CQME

Chongqing Machinery & Electric Co., Ltd.*

重慶機電股份有限公司

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

(Stock Code: 02722)

SUPPLEMENTAL ANNOUNCEMENT IN RELATION TO 2022 ANNUAL REPORT

Reference is made to the 2022 Annual Report published by Chongqing Machinery & Electric Co., Ltd. (the "**Company**") on 14 April 2023. Capitalised terms used herein shall bear the same meanings as defined in the 2022 Annual Report.

The Company hereby provides the following supplemental information regarding the loans provided by the Group disclosed in the 2022 Annual Report:

(i) Business models, including the nature of lending services provide; customer profiles; risk management policies; and loan impairment policies

Business models and nature of money lending services

Chongqing Electrical Holdings Group Finance Company Limited (the "**Finance Company**"), a subsidiary of the Company, is a licensed non-banking financial institution approved by the China Banking and Insurance Regulatory Commission. Finance Company only serves the members of the Group and the Parent Group and provides them with approved financial services such as settlement, loans, bills and intermediary business, so as to strengthen the centralizing management of funds of the Group and the Parent Group, and improves the efficiency of the use of internal funds.

Risk management policy

The Finance Company has established a pre-lending, lending and post-lending management system based on the internal control principles of lending and examination separation, hierarchical approval and mutual restraint. Credit business process is mainly divided into credit application acceptance, pre-credit investigation, risk assessment by the Loan Review Committee, specific business approval, post-lending management. At the same time, management mechanisms such as loan recovery and overdue collection had been established. If substantial changes affecting the repayment of borrowers are identified, which may imperil the security of the creditor's rights of the Finance Company, relevant measures for creditor's rights protection can be taken according to the loan agreements.

Loan impairment policy

The Finance Company formulated the "Management Measures for Reserve Provisions" (《準備金計提管理辦法》) in accordance with relevant management regulations such as the National "Accounting Standards for Business Enterprises" (《企業會計準則》), "Management Measures for Financial Enterprise Reserve Provisions" (《金融企業準備金計提管理辦法》), "Administrative Measures for Loan Loss Provisions of Commercial Banks"(《商業銀行貸款損失準備管理辦法》).

According to the requirements of "Accounting Standards for Business Enterprises No. 22 - Recognition and Measurement of Financial Instruments" (《企業會計準則第 22 號--金融工具確認和計量》) issued by the Ministry of Finance of the People's Republic of China, an expected credit loss impairment model is established based on the Finance Company's own situation, and provision for impairment is made after conducting impairment tests on loans. As required by the "Administrative Measures for Loan Loss Provisions of Commercial Banks" (《商業銀行貸款損失準備管理辦法》), the normal loan impairment provision ratio is 2.5%. The Finance Company determines the provision ratio according to the rule of the higher provision ratio of 2.5% and the provision ratio of the model.

Credit approval

The credit risk assessment of the Finance Company is mainly carried out by the Loan Review Committee which comprises of five committee members with financial, risk control compliance, financial and legal backgrounds. It will independently and comprehensively assess the borrower's operating conditions, risk of defaults, rationality of capital needs and risk management and control measures of the Finance Company, as well as the borrower's credit rating and specific credit plan, and report the above to the authorized management for approval. According to the internal control principle of job separation and mutual restriction, credit approval is reviewed and approved by different functional departments and at multiple management levels.

(ii) Breakdowns of loan portfolios, including the total outstanding loan receivables and number of borrowers; major terms of the loans; breakdown of loans by categories; size and diversity of borrowers; and ageing analysis of the outstanding loans

As at 31 December 2022, the loans issued by the Finance Company to non-listed members of the Group, which is the figure of the Group's consolidated statements after offsetting between the Group and the Finance Company, is amounted to RMB950.8 million (including discounting balance).The amount is strictly controlled within the annual cap approved by shareholders at the relevant general meeting. Types of loans include credit loans, guaranteed and secured loans and mortgage loans. The collaterals involved in the mortgage loan include land use rights, real estate and movable property.

At the end of 2022, the total amount of guaranteed loans and mortgage loans are accounted for approximately 52.04% and 40.41% of the entire loan portfolio of the Finance Company respectively. The interest rate of loans provided by the Finance Company in 2022 ranged from 1.22% to 4.6%.

In terms of corporations, there are 125 loans involved in total, involving 7 customers among which there are 2 customers with assets exceeding RMB 1,000 million, with loan scale of RMB

388.8 million.

In terms of concentration of loan, there are 2 customers whose loan balance accounts for more than 10% of the total loan balance of the Finance Company, involving a total loan scale of RMB 614.6 million. The total amount of loans granted to the top five customers of the Finance Company is accounted for approximately 88.18% of the total loan size of the Finance Company as at the end of 2022.

In terms of loan term, at the end of 2022, the maturity dates of existing loans were all within 2 years, among which the balance of loans due within one year was RMB 833.4 million; and the balance of loans due within two years was RMB 117.4 million.

From the grant date to the end of 2022, the balance of loans within one year is RMB799.7 million; the balance of loans for more than one year and within two years is RMB 151.1 million.

(iii) The basis of impairment assessment

All loans are classified as normal at the end of 2022 and there are no significant loan impairments. According to the requirements of "Accounting Standards for Business Enterprises No. 22 - Recognition and Measurement of Financial Instruments" (《企業會計準則第 22 號--金融工具確認和計量》) issued by the Ministry of Finance of the People's Republic of China, an expected credit loss impairment model is established based on the Finance Company's own situation, and provision for impairment is made after conducting impairment tests on loans. In considering the operation of the macro economy, the Finance Company has made reference to the corporation credit rating, and has comprehensively considered the default risk, default probability, default loss rate and other factors to calculate the loan impairment provision. As required by the "Administrative Measures for Loan Loss Provisions of Commercial Banks" (《商業銀行貸款損失準備管理辦法》), the normal loan impairment provision ratio is 2.5%. The Finance Company determines the provision ratio according to the rule of the higher provision ratio of 2.5% and the provision ratio of the model. As of the end of 2022, the loan impairment provision balance of the Group was RMB 24.4 million.

Save for the above supplemental information, all information contained in the 2022 Annual Report remains unchanged.

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

Chongqing, the PRC
10 October 2023

As at the date of the announcement, the executive Directors are Mr. Zhang Fulun, Mr. Yue Xiangjun and Mr. Yang Quan; the non-executive Directors are Mr. Fu Yihong, Ms. Zhu Ying, Mr. Dou Bo and Mr. Cai Zhibin; and the independent non-executive Directors are Mr. Lo Wah Wai, Mr. Ren Xiaochang, Mr. Jin Jingyu and Mr. Liu Wei.

**for identification purpose only*