
24-Sep-20	AMVIG Holdings Limited (stock code: 2300)	2.18	51.4	51.6	53.5	56.5	56.1
7-Sep-20	Changshouhua Food Company Limited (stock code: 1006)	4.19	16.4	22.2	24.7	43.2	65.8
27-Aug-20	Leyou Technologies Holdings Limited (stock code: 1089)	3.3219	30.3	41.4	46.5	52.4	49.7
31-Jul-20	Haier Electronics Group Co., Ltd. (stock code: 1169) (Note 6)	31.51	44.2	46.3	45.6	42.7	51.4
29-Jul-20	Xinghua Port Holdings Limited (stock code: 1990)	2.597	29.9	31.6	27.9	58.4	127.6

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Date of the announcement pursuant to Rule 3.5 of the Takeovers Code	Company name and stock code	Cancellation/offer price	Premium/(discount) of the cancellation consideration/offer price over/(to)									
			closing price per share on the last trading day	average closing price per share for the last 5 trading days up to and including the last trading day	average closing price per share for the last 10 trading days up to and including the last trading day	average closing price per share for the last 30 trading days up to and including the last trading day	average closing price per share for the last 60 trading days up to and including the last trading day	average closing price per share for the last 90 trading days up to and including the last trading day				
		HK\$	(%)	(%)	(%)	(%)	(%)	(%)	(%)	(%)	(%)	
8-Jul-20	O-Net Technologies (Group) Limited (stock code: 877)	6.50	23.6	24.7	25.7	24.6	28.0	34.3				
2-Jul-20	Vantage International (Holdings) Limited (stock code: 15)	0.90	80.0	90.7	103.6	119.5	115.0	104.1				
21-Jun-20	China Baofeng (International) Limited (stock code: 3966)	2.60	27.5	57.8	61.9	52.3	42.5	38.9				
17-Jun-20	Golden Meditech Holdings Limited (stock code: 801)	0.88	41.9	48.6	53.6	61.3	55.8	39.1				
12-Jun-20	Jinmao Hotel and Jinmao (China) Hotel Investments and Management Limited (stock code: 6139)	4.80	30.4	57.8	72.8	82.6	86.8	64.6				
5-Jun-20	Capxon International Electronic Company Limited (stock code: 469)	0.60	79.1	89.3	94.2	88.4	88.4	76.1				
1-Jun-20	Huadian Fuxin Energy Corporation Limited (stock code: 816)	2.50	65.6	82.2	85.9	87.9	89.3	85.3				
4-May-20	Easy One Financial Group Limited (stock code: 221) (Note 7)	0.924	90.5	94.1	104.0	92.4	99.7	104.1				

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Date of the announcement pursuant to Rule 3.5 of the Takeovers Code	Company name and stock code	Cancellation consideration/offer price	closing price per share on the last trading day	Premium/(discount) of the cancellation consideration/offer price over/(to)			
				average closing price per share for the last 5 trading days up to and including the last trading day	average closing price per share for the last 10 trading days up to and including the last trading day	average closing price per share for the last 30 trading days up to and including the last trading day	average closing price per share for the last 60 trading days up to and including the last trading day
		HK\$	(%)	(%)	(%)	(%)	(%)
20-Apr-20	Allied Properties (H.K.) Limited (stock code: 56)	1.92	34.3	36.6	40.6	39.5	33.5
3-Apr-20	Elec & Eltek International Company Limited (1151) (Note 8)	17.76	67.5	46.5	44.3	39.0	38.7
20-Mar-20	Li & Fung Limited (stock code: 494)	1.25	150.0	157.7	135.6	95.2	72.7
27-Feb-20	Wheelock and Company Limited (stock code: 20) (Note 9)	71.90	52.2	49.1	49.2	45.2	43.9
20-Jan-20	BBI Life Sciences Corporation (stock code: 1035)	3.50	16.3	23.8	31.4	42.5	46.1
12-Dec-19	Joyce Boutique Group Limited (stock code: 647)	0.280	91.8	91.3	95.8	82.2	62.7
27-Nov-19	China Agri-Industries Holdings Limited (stock code: 606)	4.25	34.1	35.6	40.9	53.2	64.7
1-Nov-19	Springland International Holdings Limited (stock code: 1700)	2.30	63.1	67.9	64.4	56.8	55.4
20-Oct-19	Dah Chong Hong Holdings Limited (stock code: 1828)	3.70	37.5	37.3	42.4	54.9	55.9

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Date of the announcement pursuant to Rule 3.5 of the Takeovers Code	Company name and stock code	Cancellation consideration/offer price	closing price per share on the last trading day	Premium/(discount) of the cancellation consideration/offer price over/(to)				
				average closing price per share for the last 5 trading days up to and including the last trading day	average closing price per share for the last 10 trading days up to and including the last trading day	average closing price per share for the last 30 trading days up to and including the last trading day	average closing price per share for the last 60 trading days up to and including the last trading day	average closing price per share for the last 90 trading days up to and including the last trading day
		HK\$	(%)	(%)	(%)	(%)	(%)	
3-Oct-19	Huaneng Renewables Corporation Limited (stock code: 958)	3.17	46.1	51.0	56.2	55.7	51.2	51.3
2-Oct-19	AVIC International Holdings Limited (stock code: 161)	9.00	45.2	50.9	63.6	83.8	90.5	101.5
12-Aug-19	TPV Technology Limited (stock code: 903)	3.86	41.4	46.8	50.8	54.5	75.0	87.4
27-Jun-19	Asia Satellite Telecommunications Holdings Limited (stock code: 1135)	10.22	23.4	31.5	33.4	44.4	50.4	56.5
18-Jun-19	C.P. Lotus Corporation (stock code: 121)	0.11	10.0	10.2	12.0	29.4	30.3	26.5
14-Jun-19	China Automation Group Limited (stock code: 569)	1.50	24.0	27.3	36.9	47.8	47.4	46.6
4-Apr-19	China Hengshi Foundation Company Limited (stock code: 1197)	2.50	10.6	14.6	16.8	17.5	19.0	24.4
28-Mar-19	China Power Clean Energy Development Company Limited (stock code: 735) (Note 10)	5.45	41.9	54.9	60.9	78.4	94.1	101.8

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Date of the announcement pursuant to Rule 3.5 of the Takeovers Code	Company name and stock code	Cancellation consideration/offer price	closing price per share on the last trading day	Premium/(discount) of the cancellation consideration/offer price over/(to)				
				average closing price per share for the last 5 trading days up to and including the last trading day	average closing price per share for the last 10 trading days up to and including the last trading day	average closing price per share for the last 30 trading days up to and including the last trading day	average closing price per share for the last 60 trading days up to and including the last trading day	average closing price per share for the last 90 trading days up to and including the last trading day
		HK\$	(%)	(%)	(%)	(%)	(%)	
	<i>Mean (simple average)</i>		45.3	50.1	53.2	58.1	62.5	63.9
	<i>Median</i>		37.5	46.3	45.6	52.4	55.8	56.1
	<i>Maximum</i>		150.0	157.7	135.6	141.2	165.9	175.6
	<i>Minimum</i>		10.0	10.2	12.0	17.5	19.0	4.4
13-Jan-21	The Company	3.70	45.1	73.7	93.7	118.9	127.0	127.0

Source: Bloomberg and website of the Stock Exchange

Notes:

1. The premia/discounts of the cancellation consideration/offer price over/(to) the share price averages for the respective periods were calculated based on (i) the cancellation consideration/offer price as disclosed in the announcement/composite document/scheme document in relation to the privatisation proposal; and (ii) the historical share prices of the companies extracted from Bloomberg.
2. Premium/(discount) is subject to rounding differences and up to and including the last full trading day of the shares prior to the publication of the announcement pursuant to Rule 3.5 or Rule 3.7 (where applicable) of the Takeovers Code.
3. The cancellation price represents the proposed interim distribution of HK\$2.00 per unit of New Century Real Estate Investment Trust as a result of the proposed disposal of assets, which forms part of the privatisation proposal of New Century Real Estate Investment Trust.
4. The relevant premia of HKC (Holdings) Limited are calculated based on the cancellation price and ex-dividend share prices of HKC (Holdings) Limited.
5. The cash alternative of HK\$3.50 for each ordinary scheme share had been used for the purpose of this comparison. The estimated value for the share alternative implies a consideration of each ordinary scheme share of approximately HK\$2.4500 to HK\$3.5000 as disclosed in the scheme document.
6. The cancellation price of HK\$31.51 for each scheme share represents the cash payment of HK\$1.95 for every scheme share cancelled and the value (based on the mid-point of the valuation range estimated by the valuation adviser as at 30 July 2020) of H shares of Haier Smart Home Co., Ltd. to be distributed per scheme share. H shares of Haier Smart Home Co., Ltd. were to be listed on the Stock Exchange by way of introduction.
7. The cancellation price of HK\$0.924 for each scheme share represents the cash consideration of HK\$0.3 per scheme share and the value (based on the closing price as at the last trading day) of Wang On Group Limited (1222.HK) shares to be distributed per scheme share.
8. The relevant premia of Elec & Eltek International Company Limited are calculated based on the ex-dividend offer price.
9. The cancellation price of \$71.90 represents the scheme cash consideration of \$12.00 per scheme share and the value (based on their closing prices on the last trading day) of the shares of Wharf Real Estate Investment Company Limited (1997.HK) and shares of The Wharf (Holdings) Limited (4.HK) to be distributed per scheme share.
10. The cash alternative of HK\$5.45 for each ordinary scheme share had been used for the purpose of this comparison. The reference value for the share alternative implies a consideration of each ordinary scheme share of approximately HK\$3.77 to HK\$5.39 as disclosed in the scheme document.
11. For the purpose of this table, last trading day represents the last full trading day in the respective shares immediately before the publication of the respective announcement.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

The terms of the privatisation proposals set out above provide, in our view, a general guide to the premium over market prices needed in Hong Kong to secure a successful privatisation. Based on the table above, the average premia of the Privatisation Precedents over the last trading day share price, 5 days, 10 days, 30 days, 60 days and 90 days share price averages were approximately 45.3%, 50.1%, 53.2%, 58.1%, 62.5% and 63.9% respectively. The premia represented by the Cancellation Price over the average closing prices of the H Shares for the respective periods of approximately 45.1% to 127.0% are (i) above the average of the premia of the Privatisation Precedents for 5 days, 10 days, 30 days, 60 days and 90 days periods; and (ii) close to the average of the premia of the Privatisation Precedents for the last trading day. Overall, we consider the premia represented by the Cancellation Price is favourable comparing to market practice so far as the Independent H Shareholders are concerned.

DISCUSSION

Independent Shareholders should consider the Merger under the Merger Agreement based on the principal factors and reasons set out in detail above and summarised below.

(i) Recent results and prospects

The Group is principally engaged in three business segments, namely the International Engineering Contracting Business, the Trading Business and the Services Business. The International Engineering Contracting Business segment has been the core business of the Group contributing to major part of the Group's revenue, profits and assets. The Group's financial performance was relatively stable between 2018 and 2019. In 2020, as a result of the COVID-19 pandemic, the Group's results were adversely affected and the Group recorded an approximately 32.6% and 45.9% decrease in revenue and profit attributable to owners of the Company respectively during the year ended 31 December 2020 as compared to 2019. As a result of the COVID-19 pandemic, economic environment of both China and the world was adversely affected in 2020. There are positive signs of the Chinese economy since second quarter of 2020 and the world economies are expected to record growth in both 2021 and 2022. However, there are still uncertainties in the future economic development, which in turn will cast uncertainties on the future business and financial performance of the Group.

(ii) Reasons for the Merger

There are several reasons and benefits of the Merger which are set out in details in the "Letter from the Board" contained in the Composite Document. These include the losing of the advantage as a listing platform in equity fund-raising due to the low trading prices and sluggish trading volume, and the flexibility for the Company to formulate long-term strategies to maintain core competitiveness as a result of the uncertainties on the Group's future business and financial performance as mentioned in paragraph (i) above. The Cancellation Price represents an opportunity for the H Shareholders to realise their investment in the Company for cash at a premium, which we consider reasonable, as summarised in paragraphs (iii) to (vi) below.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

(iii) Premium over market price of the H Shares

The Cancellation Price for the H Shareholders is HK\$3.70 per H Share in cash. **The Cancellation Price will not be increased, and the Offeror does not reserve the right to do so.** If the Merger fails, the Offeror cannot in normal circumstances put forward another such proposal for at least twelve months.

We have reviewed a number of factors when assessing the fairness of the Cancellation Price, including, among other things, the premium of the Cancellation Price over recent H Share prices. The Cancellation Price is higher than the average closing H Share prices and higher than the closing H Share prices of approximately 83% of the trading days during the Review Period up to the date of the Joint Announcement. Based on the summaries as set out in the section headed “4. Analysis of price performance and trading liquidity of the H Shares” of this letter above, the Cancellation Price compares favourably to the closing H Share prices, with a range of approximately 45.1% to 127.0% over different periods before the Last Trading Date that we have reviewed.

(iv) Trading not active

Trading of the H Shares has not been consistently active during the period we have reviewed. The monthly total trading volumes represent less than 10% of the public float during the Review Period (up to the date of the Joint Announcement), except for the short period before the publication of the Joint Announcement from late December 2020 to early January 2021. With such a thin trading volume, it is difficult for the Independent H Shareholders (especially those holding a larger block of H Shares) to realise their investments in the market without exerting a downward pressure on the H Share price. Although trading liquidity increased after publication of the Joint Announcement, that level may not be sustained if the Merger is not approved or otherwise lapses. The Merger provides an opportunity for the H Shareholders, especially those holding a large block of H Shares, to dispose of their holdings at a fixed Cancellation Price in cash without affecting market prices.

(v) Comparable Companies

We have compared the Cancellation Price with Comparable Companies, and the Cancellation Price is considered to be fair and reasonable as compared to the market range.

(vi) Privatisation Precedents

We have compared the premium of the Cancellation Price over the historical trading prices of the Privatisation Precedents. The premia for the Cancellation Price over various recent periods are (i) above the average of the premia of the Privatisation Precedents for 5 days, 10 days, 30 days, 60 days and 90 days periods; and (ii) close to the average of the premia of the Privatisation Precedents for the last trading day. The above suggests the Cancellation Price is favourable comparing to the market practice.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

OPINION AND RECOMMENDATIONS

Based on the above analysis, we consider the terms of the Merger to be fair and reasonable so far as the Independent H Shareholders are concerned and advise the Independent Board Committee to recommend the Independent H Shareholders to vote in favour of the relevant resolution(s) to be proposed at the H Shareholders' Class Meeting and the EGM to approve the Merger under the Merger Agreement.

The closing H Share price at the Latest Practicable Date was HK\$3.6 per H Share, below the Cancellation Price of HK\$3.70 per H Share. However, there is still a possibility that the H Share price may exceed the Cancellation Price in the period up to 29 July 2021, being the expected last day for trading in the H Shares on the Stock Exchange. Accordingly, Independent H Shareholders who wish to take advantage of the present circumstances to realise their investment in the Company are reminded to monitor the trading price and liquidity of the H Shares during this period and, having regard to their own circumstances, consider selling their H Shares in the open market, if the net proceeds obtained from such disposal of the H Shares (after deducting all transaction costs) would be higher than HK\$3.70 per H Share.

Yours faithfully,
for and on behalf of
SOMERLEY CAPITAL LIMITED
Clifford Cheng
Director

Mr. Clifford Cheng is a licensed person registered with the SFC and a responsible officer of Somerley Capital Limited, which is licensed under the SFO to carry out Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities. He has over ten years of experience in the corporate finance industry.

For illustrative purpose, unless otherwise specified, amounts denominated in RMB have been translated into HK\$ at an exchange rate of HK\$1: RMB0.83316.

1 SUMMARY OF FINANCIAL INFORMATION FOR THE THREE YEARS ENDED 31 DECEMBER 2018, 2019 AND 2020

The following is a summary of the financial information for each of the three years ended 31 December 2018, 31 December 2019 and 31 December 2020 as extracted from the respective published audited consolidated financial statements of the Group as set forth in the annual reports for the years ended 31 December 2018, 31 December 2019 and 31 December 2020 respectively.

	For the year ended 31 December 2020 <i>RMB'000</i> <i>Audited</i>	For the year ended 31 December 2019 <i>RMB'000</i> <i>(Restated[^])</i> <i>Audited</i>	For the year ended 31 December 2018 <i>RMB'000</i> <i>Audited</i>
Revenue	19,100,165	28,348,250	28,862,688
Profit before taxation	1,577,901	2,838,685	2,825,767
Income tax	(377,655)	(638,422)	(689,926)
Profit attributable to:			
Owners of the Company	1,186,591	2,193,493	2,131,540
Non-controlling interests	13,655	6,770	4,301
Total comprehensive income attributable to:			
Owners of the Company	1,061,652	2,260,297	2,008,234
Non-controlling interests	1,382	7,716	4,398
Dividends	0	654,336	852,782
Dividends per share	0	0.1586	0.2067
Earnings per share			
Basic and diluted	29 cents	53 cents	52 cents

[^] As disclosed in the Company's annual report for the year ended 31 December 2020, the restatement is due to the consolidation of business under common control as a result of the acquisition of Harbin Power System Engineering and Research Institute Co., Ltd.* (哈爾濱電站設備成套設計研究所有限公司) in April 2020.

Save as disclosed above and except for (i) losses on arbitration compensation of RMB274,452,000 and (ii) gains on foreign currency forward exchange contracts of RMB385,364,000 in 2020, there are no other items of income or expense which are material for each of the years ended 31 December 2018, 2019 and 2020.

The consolidated financial statements of the Group for each of the years ended 31 December 2018, 2019 and 2020 were audited by Ernst and Young. The auditors of the Group, Ernst & Young, did not issue any modified opinion nor any emphasis of matter or material uncertainty related to going concern contained in the auditors' report of the Group for any of the years ended 31 December 2018 and 2019 and 2020.

2 CONSOLIDATED FINANCIAL STATEMENTS

The Company is required to set out or refer to in this document the consolidated statement of profit or loss, the consolidated statement of financial position, the consolidated statement of cash flows, the consolidated statement of changes of equity and any other primary statement as shown in (i) the audited consolidated financial statements of the Group for the year ended 31 December 2018 (the “**2018 Financial Statements**”); (ii) the audited consolidated financial statements of the Group for the year ended 31 December 2019 (the “**2019 Financial Statements**”); and (iii) the audited consolidated financial statements of the Group for the year ended 31 December 2020 (the “**2020 Financial Statements**”), together with the notes to the relevant published accounts which are of major relevance to the appreciation of the above financial information.

The 2018 Financial Statements are set out from pages 236 to 434 in the annual report of the Company for the year ended 31 December 2018 (the “**2018 Annual Report**”) which was published on 29 April 2019 on the websites of the Company (<http://www.cmec.com/tzzgx/xxpl/yjbg/201905/P020190509496865843733.pdf>) and the Stock Exchange (<https://www1.hkexnews.hk/listedco/listconews/sehk/2019/0429/ltm20190429473.pdf>).

The 2019 Financial Statements are set out from pages 226 to 410 in the annual report of the Company for the year ended 31 December 2019 (the “**2019 Annual Report**”) which was published on 27 April 2020 on the websites of the Company (<http://www.cmec.com/tzzgx/xxpl/yjbg/202005/P020200508549423855794.pdf>) and the Stock Exchange (<https://www1.hkexnews.hk/listedco/listconews/sehk/2020/0427/2020042700363.pdf>).

The 2020 Financial Statements are set out from pages 214 to 403 in the annual report of the Company for the year ended 31 December 2020 (the “**2020 Annual Report**”) which was published on 27 April 2021 on the websites of the Company (<http://www.cmec.com/tzzgx/xxpl/yjbg/202105/P020210507494051060502.pdf>) and the Stock Exchange (<https://www1.hkexnews.hk/listedco/listconews/sehk/2021/0427/2021042700327.pdf>).

The 2018 Financial Statements, the 2019 Financial Statements and the 2020 Financial Statement (but not any other part of 2018 Annual Report, the 2019 Annual Report and the 2020 Annual Report in which they respectively appear) are incorporated by reference into this document and form part of this document.

3 INDEBTEDNESS**(a) Bank borrowings**

As at 30 April 2021, being the latest practicable date for the purpose of this indebtedness statement prior to the publication of this document, the Group had aggregate outstanding bank borrowings of approximately RMB1,263.26 million, the details of which are set out below:

Bank borrowings	Secured/ Guaranteed RMB million	Unsecured RMB million	Total RMB million
Current			
Short-term bank borrowings	327.86	688.14	1,016.00
Current portion of long-term bank borrowings	4.96	35.40	40.36
	<u>332.82</u>	<u>723.54</u>	<u>1,056.36</u>
Non-current			
Long-term bank borrowings	30.08	176.82	206.90
	<u>362.90</u>	<u>900.36</u>	<u>1,263.26</u>
Maturity profile			
Within one year	332.82	723.54	1,056.36
In the second year	8.56	35.60	44.16
In the third to fifth years, inclusive	21.52	106.19	127.71
Over five years	–	35.03	35.03
	<u>–</u>	<u>35.03</u>	<u>35.03</u>
Total	<u>362.90</u>	<u>900.36</u>	<u>1,263.26</u>

Among the total outstanding bank borrowings of RMB1,263.26 million, bank borrowings of RMB362.90 million were secured and the details of which are set out below:

	<i>RMB million</i>
Secured by	
The Group's trade and other receivables	25.71
The Group's term deposits	100.00
The Group's property, plant and equipment	<u>56.33</u>
	<u>182.04</u>
Guaranteed by	
The Company	180.15
Tokyo Credit Guarantee Association	<u>0.71</u>
	<u>180.86</u>
	<u><u>362.90</u></u>

(b) Lease liabilities

As at 30 April 2021, the lease liabilities of the Group were as follows:

Lease liabilities	<i>RMB million</i>
Current portion	26.24
Non-current portion	<u>35.92</u>
	<u><u>62.16</u></u>

(c) Contingent liabilities

As at 30 April 2021, material contingent liabilities of the Group were as follows:

Guarantees	<i>RMB million</i>
Outstanding guarantees provided for joint ventures	<u>317.77</u>
Total amount of guarantee (<i>note</i>)	<u><u>317.77</u></u>

Note: As at 30 April 2021, the Group had granted aggregate outstanding guarantees of approximately RMB317.77 million to banks, of which about RMB300.27 million was granted for securing loans granted to China National Guo Lian Development New Energy (Wuxi) Co., Ltd. (which is a joint venture of the Company), and about RMB17.50 million was granted for securing loans granted to China Machinery Metal Jiangsu Co., Ltd. (which is a joint venture of a subsidiary of the Company), by such banks.

(d) Litigation

As at 30 April 2021, certain members of the Group are defendants or respondents in certain litigation, arbitration or other proceedings arising in the normal course of business, which include but not limited to those listed under the section headed “12. Material litigation” contained in Appendix II to this document. While the outcomes of such contingencies, lawsuits or other proceedings cannot be determined at present, the directors of the Company believe that any resulting liabilities will not have a material adverse impact on the financial position, liquidity, or operating results of the Group.

Save as disclosed above, as at 30 April 2021, the Group did not have any other issued and outstanding or agreed or authorised to be issued but unissued loan capital, loans, bank overdrafts or other similar indebtedness, finance leases or hire purchase commitments, liabilities under acceptances (other than normal trade bills) or acceptable credits, mortgages, charges, guarantees or other material contingent liabilities.

4 MATERIAL CHANGE

Save as (i) the Merger and the proposed withdrawal of listing of the H Shares on the Stock Exchange as set out in this document; and (ii) the item as disclosed below, the directors of the Company confirm that there has been no material change in the financial or trading position or outlook of the Group since 31 December 2020, being the date to which the latest published audited consolidated financial statements of the Group were made up, up to and including the Latest Practicable Date.

Litigations and arbitrations

As at the Latest Practicable Date, the Company and/or its subsidiaries were engaged in several litigations and arbitrations, details of the litigations and arbitrations are set out in the section headed “12. Material litigation” contained in Appendix II to this document.

1 RESPONSIBILITY STATEMENT

As at the date of this document, the Offeror's sole director is Ms. Wang Huifang. The sole director of the Offeror accepts full responsibility for the accuracy of the information contained in this document (other than in relation to the Company) and confirm, having made all reasonable enquiries, that to the best of her knowledge, opinions expressed in this document (other than those expressed by the Directors) have been arrived at after due and careful consideration and there are no other facts not contained in this document the omission of which would make any of the statements in this document misleading.

As at the date of this document, the board of directors of SINOMACH comprises Mr. Zhang Xiaolun, Mr. Wu Yongjie, Mr. Song Xin, Mr. Shang Bing, Mr. Jiang Xin, Mr. Dong Xuebo, Mr. Sha Xianhua, Mr. Zhang Xi and Mr. Liu Zuqing. The directors of SINOMACH jointly and severally accept full responsibility for the accuracy of the information contained in this document (other than in relation to the Company) and confirm, having made all reasonable enquiries, that to the best of their knowledge, opinions expressed in this document (other than those expressed by the Directors) have been arrived at after due and careful consideration and there are no other facts not contained in this document the omission of which would make any of the statements in this document misleading.

As at the date of this document, the Board comprises Mr. FANG Yanshui and Ms. AI Wei as executive Directors, Mr. BAI Shaotong, Mr. MA Jian and Mr. ZHANG Zhiyu as non-executive Directors, and Mr. LIU Li, Ms. LIU Hongyu, Mr. FANG Yongzhong and Mr. WU Tak Lung as independent non-executive Directors. The Directors jointly and severally accept full responsibility for the accuracy of the information contained in this document (other than that relating to the Offeror and SINOMACH) and confirm, having made all reasonable inquiries, that to the best of their knowledge, opinions expressed in this document (other than those expressed by the sole director of the Offeror and the directors of SINOMACH) have been arrived at after due and careful consideration and there are no other facts not contained in this document, the omission of which would make any statement in this document misleading.

2 SHARE CAPITAL OF THE COMPANY

(a) Authorised and issued share capital

As at the Latest Practicable Date, the authorised share capital of the Company was RMB4,125,700,000, and the total issued share capital of the Company was RMB4,125,700,000, consisting of 908,270,000 H Shares of a par value of RMB1.00 each and 3,217,430,000 Domestic Shares with a par value of RMB1.00 each.

All of the Shares currently in issue rank *pari passu* in all respects with each other, including, in particular, as to dividends, voting rights and capital.

Since 31 December 2020, being the date of the last audited consolidated financial statements of the Company, up to the Latest Practicable Date, the Company has not issued any Shares.

As at the Latest Practicable Date, the Company had no outstanding options, warrants, derivatives or other relevant securities (as defined in Note 4 to Rule 22 of the Takeovers Code) other than the Shares as disclosed above.

(b) Listing

The H Shares are listed and traded on the Main Board of the Stock Exchange. No part of the Shares is listed or dealt in, nor is any listing or permission to deal in the Shares being or proposed to be sought, on any other stock exchange.

3 MARKET PRICES

During the Relevant Period, the highest closing price of the H Shares as quoted on the Stock Exchange was HK\$3.63 on 15 June 2021 and the lowest closing price of the H Shares as quoted on the Stock Exchange was HK\$1.47 on 2 November 2020.

The table below shows the closing prices of the H Shares as quoted on the Stock Exchange (i) on the Latest Practicable Date; (ii) on the Last Trading Date; and (iii) the last Business Day of each of the calendar months during the Relevant Period:

Date	Price per Share <i>HK\$</i>
31 July 2020	1.88
31 August 2020	1.82
30 September 2020	1.59
30 October 2020	1.49
30 November 2020	1.62
31 December 2020	2.05
7 January 2021 (Last Trading Date)	2.55
29 January 2021	3.52
26 February 2021	3.56
31 March 2021	3.47
30 April 2021	3.48
31 May 2021	3.47
30 June 2021	3.60
2 July 2021 (Latest Practicable Date)	3.60

4 DISCLOSURE OF INTERESTS**(a) Interests of the directors and chief executives of the Company in the securities of the Company and the securities of the associated corporations of the Company**

As at the Latest Practicable Date, none of the directors, supervisors and chief executives of the Company had any interests or short positions in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were required (i) to be notified to the Company and the Stock Exchange pursuant to the Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO); or (ii) to be entered in the register required to be kept pursuant to section 352 of the SFO; or (iii) to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules or (iv) to be disclosed in accordance with the Takeovers Code.

(b) Interests of substantial shareholders in the securities of the Company

As at the Latest Practicable Date, the following persons or entities (other than the Directors and chief executives of the Company) had an interest or a short position in the shares and underlying shares of the Company which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which were recorded in the register required to be kept under section 336 of the SFO, or as otherwise notified to the Company and the Stock Exchange:

Name of Shareholders	Capacity/Nature of interest	Number and class of Shares held	Approximate percentage of the same class of securities	Approximate percentage of total issued share capital of the Company as at the Latest Practicable Date
SINOMACH	Beneficial owner	3,185,255,700 Domestic Shares (Long position)	99.00%	77.21%
	Interest of controlled corporation (<i>Note 1</i>)	32,174,300 Domestic Shares (Long position)	1.00%	0.78%
UBS Group AG	Interest of controlled corporation (<i>Note 2</i>)	46,814,125 H Shares (Long position)	5.15%	1.13%
		1,878,000 H Shares (Short position)	0.21%	0.05%

Name of Shareholders	Capacity/Nature of interest	Number and class of Shares held	Approximate percentage of the same class of securities	Approximate percentage of total issued share capital of the Company as at the Latest Practicable Date
JPMorgan Chase & Co (<i>Note 3</i>)	Interest of controlled corporation	7,824,312 H Shares (Long position)	0.86%	0.19%
		7,547,000 H Shares (Short position)	0.83%	0.18%
	Person having a security interest in shares	68,718,163 H Shares (Long position)	7.57%	1.67%
	Approved lending agent	6,644,998 H Shares (Long position)	0.73%	0.16%
Lakeville Capital Management Limited	Investment manager (<i>Note 4</i>)	63,809,000 H Shares (Long position)	7.03%	1.55%
Pentwater Capital Management LP	Interest of controlled corporation (<i>Note 5</i>)	126,418,658 H Shares (Long position)	13.92%	3.06%

Notes:

- (1) SINOMACH is deemed to be interested in the Domestic Shares held by China United, its wholly-owned subsidiary.
- (2) Among these 46,814,125 H Shares (long position), 19,183,143 H Shares (long position) were held by UBS AG, 602,982 H Shares (long position) were held by UBS Switzerland AG, 26,730,000 H Shares (long position) were held by UBS O'Connor LLC, and 298,000 H Shares (long position) were held by UBS Asset Management Switzerland AG, each a wholly-owned subsidiary of UBS Group AG.

In addition to the interest in the Company's H Shares, UBS Group AG was also interested in 1,878,000 (short position) in the Company's H Shares.

- (3) Among these H Shares held, 9,139,000 H Shares (long position) were held by J.P. Morgan Securities LLC, 6,644,998 H Shares (long position) were held by JPMorgan Chase Bank, N.A. – London Branch and 67,403,475 H Shares (long position) and 7,547,000 H Shares (short position) were held by J.P. Morgan Securities plc.

In addition to the interest in the Company's H Shares, JPMorgan Chase & Co was also interested in 582,000 (long position) and 6,533,000 (short position) derivatives in the Company's H Shares.

- (4) In addition to the interest in the Company's H Shares, Lakeville Capital Management Limited was also interested in 23,894,000 (long position) derivatives in the Company's H Shares.

- (5) Among these 126,418,658 H Shares, 126,418,658 H Shares were indirectly held by Pentwater Capital Management Europe LLP, among which 3,679,871 H Shares were held by Crown Managed Accounts SPC, 4,095,063 H Shares were held by LMA SPC for MAP98, 9,499,609 H Shares were held by Investment Opportunities 3 Segregated Portfolio, 19,233,319 H Shares were held by Oceana Master Fund Ltd., 14,616,504 H Shares were held by Pentwater Equity Opportunities Master Fund Ltd., 38,377,639 H Shares were held by Pentwater Merger Arbitrage Master Fund Ltd., 31,851,246 H Shares

were held by Pentwater Event Master Fund Ltd., 4,035,871 H Shares were held by Pentwater Metric Merger Master Fund Ltd., and 1,029,536 H Shares were held by Pentwater Unconstrained Master Fund Ltd., each an entity controlled by Pentwater Capital Management LP.

Save as disclosed above, as at the Latest Practicable Date, so far as is known to the Directors, no other persons or entities (other than the Directors and the chief executives of the Company) had any interests or short positions in the shares or underlying shares of the Company which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which were recorded in the register required to be kept under section 336 of the SFO, or as otherwise notified to the Company and the Stock Exchange.

(c) Additional disclosure of interests

As at the Latest Practicable Date:

- (i). none of the Directors was interested in the Shares or any warrants, options, convertible securities or derivatives in respect of any Shares;
- (ii). none of the subsidiaries of the Company, pension funds of the Company or of a subsidiary of the Company, or any person who is presumed to be acting in concert with the Company by virtue of class (5) of the definition of acting in concert in the Takeovers Code or who is an associate of the Company by virtue of class (2) of the definition of “associate” in the Takeovers Code but excluding any exempt principal trader and exempt fund managers, owned or controlled any Shares or any convertible securities, warrants, options or derivatives in respect of any Shares;
- (iii). there was no arrangement of the kind referred to in Note 8 to Rule 22 of the Takeovers Code which existed between the Company, or any person who is presumed to be acting in concert with the Company by virtue of classes (1), (2), (3) and (5) of the definition of acting in concert, or any of the Company’s associates by virtue of classes (2), (3) or (4) of the definition of “associate” under the Takeovers Code, and any other person;
- (iv). no fund managers (other than exempt fund managers) connected with the Company had managed any Shares or any convertible securities, warrants, options or derivatives in respect of any Shares on a discretionary basis;
- (v). none of the Directors held any beneficial shareholdings in the Company which would otherwise entitle them to accept or reject the Merger; and
- (vi). none of the Company or the Directors had borrowed or lent any Shares or any convertible securities, warrants, options or derivatives or relevant securities (as defined in Note 4 to Rule 22 of the Takeovers Code) in respect of any Shares.

5 DISCLOSURE OF INTERESTS IN THE SECURITIES OF THE OFFEROR BY THE COMPANY

As at the Latest Practicable Date:

- (i). the Company did not own any shares, convertible securities, warrants, options, or derivatives in respect of any shares in the Offeror; and
- (ii). none of the Directors had any interest in the shares, convertible securities, warrants, options, or derivatives in respect of any shares in the Offeror.

6 DEALINGS IN THE SHARES BY THE COMPANY

- (i). During the Relevant Period, none of the Directors had dealt for value in any Shares, convertible securities, warrants, options, or derivatives in respect of any Shares;
- (ii). During the period beginning from the date of the Joint Announcement up to the Latest Practicable Date, none of the subsidiaries of the Company, or pension funds of the Company or of a subsidiary of the Company, or any person who is presumed to be acting in concert with the Company by virtue of class (5) of the definition of acting in concert in the Takeovers Code or who is an associate of the Company by virtue of class (2) of the definition of “associate” in the Takeovers Code but excluding exempt principal traders and exempt fund managers had dealt for value in any Shares or any convertible securities, warrants, options or derivatives in respect of any Shares;
- (iii). During the period beginning from the date of the Joint Announcement up to the Latest Practicable Date, no fund managers connected with the Company (other than exempt fund managers) who managed funds on a discretionary basis had dealt for value in any Shares or any other convertible securities, warrants, options or derivatives in respect of any Shares; and
- (iv). During the period beginning from the date of the Joint Announcement up to the Latest Practicable Date, no person between whom there is arrangement of the kind referred to in Note 8 to Rule 22 of the Takeovers Code and the Company, or any person who is presumed to be acting in concert with the Company virtue of classes (1), (2), (3) and (5) of the definition of acting in concert, or any of the Company’s associates by virtue of classes (2), (3) or (4) of the definition of “associate” under the Takeovers Code had dealt for value in any Shares or any convertible securities, warrants, options or derivatives in respect of any Shares.

7 DEALINGS IN THE SECURITIES OF THE OFFEROR BY THE COMPANY

During the Relevant Period, neither the Company nor any of the Directors had dealt for value in any shares, convertible securities, warrants, options or derivatives in respect of any shares in the Offeror.

8 DISCLOSURE OF INTERESTS IN THE SHARES BY THE OFFEROR

As at the Latest Practicable Date:

- (i). none of the Offeror or the sole director of the Offeror was interested in any Shares or any convertible securities, warrants, options or derivatives in respect of the Shares;
- (ii). none of the concert parties of the Offeror owned or controlled any Shares or any convertible securities, warrants, options or derivatives in respect of the Shares (except those concert parties which were exempt principal traders or exempt fund managers, in each case recognised by the Executive as such for the purposes of the Takeovers Code and also excluding Shares held on behalf of non-discretionary investment clients of the CICC group), save as disclosed in the sub-paragraph headed “*Shareholding in the Company*” in the section headed “*LETTER FROM THE BOARD*”;
- (iii). there was no existing holding of voting rights and rights over Shares in respect of which the Offeror, SINOMACH or any person acting in concert with either of them had received an irrevocable commitment to vote for or against the resolutions in respect of the Merger;
- (iv). save for the Merger Agreement and the transactions contemplated thereunder, there was no arrangement (whether by way of option, indemnity or otherwise) in relation to the Shares and which might be material to the Merger;
- (v). there was no agreement or arrangement (other than the Merger Agreement and the transactions contemplated thereunder) to which the Offeror or SINOMACH was a party which related to the circumstances in which either of them might or might not invoke or seek to invoke a condition of the Merger; and
- (vi). none of the Offeror or any of the concert parties of the Offeror had borrowed or lent any Shares or any convertible securities, warrants, options or derivatives or relevant securities (as defined in Note 4 to Rule 22 of the Takeovers Code) in respect of the Shares.

The Offeror confirms that there was no understanding, arrangement or agreement or special deal (as defined under Rule 25 of the Takeovers Code) between (i) any Shareholder; and (ii)(a) the Offeror, SINOMACH and any person acting in concert with either of them or (b) the Company, its subsidiaries or associated companies from the date on which the Merger is reasonably in contemplation to the Latest Practicable Date.

9 DEALINGS IN THE SHARES BY THE OFFEROR

- (i). None of the Offeror or the sole director of the Offeror or any of the concert parties of the Offeror had dealt for value in any Shares or any convertible securities, warrants, options or derivatives in respect of the Shares (excluding dealings for non-discretionary clients conducted by members of the CICC group for and on behalf of clients of the CICC group and excluding dealings conducted by those entities in the CICC group that are exempt principal traders or exempt funds managers) during the Relevant Period.
- (ii). No person who has an arrangement of the kind referred to in Note 8 to Rule 22 of the Takeovers Code with the Offeror or any of the concert parties of the Offeror had dealt for value in the Shares or any convertible securities, warranties, options or derivatives in respect of the Shares during the Relevant Period.

10 ARRANGEMENTS IN CONNECTION WITH THE MERGER

(a) Arrangements affecting the Directors

As at the Latest Practicable Date:

- (i). no benefit (save for statutory compensation required under applicable laws) would be given to any Director as compensation for loss of office or otherwise in connection with the Merger;
- (ii). save for the Merger, there were no agreements or arrangements between any Director and any other person which was conditional on or dependent upon the outcome of the Merger or otherwise connected with the Merger; and
- (iii). there were no material contracts entered into by the Offeror in which any Director had a material personal interest.

(b) Arrangements with the Company in connection with the Merger

- (i). The emolument of the Directors will not be affected by the Merger or by any associated transactions.

- (ii). As at the Latest Practicable Date, no person who owned or controlled any Shares or any convertible securities, warrants, options or derivatives in respect of the Shares had irrevocably committed themselves to vote their Shares in favour of or against (as the case may be) the resolutions in respect of the Merger.

(c) Arrangement with the Offeror in connection with the Merger

- (i). Save for the Merger Agreement, there is no agreement, arrangement or understanding (including any compensation arrangement) between the Offeror or any person acting in concert with it on the one hand and any of the Directors, recent Directors, Shareholders or recent Shareholders on the other hand having any connection with or dependence upon the Merger.
- (ii). Save for the Merger and the transactions contemplated thereunder, there is no agreement or arrangement to which the Offeror or SINOMACH is a party which relate to the circumstances in which either of them may or may not invoke or seek to invoke a condition to the Merger.
- (iii). As at the Latest Practicable Date, the Offeror did not have any intention to transfer, charge or pledge any Shares acquired pursuant to the Merger to any other person.
- (iv). As at the Latest Practicable Date, there were no arrangements of the kind referred to in Note 8 to Rule 22 of the Takeovers Code which existed between the Offeror or any person acting in concert with the Offeror and any other person.

11 MATERIAL CONTRACTS

The following contracts (being contracts not entered into in the ordinary course of business carried on or intended to be carried on by the members of the Group) have been entered into by the Company or any of its subsidiaries within the two years immediately preceding the commencement of the Offer Period, and up to and including the Latest Practicable Date, which are or may be material.

- (i) the equity transfer agreement dated 17 December 2019 entered into between the Company and SINOMACH Academy of Science and Technology Co., Ltd.* (國機集團科學技術研究院有限公司), a wholly-owned subsidiary of SINOMACH, pursuant to the Company agreed to acquire, and SINOMACH Academy of Science and Technology Co., Ltd.* (國機集團科學技術研究院有限公司) agreed to sell, 64.82% equity interest in Harbin Power System Engineering and Research Institute Co., Ltd.* (哈爾濱電站設備成套設計研究所有限公司) for an aggregation consideration of RMB100,885,800; and
- (ii) the Merger Agreement.

12 MATERIAL LITIGATION

As at the Latest Practicable Date, the Company and/or its subsidiaries were engaged in the following litigation or arbitration or claim which are or may be of material importance:

Filing date of the claim	Brief particulars of the claim	Relevant court/arbitral tribunal	Aggregate amount claimed <i>(Approximate amount)</i>	Status
1. March 2009	A claim was filed by CMEC International Trading Co., Ltd. (中設國際貿易有限公司), a subsidiary of the Company, as plaintiff against Shanghai Ludi Oil Trading Co., Ltd.* (上海陸地石油銷售有限公司) as defendant for certain contractual disputes	Beijing Municipality Higher People's Court	RMB165 million, together with such judgment interest to be granted in accordance with the PRC Civil Procedure Law, the reference interest rate as at the Latest Practicable Date being: (i) the principal amount multiplied by (ii) an interest rate of 0.000175 per day	Enforcement of judgment against the defendant. Approximately RMB25 million have been recovered from the defendant.
2. May 2012	A claim was filed by the Company as plaintiff against Penglai Bohai Shipbuilding Co., Ltd.* (蓬萊市渤海造船有限公司) and its certain substantial shareholders as defendants for certain contractual disputes	Shandong Provincial Higher People's Court	RMB123 million, together with such judgment interest to be granted in accordance with the PRC Civil Procedure Law, the reference interest rate as at the Latest Practicable Date being: (i) the principal amount multiplied by (ii) an interest rate of 0.000175 per day	Enforcement of judgment against the defendant. Approximately RMB56 million has been recovered from the defendant.

Filing date of the claim	Brief particulars of the claim	Relevant court/arbitral tribunal	Aggregate amount claimed <i>(Approximate amount)</i>	Status
3. June 2018	A claim was filed by China National Complete Engineering Corporation (中國成套工程有限公司), a subsidiary of the Company, as plaintiff against Ningguo Municipal Government for certain contractual disputes.	Beijing Municipality Second Intermediate People's Court	RMB164 million, together with such judgment interest to be calculated based on: (i) a principal amount of RMB 100 million multiplied by (ii) such interest rate applicable to equivalent types of loans published by the People's Bank of China plus 30% per annum	Enforcement of judgment against the defendant. Approximately RMB50 million has been recovered from the defendant.
4. July 2019	A claim was filed by CNEEC as plaintiff against Harbin Bofa Power Generation Equipment Co., Ltd.* (哈爾濱博發電站設備集團有限公司) as defendant for certain contractual disputes	Beijing Municipality Fourth Intermediate People's Court	RMB328 million, together with an interest amount of RMB 46.90 million, and such further interest to be accrued from August 2019 up to the date of actual enforcement of judgment	Preliminary discovery stage
5. August 2019	A claim was filed by LLC KS GOK as claimant against CNEEC as defendant for certain contractual disputes	International Court of Arbitration Singapore	US\$75.37 million, together with such interest accrued from the due date of the principal amount up to the actual payment date to be determined by the relevant arbitral tribunal	Dispute adjudication board stage

Filing date of the claim	Brief particulars of the claim	Relevant court/arbitral tribunal	Aggregate amount claimed <i>(Approximate amount)</i>	Status
6. January 2021	A claim was filed by the Company as plaintiff against Zhejiang Zengzhou Heavy Industry Technology Co., Ltd.* (浙江增洲重工科技有限公司), Zengzhou Group Co., Ltd.* (增洲集團有限公司) and Yu Zengchan as defendants for certain contractual disputes	Beijing Municipality Second Intermediate People's Court	RMB126 million together with such judgment interest of RMB 9.32 million, and such further interest to be accrued from 1 January 2021 up to the date of actual payment at the interest rates of 5.9% to 6.2% per annum	Pre-trial stage

As at the Latest Practicable Date, save as disclosed above, neither the Company nor any of its subsidiaries was engaged in any litigation or arbitration or claim of material importance and no litigation or claim of material importance was known to the Directors to be pending or threatened by or against the Company or any of its subsidiaries.

13 CONSENT AND QUALIFICATIONS

The following are the names and qualifications of the professional advisers whose letter, opinions or advice are contained or referred to in this document:

Name	Qualifications
CICC	the financial adviser to the Offeror, in connection with the Merger, a licensed corporation under the SFO, licensed to carry out Type 1 (dealing in securities), Type 2 (dealing in futures contracts), Type 4 (advising on securities), Type 5 (advising on futures contracts) and Type 6 (advising on corporate finance) regulated activities
Somerley Capital Limited	the independent financial adviser to the Independent Board Committee, a corporation licensed to carry on Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities under the SFO

Each of the above experts has given and has not withdrawn its written consent to the issue of this document with the inclusion therein of its opinions and/or statements, and the references to its name, opinions and/or statements in the form and context in which they respectively appear.

14 SERVICE CONTRACTS

The following service agreement/letters of appointment have been entered into by the Directors with the Company within six months before the date of commencement of the Offer Period:

Directors	Title	Commencement date of the service agreement/letter of appointment	Expiry date of the service agreement/letter of appointment	Fixed remuneration payable (per annum)
Mr. Ma Jian	Non-Executive Director	25 September 2020	Until the date on which the third session of the Board meeting will be held	RMB80,000
Mr. Zhang Zhiyu	Non-Executive Director	25 September 2020	Until the date on which the third session of the Board meeting will be held	RMB80,000
Ms. Ai Wei	Executive Director	18 December 2020	Until the date on which the third session of the Board meeting will be held	RMB633,420

In addition to the fixed remuneration payable per annum as disclosed above, Ms. Ai Wei is also entitled to discretionary management bonus under the service agreement with the Company with reference to the overall operating results and performance of the Company, individual performance and comparable market practices, to be determined by the Board and the Remuneration Committee of the Company.

Under the service agreements with the Company as disclosed above, each of Mr. Ma Jian and Mr. Zhang Zhiyu is not entitled to any discretionary bonus.

Save as disclosed above, as at the Latest Practicable Date, none of the Directors had any existing service contract with the Company or any of its subsidiaries or associated companies which (i) (including both continuous and fixed-term contracts) had been entered into, or amended within six months before the date of commencement of the Offer Period; (ii) was a continuous contract with a notice period of 12 months or more; (iii) was a fixed term contract with more than 12 months to run irrespective of the notice period; or (iv) was not determinable by the Company within one year without payment of compensation (other than statutory compensation).

15 MISCELLANEOUS

- (i). The registered address of the Offeror is Room 505, 5th Floor, Building 3, No. 178, 180, A 180, Guanganmenwai Street, Xicheng District, Beijing, the PRC.

- (ii). The sole director of the Offeror is Ms. Wang Huifang.
- (iii). The principal members of the Offeror's concert group include (i) SINOMACH; and (ii) China United. Details of the principal members of the Offeror's concert group are as follows:

Name of the principal member	Address	Director(s)
SINOMACH	Registered office and principal place of business: No. 3 Danling Street, Haidian District, Beijing, the PRC	Mr. Zhang Xiaolun Mr. Wu Yongjie Mr. Song Xin Mr. Shang Bing Mr. Jiang Xin Mr. Dong Xuebo Mr. Sha Xianhua Mr. Zhang Xi Mr. Liu Zuqing
China United	Registered office and principal place of business: No. 1060 Bin'an Road, Binjiang District, Hangzhou City, Zhejiang Province, the PRC	Mr. Guo Weihua Mr. Xu Ganghui Mr. Zhao Zhisheng Mr. Xie Donggang Mr. Qian Xiangdong Mr. Shen Ruihong

- (iv). CICC is the financial adviser to the Offeror in relation to the Merger and its address is 29/F, One International Finance Centre, 1 Harbour View Street, Central, Hong Kong.
- (v). The registered office address of the Company is No. 178 Guang'anmenwai Street, Xicheng District, Beijing, the PRC and the principal place of business of the Company in Hong Kong is at Room 804, 8/F, Tower 1, South Sea Centre, 75 Mody Road, Tsimshatsui East, Kowloon, Hong Kong.
- (vi). As at the Latest Practicable Date, the Board comprises Mr. FANG Yanshui, Ms. AI Wei, Mr. BAI Shaotong, Mr. MA Jian, Mr. ZHANG Zhiyu, Mr. LIU Li, Ms. LIU Hongyu, Mr. FANG Yongzhong and Mr. WU Tak Lung.
- (vii). The address of Somerley Capital Limited is at 20th Floor, China Building, 29 Queen's Road Central, Hong Kong.
- (viii). In case of inconsistency, the English version of this document shall prevail over the Chinese version.

16 DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents are available for inspection (1) on the website of the Company at www.cmec.com; (2) on the website of the SFC at www.sfc.hk; and (3) at the principal place of business of the Company in Hong Kong at Room 804, 8/F, Tower 1, South Sea Centre, 75 Mody Road, Tsimshatsui East, Kowloon, Hong Kong during normal business hours from 9:00 a.m. to 5:00 p.m. on any weekday (public holidays excepted) until the date on which the Offer Period ends or the date on which the Merger are withdrawn or lapse, whichever is the earliest:

- (1) the Articles;
- (2) the articles of association of the Offeror;
- (3) the annual reports of the Company for each of the three years ended 31 December 2018, 2019 and 2020;
- (4) the letter from the Board, the text of which is set out from pages 7 to 23 of this document;
- (5) the letter from the Independent Board Committee, the text of which is set out from pages 24 to 25 of this document;
- (6) the letter from the Independent Financial Adviser to the Independent Board Committee, the text of which is set out from pages 26 to 67 of this document;
- (7) the material contract(s) referred to in the sections headed “*11. Material Contracts*” of this Appendix II;
- (8) the written consents referred to in the sections headed “*13. Consent and Qualifications*” of this Appendix II;
- (9) the service contract(s) referred to in the sections headed “*14. Service Contracts*” of this Appendix II; and
- (10) this document.

NOTICE OF EXTRAORDINARY GENERAL MEETING



中國機械設備工程股份有限公司
China Machinery Engineering Corporation*

(a joint stock limited company incorporated in the People's Republic of China with limited liability)
(Stock code: 1829)

NOTICE OF EXTRAORDINARY GENERAL MEETING

NOTICE IS HEREBY GIVEN that an extraordinary general meeting (the “**EGM**”) of China Machinery Engineering Corporation (the “**Company**”) will be held at Meeting Room, CMEC Building, No. 165 Jinze Road, Fengtai District, Beijing, the People's Republic of China on Wednesday, 28 July 2021 at 9:00 a.m., for the purpose of considering and, if thought fit, passing the following resolution. Unless otherwise stated, capitalised terms used herein shall have the same meanings as defined in the composite document (the “**Composite Document**”) jointly issued by the Company and China SUMEC Automotive Industry Consulting Development Co., Ltd.* (the “**Offeror**”) dated 6 July 2021.

AS SPECIAL RESOLUTION

1. (a) To consider and, if thought fit, to approve, confirm and ratify the Merger Agreement dated 13 January 2021 entered into between the Company and the Offeror and the Merger and the transactions contemplated under the Merger Agreement.
- (b) To consider and, if thought fit, to approve that Mr. Fang Yanshui, an executive Director be authorised to do all such acts and things, to sign and execute all such other documents, deeds and instruments, to make applications to the relevant regulatory authorities and to take such steps as he may consider necessary, appropriate, expedient and in the interest of the Company to give effect to and in connection with any transactions contemplated under the Merger Agreement.

By order of the Board
China Machinery Engineering Corporation*
BAI Shaotong
Chairman

Beijing, the PRC
6 July 2021

Registered office:

No. 178 Guang'anmenwai Street, Xicheng District, Beijing, the PRC

* For identification purpose only

NOTICE OF EXTRAORDINARY GENERAL MEETING

Principal place of business in Hong Kong:

Room 804, 8/F, Tower 1 South Sea Centre

75 Mody Road, Tsimshatsui East, Kowloon, Hong Kong

Notes:

1. As set out in the Composite Document, it is one of the conditions to the effectiveness of the Merger Agreement that the special resolution in the EGM approving the Merger under the Merger Agreement is passed by not less than two-thirds of the votes cast by way of poll by the Shareholders present and voting in person or by proxy at the EGM.
2. A member of the Company (the “**Member**”) entitled to attend and vote at the EGM or its adjournment (as the case may be) is entitled to appoint one (or, if he/she/it holds two or more issued shares of RMB1.00 each in the Company (the “**Shares**”) more than one) proxy to attend and vote, on a poll vote in his stead in accordance with the articles of association of the Company. A proxy needs not be a Member. The form of proxy shall contain the number of the Shares to be represented by the proxy. If several persons are authorised as the proxies of a Member, the form of proxy shall specify the number and class of Shares to be represented by each proxy.
3. A form of proxy for use at the EGM is enclosed. If you do not intend to attend the EGM in person, you are urged to complete and return the form of proxy in accordance with the instructions printed thereon as soon as possible. Completion and return of the form of proxy will not preclude you from subsequently attending and voting in person at the EGM or any adjourned meeting thereof if you so wish. In the event that you attend the EGM after having returned the completed form of proxy, your form of proxy will be deemed to have been revoked.
4. In order to be valid, a form of proxy together with any power of attorney or other authority (if any) under which it is signed or a notarially certified copy of that power of attorney or authority must be deposited with the Company’s H share registrar, Computershare Hong Kong Investor Services Limited at 17M Floor, Hopewell Centre, 183 Queen’s Road East, Wanchai, Hong Kong (for the H Shareholders), or to the Company’s correspondence address at CMEC Building, No. 165 Jinze Road, Fengtai District, Beijing, the PRC (for the Domestic Shareholders), in each case not later than 24 hours before the time appointed for holding the EGM or any adjournment thereof. Delivery of the form of proxy shall not preclude a Member from subsequently attending and voting in person at the EGM and, in such event, the instrument appointing a proxy shall be deemed to be revoked.
5. The register of Members will be closed from Friday, 23 July 2021 to Wednesday, 28 July 2021, both days inclusive, during which period no transfer of Shares will be effected. In order to determine the list of Members who are qualified to attend and vote at the EGM, all transfer documents accompanied by the relevant share certificates must be lodged with (in the case of H Shareholders) 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 and (in the case of Domestic Shareholders) the Company’s correspondence address at CMEC Building, No. 165 Jinze Road, Fengtai District, Beijing, the PRC, in each case no later than 4:30 p.m. on Thursday, 22 July 2021.
6. In the case of joint registered holders of any Shares, any one of such joint registered holders may vote at the EGM, either in person or by proxy, in respect of such Shares as if he/she/it were solely entitled thereto; but should more than one of such joint registered holders be present at the EGM, either in person or by proxy, the vote of that one of them so present, whose name stands first on the register of Members in respect of such Shares shall be accepted to the exclusion of the votes of the other joint registered holder(s).

In view of the ongoing Novel Coronavirus (COVID-19) epidemic, the Company strongly recommends Shareholders to exercise their voting rights by appointing the chairman of the EGM as their proxy to vote on the relevant resolution at the EGM as an alternative to attending the meeting in person.

NOTICE OF EXTRAORDINARY GENERAL MEETING

As at the date of this notice, the Board comprises Mr. FANG Yanshui and Ms. AI Wei as executive Directors, Mr. BAI Shaotong, Mr. MA Jian and Mr. ZHANG Zhiyu as non-executive Directors, and Mr. LIU Li, Ms. LIU Hongyu, Mr. FANG Yongzhong and Mr. WU Tak Lung as independent non-executive Directors.

PRECAUTIONARY MEASURES FOR THE EGM

The Company will implement the following measures at the EGM including:

- compulsory body temperature checks
- refusal of entry of those with a body temperature of over 37.3 degrees Celsius (but will be able to vote by submitting a voting slip to the scrutineer at the entrance of the venue)
- wearing of face masks throughout the EGM
- no distribution of corporate gifts and refreshments
- seating at the EGM will be arranged so as to allow for appropriate social distancing. The Company may limit the number of attendees at the EGM as may be necessary
- no entry will be allowed to any person who (i) is subject to mandatory quarantine or self-quarantine order in relation to COVID-19; (ii) has close contact with any person under mandatory quarantine or self-quarantine order in relation to COVID-19 or with recent travel history or; (iii) does not comply with the precautionary measures

Those being refused entry at the meeting venue would still be allowed to vote by submitting a voting slip to the scrutineer at the entrance of the venue.

Any person who does not comply with the precautionary measures will be denied entry into the venue of the EGM.

NOTICE OF H SHAREHOLDERS' CLASS MEETING



中國機械設備工程股份有限公司
China Machinery Engineering Corporation*

(a joint stock limited company incorporated in the People's Republic of China with limited liability)
(Stock code: 1829)

NOTICE OF H SHAREHOLDERS' CLASS MEETING

NOTICE IS HEREBY GIVEN that a H shareholders' class meeting (the "**H Shareholders' Class Meeting**") of China Machinery Engineering Corporation (the "**Company**") will be held at Meeting Room, CMEC Building, No. 165 Jinze Road, Fengtai District, Beijing, the People's Republic of China on Wednesday, 28 July 2021 at 9:30 a.m. or immediately following the conclusion of the EGM or any adjournment thereof, for the purpose of considering and, if thought fit, passing the following resolution. Unless otherwise stated, capitalised terms used herein shall have the same meanings as defined in the composite document (the "**Composite Document**") jointly issued by the Company and China SUMEC Automotive Industry Consulting Development Co., Ltd.* (the "**Offeror**") dated 6 July 2021.

AS SPECIAL RESOLUTION

1. (a) To consider and, if thought fit, to approve, confirm and ratify the Merger Agreement dated 13 January 2021 entered into between the Company and the Offeror and the Merger and the transactions contemplated under the Merger Agreement.
- (b) To consider and, if thought fit, to approve that Mr. Fang Yanshui, an executive Director be authorised to do all such acts and things, to sign and execute all such other documents, deeds and instruments, to make applications to the relevant regulatory authorities and to take such steps as he may consider necessary, appropriate, expedient and in the interest of the Company to give effect to and in connection with any transactions contemplated under the Merger Agreement.

By order of the Board
China Machinery Engineering Corporation*
BAI Shaotong
Chairman

Beijing, the PRC
6 July 2021

Registered office:
No. 178 Guang'anmenwai Street, Xicheng District, Beijing, the PRC

Principal place of business in Hong Kong:
Room 804, 8/F, Tower 1 South Sea Centre
75 Mody Road, Tsimshatsui East, Kowloon, Hong Kong

* *For identification purpose only*

NOTICE OF H SHAREHOLDERS' CLASS MEETING

Notes:

1. As set out in the Composite Document, it is one of the conditions to the effectiveness of the Merger Agreement that (a) the special resolution in the H Shareholders' Class Meeting approving the Merger under the Merger Agreement is approved by at least 75% of the votes attaching to the H Shares held by the Independent H Shareholders that are cast either in person or by proxy; and (b) the number of votes cast against the resolution(s) is not more than 10% of the votes attaching to all H Shares held by the Independent H Shareholders.
2. A member of the Company (the "**Member**") entitled to attend and vote at the H Shareholders' Class Meeting or its adjournment (as the case may be) is entitled to appoint one (or, if he/she/it holds two or more issued H shares of RMB1.00 each in the Company (the "**Shares**") more than one) proxy to attend and vote, on a poll vote in his stead in accordance with the articles of association of the Company. A proxy needs not be a Member. The form of proxy shall contain the number of the Shares to be represented by the proxy. If several persons are authorised as the proxies of a Member, the form of proxy shall specify the number and class of Shares to be represented by each proxy.
3. A form of proxy for use at the H Shareholders' Class Meeting is enclosed. If you do not intend to attend the H Shareholders' Class Meeting in person, you are urged to complete and return the form of proxy in accordance with the instructions printed thereon as soon as possible. Completion and return of the form of proxy will not preclude you from subsequently attending and voting in person at the H Shareholders' Class Meeting or any adjourned meeting thereof if you so wish. In the event that you attend the H Shareholders' Class Meeting after having returned the completed form of proxy, your form of proxy will be deemed to have been revoked.
4. In order to be valid, a form of proxy together with any power of attorney or other authority (if any) under which it is signed or a notarially certified copy of that power of attorney or authority must be deposited with the Company's H share registrar, Computershare Hong Kong Investor Services Limited at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, not later than 24 hours before the time appointed for holding the H Shareholders' Class Meeting or any adjournment thereof. Delivery of the form of proxy shall not preclude a Member from subsequently attending and voting in person at the H Shareholders' Class Meeting and, in such event, the instrument appointing a proxy shall be deemed to be revoked.
5. The register of Members will be closed from Friday, 23 July 2021 to Wednesday, 28 July 2021, both days inclusive, during which period no transfer of Shares will be effected. In order to determine the list of Members who are qualified to attend and vote at the H Shareholders' Class Meeting, all transfer documents accompanied by the relevant share certificates must be lodged with the Company's H share registrar, Computershare Hong Kong Investor Services Limited at Shops 1712-1716, 17/F, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong no later than 4:30 p.m. on Thursday, 22 July 2021.
6. In the case of joint registered holders of any Shares, any one of such joint registered holders may vote at the H Shareholders' Class Meeting, either in person or by proxy, in respect of such Shares as if he/she/it were solely entitled thereto; but should more than one of such joint registered holders be present at the H Shareholders' Class Meeting, either in person or by proxy, the vote of that one of them so present, whose name stands first on the register of Members in respect of such Shares shall be accepted to the exclusion of the votes of the other joint registered holder(s).

In view of the ongoing Novel Coronavirus (COVID-19) epidemic, the Company strongly recommends Shareholders to exercise their voting rights by appointing the chairman of the H Shareholders' Class Meeting as their proxy to vote on the relevant resolution at the H Shareholders' Class Meeting as an alternative to attending the meeting in person.

As at the date of this notice, the Board comprises Mr. FANG Yanshui and Ms. AI Wei as executive Directors, Mr. BAI Shaotong, Mr. MA Jian and Mr. ZHANG Zhiyu as non-executive Directors, and Mr. LIU Li, Ms. LIU Hongyu, Mr. FANG Yongzhong and Mr. WU Tak Lung as independent non-executive Directors.

NOTICE OF H SHAREHOLDERS' CLASS MEETING

PRECAUTIONARY MEASURES FOR THE H SHAREHOLDERS' CLASS MEETING

The Company will implement the following measures at the H Shareholders' Class Meeting including:

- compulsory body temperature checks
- refusal of entry of those with a body temperature of over 37.3 degrees Celsius (but will be able to vote by submitting a voting slip to the scrutineer at the entrance of the venue)
- wearing of face masks throughout the H Shareholders' Class Meeting
- no distribution of corporate gifts and refreshments
- seating at the H Shareholders' Class Meeting will be arranged so as to allow for appropriate social distancing. The Company may limit the number of attendees at the H Shareholders' Class Meeting as may be necessary
- no entry will be allowed to any person who (i) is subject to mandatory quarantine or self-quarantine order in relation to COVID-19; (ii) has close contact with any person under mandatory quarantine or self-quarantine order in relation to COVID-19 or with recent travel history; or (iii) does not comply with the precautionary measures

Those being refused entry at the meeting venue would still be allowed to vote by submitting a voting slip to the scrutineer at the entrance of the venue.

Any person who does not comply with the precautionary measures will be denied entry into the venue of the H Shareholders' Class Meeting.