
THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

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

If you have sold or transferred all your shares in 中國鐵建高新裝備股份有限公司 (CRCC High-Tech Equipment Corporation Limited), you should at once hand this circular to the purchaser or transferee or to the bank or licensed securities dealer or other agent through whom the sale or transfer was effected for transmission to the purchaser or transferee.

Hong Kong Exchanges and Clearing Limited and The Stock Exchange of Hong Kong Limited take no responsibility for the contents of this circular, make no representation as to its 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 circular.



中国铁建
CRCC High-Tech Equipment Corporation Limited
中國鐵建高新裝備股份有限公司

(A joint stock company incorporated in the People's Republic of China with limited liability)
(Stock code: 1786)

- (1) CONTINUING CONNECTED TRANSACTIONS;**
(2) PROPOSED APPOINTMENT OF AUDITORS;
(3) PROPOSED DISTRIBUTION OF FINAL DIVIDEND; AND
(4) PROPOSED AMENDMENTS TO THE ARTICLES OF ASSOCIATION

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



A letter from the Board is set out on pages 6 to 29 of this circular. A letter from the Independent Board Committee in respect of the Financial Services Framework Agreement, the Machinery Equipment and Accessories Sales Framework Agreement and their respective proposed maximum daily balance of the deposits and proposed annual caps is set out on pages 30 to 31 of this circular. A letter of advice from Messis Capital Limited, the Independent Financial Adviser, in respect of the same to the Independent Board Committee and the Independent Shareholders is set out on pages 32 to 53 of this circular.

The AGM will be held at Meeting Room, Expo Garden Hotel, No.5 Expo Road, Kunming, Yunnan, the PRC at 9:00 a.m. on Friday, 28 June 2019. Please refer to the notice of the AGM dated 10 May 2019 published on the Stock Exchange's website and the Company's website.

CONTENTS

	<i>Page</i>
DEFINITIONS	1
LETTER FROM THE BOARD	6
LETTER FROM THE INDEPENDENT BOARD COMMITTEE	30
LETTER FROM THE INDEPENDENT FINANCIAL ADVISER	32
APPENDIX I – PARTICULARS OF PROPOSED AMENDMENTS TO THE ARTICLES OF ASSOCIATION	54
APPENDIX II – GENERAL INFORMATION	56

DEFINITIONS

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

“AGM”	the annual general meeting to be held by the Company at Meeting Room, Expo Garden Hotel, No.5 Expo Road, Kunming, Yunnan, the PRC at 9:00 a.m. on Friday, 28 June 2019
“Articles of Association”	the articles of association of the Company
“Board”	the board of Directors of the Company
“CBIRC”	China Banking and Insurance Regulatory Committee (中國銀行保險監督管理委員會)
“China” or “PRC”	the People’s Republic of China, and for the purpose of this circular, excluding Hong Kong, Macau and Taiwan
“China Civil Engineering Construction”	China Civil Engineering Construction Ltd. (中國土木工程集團有限公司), a limited liability company incorporated in the PRC, a wholly-owned subsidiary of CRCC, our Shareholder and a connected person of our Company
“China Railway Construction Investment Group”	China Railway Construction Investment Group Co., Ltd. (中國鐵建投資集團有限公司), a limited liability company incorporated in the PRC, a wholly-owned subsidiary of CRCC, our Shareholder and a connected person of our Company
“Company”	CRCC High-Tech Equipment Corporation Limited (中國鐵建高新裝備股份有限公司), a joint stock limited company, whose H Shares are listed on the Main Board of the Stock Exchange
“connected person(s)”	has the same meaning as ascribed to it under the Listing Rules
“CRC”	China Railway Corporation (中國鐵路總公司), a wholly state-owned enterprise established in the PRC and an independent third party of the Company

DEFINITIONS

“CRCC”	China Railway Construction Corporation Limited (中國鐵建股份有限公司), a joint stock limited company incorporated in the PRC and our controlling Shareholder. Its H shares are listed on the Main Board of the Stock Exchange (stock code: 01186) and its A shares are listed on the Shanghai Stock Exchange (stock code: 601186)
“CRCC China-Africa Company”	CRCC China-Africa Construction Limited (中鐵建中非建設有限公司), a limited liability company incorporated in the PRC, a wholly-owned subsidiary of CRCC, our Shareholder and a connected person of our Company
“CRCC Finance”	CRCC Finance Company Limited (中國鐵建財務有限公司), a limited liability company incorporated in the PRC, a subsidiary of CRCC and a connected person of our Company
“CRCC Group”	CRCC and its subsidiaries (excluding our Group)
“CRCC International Group”	CRCC International Group Co., Ltd, (中國鐵建國際集團有限公司), a limited liability company incorporated in the PRC, a wholly-owned subsidiary of CRCC, our Shareholder and a connected person of our Company
“Director(s)”	the director(s) of the Company
“Domestic Share(s)”	ordinary shares in the share capital of the Company, with nominal value of RMB1.00 each, which are subscribed for and paid up in Renminbi
“Financial Services Framework Agreement”	a financial services framework agreement entered into between the Company and CRCC Finance on 26 April 2019 to replace the Previous Financial Services Framework Agreement, pursuant to which CRCC Finance agrees to provide deposit services to the Group for the term commencing from 1 January 2019 and ending on 31 December 2021
“Group”	the Company and its subsidiaries
“H Share(s)”	overseas listed foreign shares in the share capital of our Company with nominal value of RMB1.00 each, which are listed on the Main Board of the Stock Exchange

DEFINITIONS

“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Independent Board Committee”	the committee of Directors consisting of Mr. Sun Linfu, Mr. Yu Jiahe and Mr. Wong Hin Wing, who are independent non-executive Directors, which has been formed to advise the Independent Shareholders in respect of the Financial Services Framework Agreement, the Machinery Equipment and Accessories Sales Framework Agreement and their respective proposed maximum daily balance of the deposits and proposed annual caps
“Independent Financial Adviser”	Messis Capital Limited, being the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders in relation to the Financial Services Framework Agreement, the Machinery Equipment and Accessories Sales Framework Agreement and their respective proposed maximum daily balance of the deposits and proposed annual caps
“Independent Shareholders”	the Shareholders other than CRCC and its four wholly-owned subsidiaries, namely China Railway Construction Investment Group, CRCC International Group, China Civil Engineering Construction and CRCC China-Africa Company who will abstain from voting on the resolutions at the AGM with respect to the Financial Services Framework Agreement, the Machinery Equipment and Accessories Sales Framework Agreement and their respective proposed maximum daily balance of the deposits and proposed annual caps
“Large Maintenance Machinery and Accessories Sales Framework Agreement”	a large maintenance machinery and accessories sales framework agreement entered into between the Company and CRCC on 23 November 2015, pursuant to which the Group agreed to: (i) sell various kinds of large railway track maintenance machines; and (ii) provide other related or ancillary products and services, mainly including sales of parts and components and the provision of overhaul services and railway line maintenance services to CRCC and/or its associates, and such agreement was replaced by the Previous Machinery Equipment and Accessories Sales Framework Agreement on 5 May 2017

DEFINITIONS

“Latest Practicable Date”	10 June 2019, being the latest practicable date prior to the printing of this circular for the purpose of ascertaining certain information contained in this circular
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange (as amended from time to time)
“Macau”	the Macau Special Administrative Region of the PRC
“Machinery Equipment and Accessories Sales Framework Agreement”	a machinery equipment and accessories sales framework agreement entered into between the Company and CRCC on 26 April 2019, pursuant to which our Group agreed to: (i) sell various kinds of large railway track maintenance machines; (ii) sell machinery and track equipment, facilities and materials; and (iii) provide other related or ancillary products and services, mainly including the sales of parts and components and the provision of overhaul services and railway line maintenance services to CRCC and/or its associates
“Main Board”	the stock market (excluding the option market) operated by the Stock Exchange which is independent from and operated in parallel with the Growth Enterprise Market of the Stock Exchange
“PBOC”	People’s Bank of China (中國人民銀行), the central bank of the PRC
“Previous Financial Services Framework Agreement”	a financial services framework agreement entered into between the Company and CRCC Finance on 28 December 2018, pursuant to which CRCC Finance agreed to provide deposit services to the Group for the term commencing from 1 January 2019 and ending on 31 December 2019
“Previous Financial Services Framework Agreement of 2016”	a financial services framework agreement entered into between the Company and CRCC Finance on 30 March 2016, pursuant to which CRCC Finance agreed to provide deposit services to the Group for the term commencing from 21 June 2016 and ending on 31 December 2018

DEFINITIONS

“Previous Machinery Equipment and Accessories Sales Framework Agreement”	a machinery equipment and accessories sales framework agreement entered into between the Company and CRCC on 5 May 2017, pursuant to which our Group agreed to: (i) sell various kinds of large railway track maintenance machines; (ii) sell machinery and track equipment, facilities and materials; and (iii) provide other related or ancillary products and services, mainly including the sales of parts and components and the provision of overhaul services and railway line maintenance services to CRCC and/or its associates
“RMB”	Renminbi, the lawful currency of the PRC
“SFO”	Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
“Share(s)”	ordinary shares in the capital of our Company with a nominal value of RMB1.00 each
“Shareholder(s)”	holder(s) of the Share(s)
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Supervisor(s)”	the supervisor(s) of the Company
“Supervisory Committee”	the supervisory committee of the Company
“USD”	United States dollars, the lawful currency of the United States of America
“%”	percent



中国铁建

CRCC High-Tech Equipment Corporation Limited 中國鐵建高新裝備股份有限公司

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

(Stock code: 1786)

Executive Directors:

Mr. Liu Feixiang (*Chairman*)

Mr. Zhao Hui

Mr. Tong Pujiang

Mr. Chen Yongxiang

Non-executive Directors:

Mr. Sha Mingyuan

Mr. Wu Zhixu

Independent non-executive Directors:

Mr. Sun Linfu

Mr. Yu Jiahe

Mr. Wong Hin Wing

***Registered office and principal
place of business in the PRC:***

No. 384, Yangfangwang

Jinma Town

Kunming City

Yunnan Province

PRC

***Principal place of business in
Hong Kong:***

23/F, Railway Plaza

39 Chatham Road South

Tsim Sha Tsui

Kowloon

Hong Kong

13 June 2019

To the Shareholders

Dear Sir or Madam,

- (1) CONTINUING CONNECTED TRANSACTIONS;
(2) PROPOSED APPOINTMENT OF AUDITORS;
(3) PROPOSED DISTRIBUTION OF FINAL DIVIDEND; AND
(4) PROPOSED AMENDMENTS TO THE ARTICLES OF ASSOCIATION**

I. INTRODUCTION

The purpose of this circular is, among other things, to provide you with more information in respect of: (i) continuing connected transactions in relation to the Financial Services Framework Agreement and the proposed maximum daily balance of the deposits; (ii) continuing connected transactions in relation to the Machinery Equipment and Accessories

LETTER FROM THE BOARD

Sales Framework Agreement and the relevant annual caps; (iii) proposed appointment of auditors; (iv) proposed distribution of final dividend; and (v) proposed amendments to the Articles of Association, to enable you to make an informed decision on whether to vote in favour of or against the relevant resolutions at the AGM.

II. CONTINUING CONNECTED TRANSACTIONS

The Financial Services Framework Agreement

1. *Background*

Reference is made to the announcement of the Company dated 28 December 2018 and the announcement of the Company dated 26 April 2019 in relation to, among other things, the Previous Financial Services Framework Agreement and the Financial Services Framework Agreement, respectively.

On 28 December 2018, the Company entered into the Previous Financial Services Framework Agreement with CRCC Finance, pursuant to which CRCC Finance agreed to provide deposit services to the Group for the term commencing from 1 January 2019 and ending on 31 December 2019.

As the Company proposes to increase the proposed maximum daily balance of the deposits under the Previous Financial Services Framework Agreement and renew such agreement, the Company entered into the Financial Services Framework Agreement with CRCC Finance on 26 April 2019 to replace the Previous Financial Services Framework Agreement. The term of the Financial Services Framework Agreement will commence upon the conclusion of the AGM and end on 31 December 2021. Other than the above change, all existing terms and conditions of the Previous Financial Services Framework Agreement have remained unchanged.

2. *Financial Services Framework Agreement*

Details of the Financial Services Framework Agreement are as follows:

<i>Date:</i>	26 April 2019
<i>Parties:</i>	Our Company (as the service recipient); and CRCC Finance (as the service provider)
<i>Nature of transactions:</i>	CRCC Finance agreed to provide deposit services to the Group.

LETTER FROM THE BOARD

Term: The term of the Financial Services Framework Agreement will commence upon the conclusion of the AGM and end on 31 December 2021, subject to early termination by either party giving at least three months' prior written notice to the other party.

Parties can extend or renew such terms by mutual agreement, provided that the requirements under the relevant laws, regulations and the Listing Rules are complied with.

Conditions precedent: The Financial Services Framework Agreement is conditional upon the resolution regarding the Financial Services Framework Agreement and the proposed maximum daily balance of the deposits being approved by the Independent Shareholders at the AGM.

Pricing policy: Pursuant to the Financial Services Framework Agreement, CRCC Finance shall accept deposits from our Group at interest rates not lower, and thus no less favorable, than the prevailing rates offered by the major PRC commercial banks for deposits of similar nature.

Other major terms: Our Group and CRCC Finance will enter into specific agreements to set out specific terms with respect to the financial services contemplated under the Financial Services Framework Agreement in accordance with the aforementioned principle terms thereunder.

3. Historical Figures

The historical maximum daily balance of the deposits (including accrued interest) placed by our Group with CRCC Finance for each of the three years ended 31 December 2018 was approximately RMB468.9 million, RMB973.88 million and RMB926.30 million, respectively.

The historical maximum daily balance of the deposits (including accrued interest) placed by our Group with CRCC Finance for the two years ended 31 December 2018 increased significantly as compared with that for the year ended 31 December 2016. Such increase was mainly due to that the Company has placed the USD payments received for sales of energy efficiency and safety improvement projects for railways in Western China funded by loans of CRC obtained from Asian Development Bank with CRCC Finance.

LETTER FROM THE BOARD

4. *Proposed Maximum Daily Balance of the Deposits*

The proposed maximum daily balance of the deposits (including accrued interest) to be placed by our Group with CRCC Finance for the period from the date of AGM to 31 December 2019 and the two years ending 31 December 2021 are as follows:

	From the date of AGM to 31 December 2019 (RMB million)	12 months ending 31 December 2020 (RMB million)	12 months ending 31 December 2021 (RMB million)
Maximum daily balance of the deposits to be placed by our Group with CRCC Finance	600 (<i>note</i>)	600	600

Note: Pursuant to the Previous Financial Services Framework Agreement, the maximum daily balance of the deposits (including accrued interest) from 1 January 2019 to 31 December 2019 is RMB100 million. The Company confirmed that such maximum daily balance was not exceeded during the period from 1 January 2019 to the date of this circular. The maximum daily balance of the deposits for the three years ended 31 December 2018 under the Previous Financial Services Framework Agreement of 2016 were RMB1,200 million, RMB1,200 million and RMB1,200 million, respectively.

5. *Basis of Proposed Maximum Daily Balance of the Deposits*

In arriving at the above proposed maximum daily balance of the deposits, our Company has considered the following factors:

- (i) for the three years ended 31 December 2018, the historical maximum daily balance of the deposits the Group placed with CRCC Finance was approximately RMB468.9 million, RMB973.88 million and RMB926.30 million, respectively. The limit for deposit amount for the period from the date of AGM to 31 December 2019 and the two years ending 31 December 2021 has been determined taking into account normal deposit sizes of the Company (which do not include the USD payments placed with CRCC Finance received for sales of energy efficiency and safety improvement projects for railways in Western China for the two years ended 31 December 2018, due to the occasionality of such payments and deposits). The normal deposit sizes are determined by the Company through considering the capital scale in the daily operation of the Company and the future development of the business of the Company. Specifically, the amounts of the aforementioned USD payments are approximately USD55.77 million (equals to approximately RMB382.74 million) and RMB304.44 million for the two years ended 31 December 2018, respectively. After deduction such USD payments, the normal deposit sizes of the Company for the two years ended 31 December 2018 are approximately RMB591.14 million and RMB621.86 million, respectively; and
- (ii) the interest rate of deposits from CRCC Finance is more competitive than that from general commercial banks.

LETTER FROM THE BOARD

The abovementioned competitive interest rate is also the main consideration of the Company for increasing the maximum daily balance of the deposits for the year ending 31 December 2019 from RMB100 million to RMB600 million. As compared to the mainstream commercial banks with which the Company cooperates, CRCC Finance provides higher interest rates in service fields including, among others, current deposits, short-term deposits and agreement savings (especially the current deposits). Such favoured interest rates would result in a higher return of our investment capital.

6. Reasons for and Benefits of the Continuing Connected Transactions under the Financial Services Framework Agreement

Our Group is expected to benefit from CRCC Finance's familiarity of our industry and our Group's operations. Through years of cooperation, CRCC Finance has become familiar with our Group's capital structure, business operations, funding needs, cash flow pattern, cash management and our overall financial management system, which may enable CRCC Finance to render more expedient, efficient and flexible deposit services to our Group than other commercial banks and independent financial institutions in the PRC. The terms of the Financial Services Framework Agreement were negotiated on an arm's length basis, the capital flows under the Financial Services Framework Agreement were in relation to our Group's daily operations, and the revenue generated from the Financial Services Framework Agreement will be applied to the development of our Group's usual businesses. Based on the above, the Board is of the view that transactions under the Financial Services Framework Agreement are in the ordinary and usual course of business of our Group.

With respect to deposits placed by our Group with CRCC Finance, our Group will be able to receive interest at rates not lower, and thus no less favorable, than the prevailing rates offered by the major PRC commercial banks for deposits of similar nature.

For the avoidance of doubt, our Group is not prohibited or restricted in any way to use deposit services provided by other commercial banks or independent financial institutions in the open market, and we retain discretion to make our selection according to business needs as well as the fees and quality of such deposit services. Our Group may (but is not obliged to) utilize the deposit services provided by CRCC Finance so as to deploy and manage our financial resources flexibly and efficiently.

The Board (excluding the independent non-executive Directors, whose opinion will be formed after taking into account the advice to be provided by the Independent Financial Adviser) is of the view that: (i) the transactions under the Financial Services Framework Agreement are entered into in the ordinary and usual course of business of the Company, on normal commercial terms, which are fair and reasonable and in the interest of the Company and the Shareholders as a whole; and (ii) the proposed maximum daily balance of the deposits to be placed under the Financial Services Framework Agreement for the period from the date of AGM to 31 December 2019 and the two years ending 31 December 2021 are fair and reasonable and in the interest of the Company and the Shareholders as a whole.

As Mr. Sha Mingyuan, being a non-executive Director of the Company, concurrently holds positions in CRCC, he has abstained from voting on the Board resolution with respect to the transactions. Save as disclosed above, none of the Directors has material interest in the transactions under the Financial Services Framework Agreement and therefore, none of the other Director has abstained from voting on such Board resolution.

LETTER FROM THE BOARD

7. *Internal Control Measures to Ensure Safety of the Funds of Our Group Deposited with CRCC Finance*

Our Company has adopted the following monitoring and internal control measures to ensure that the terms of the Financial Services Framework Agreement are fair and reasonable and such transactions are on normal commercial terms:

- (i) before our Company or any of our subsidiaries enters into any deposit services with CRCC Finance, our Group will obtain quotes from three other independent financial institutions for similar deposit services for the same duration, namely Bank of China Kunming North Station Branch, China CITIC Bank Kunming Baita Road Branch and Industrial and Commercial Bank of China Kunming Huguo Branch. Such quotes, together with the offer from CRCC Finance, will be reviewed by the finance department and the audit and risk control department of the Company, and the offer from CRCC Finance has to be approved by the heads of these departments in order to pass our internal approval process before it can be accepted;
- (ii) CRCC Finance shall set up and maintain, or procure the setting up and maintenance of, a secured and stable on-line system through which the relevant subsidiary of our Company, which deposits money with them, can view the balance of such deposits at any time on any day;
- (iii) CRCC Finance shall, in taking the deposits from our Group, not affect the normal use of the deposits by our Group; CRCC Finance shall ensure that their deployment of the funds will not inhibit or restrict the ability of our Group from utilizing our deposits, and if the funding needs of our Group do not exceed the total deposits placed by our Group with CRCC Finance, CRCC Finance shall ensure that there will be sufficient funds for our Group's timely withdrawal to meet the funding needs of our Group;
- (iv) CRCC Finance shall facilitate any annual inspection by our Group of the management of the deposits placed by our Group with CRCC Finance, including inspection of records of fund flows, interest rates and payments provided to our deposits, the balance of our deposits placed, and other information and records that may be required by our auditors for the purpose of reporting on the relevant continuing connected transactions;
- (v) CRCC Finance will provide its annual financial report and other documents and information to our Company at our request; and
- (vi) the auditor of our Company will also conduct an annual review on the pricing policies and annual caps of such agreement, and provide confirmation in our annual report.

LETTER FROM THE BOARD

8. Implications under the Listing Rules

CRCC is a controlling Shareholder, which directly and indirectly holds approximately 65% of the total issued share capital of the Company as at the Latest Practicable Date. CRCC Finance is a subsidiary of CRCC, which is owned as to 94% by CRCC as at the Latest Practicable Date, and thus is a connected person of the Company under the Listing Rules. Therefore, the transactions under the Financial Services Framework Agreement constitute continuing connected transactions of the Company.

Since the highest applicable percentage ratio for the proposed maximum daily balance of the deposits under the Financial Services Framework Agreement is more than 5%, such transactions are subject to the reporting, annual review, announcement and Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

CRCC and its four wholly-owned subsidiaries, namely China Railway Construction Investment Group, CRCC International Group, China Civil Engineering Construction and CRCC China-Africa Company, which directly and indirectly hold 987,984,000 Domestic Shares, representing approximately 65% of the issued share capital of the Company as at the Latest Practicable Date, are required to abstain from voting on the resolutions at the AGM with respect to the transactions under the Financial Services Framework Agreement and the proposed maximum daily balance of the deposits.

9. General Information

The Group is principally engaged in: (i) development, manufacturing and sales of large railway track maintenance machines; (ii) manufacturing, purchase and sales of parts and components of large railway track maintenance machines; (iii) overhaul services; and (iv) railway line maintenance services.

CRCC Finance is a non-banking financial institution incorporated in the PRC on 28 March 2012 and is subject to the Administrative Measures on Finance Companies within Group Enterprises (《企業集團財務公司管理辦法》) and other relevant regulations promulgated by PBOC and CBIRC. The establishment of such non-banking financial institutions is subject to approval by CBIRC and its operation is subject to the ongoing supervision of CBIRC. Non-banking financial institutions shall comply with applicable regulations relating to interest rates issued by PBOC and CBIRC.

In the PRC, finance companies within group enterprises are only permitted under applicable PRC laws and regulations to provide financial services to enterprises within the same parent group. Therefore, CRCC Finance only provides financial services to members of the CRCC Group, including our Group.

LETTER FROM THE BOARD

The Machinery Equipment and Accessories Sales Framework Agreement

1. *Background*

Reference is made to the announcement of the Company dated 5 May 2017 and the circular of the Company dated 31 May 2017 in relation to, among other things, the Previous Machinery Equipment and Accessories Sales Framework Agreement.

As the Previous Machinery Equipment and Accessories Sales Framework Agreement will expire on 31 December 2019, the Company entered into the Machinery Equipment and Accessories Sales Framework Agreement with CRCC on 26 April 2019 to renew the Previous Machinery Equipment and Accessories Sales Framework Agreement, pursuant to which the Company agreed to (i) sell various kinds of large railway track maintenance machines comprising all products of our Group; (ii) sell machinery and track equipment, facilities and materials; and (iii) provide other related or ancillary products and services, to CRCC and/or its associates, commencing from 1 January 2020 to 31 December 2022. Other than the above change, all existing terms and conditions of the Previous Machinery Equipment and Accessories Sales Framework Agreement have remained unchanged.

2. *Machinery Equipment and Accessories Sales Framework Agreement*

Details of the Machinery Equipment and Accessories Sales Framework Agreement are as follows:

<i>Date:</i>	26 April 2019
<i>Parties:</i>	Our Company (as the supplier of products and services); and CRCC (as the purchaser of products and services).
<i>Nature of transactions:</i>	Our Group agreed to: (i) sell various kinds of large railway track maintenance machines comprising all products of our Group, which are categorized into seven major series based on functions, namely, tamping machine series, stabilization machine series, ballast cleaning machine series, ballast regulator series, materials logistics machine series, rail processing machine series and other machinery; (ii) sell machinery and track equipment, facilities and materials; and (iii) provide other related or ancillary products and services, mainly including the sales of parts and components and the provision of overhaul services and railway line maintenance services to CRCC and/or its associates.

LETTER FROM THE BOARD

Term: The term of the Machinery Equipment and Accessories Sales Framework Agreement will commence from 1 January 2020 and end on 31 December 2022, subject to early termination by either party giving at least three months' prior written notice to the other party.

Parties can extend or renew such terms by mutual agreement, provided that the requirements under the relevant laws, regulations and the Listing Rules are complied with.

Conditions precedent: The transactions contemplated under the Machinery Equipment and Accessories Sales Framework Agreement are subject to the reporting, annual review, announcement and Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

The Machinery Equipment and Accessories Sales Framework Agreement is conditional upon the resolution regarding the transactions under such agreement and the relevant annual caps having been approved by the Independent Shareholders at the AGM.

Pricing policy: In line with the general pricing policy of fairness and reasonableness set out in the Machinery Equipment and Accessories Sales Framework Agreement, the prices for products and services under such agreement shall be determined based on the following pricing principles:

- (i) where there are market prices for the relevant products and services, the prices shall be determined with reference to the prevailing market prices at which the same type of products and services provided by us to an Independent Third Party customer on normal commercial terms;

LETTER FROM THE BOARD

- (ii) where there are no market prices for the relevant products which are applicable to new types of machinery equipment to be tailor-made for the specifications required by the CRCC Group for its specific business needs, the price shall be determined according to the price to be agreed between the parties; the agreed price will be calculated based on the actual costs, which include raw materials, accessories, depreciation, salary, energy, technology consumption and equipment maintenance, incurred in providing such products plus reasonable profits; we will charge a mark-up rate, taking into consideration of the specific types of products, for the transactions on a cost-plus basis. Such mark-up rate charged to the CRCC Group is not lower than 15% for all cases, which is the same mark-up rate charged to an Independent Third Party customer. The Board is of the view that such mark-up rate is fair and reasonable, on normal commercial terms and not prejudicial to the interest of the Company's minority Shareholders.

***Internal control procedures
for pricing policy:***

In order to ensure that (i) the sales of large railway track maintenance machinery and accessories; (ii) the sales of machinery and track equipment, facilities and materials; and (iii) the provision of other related or ancillary products and services from our Group to CRCC and/or its associates will not be prejudicial to the interests of our Company and our minority Shareholders, our Company adopts the following measures in negotiating the prices and terms of the transactions to be carried out under the Machinery Equipment and Accessories Sales Framework Agreement:

- (i) the prices will generally be agreed following arm's length negotiation between the parties with reference to the prevailing market prices;

LETTER FROM THE BOARD

A large portion of our purchase orders is won through public tenders with our largest customer group (i.e. CRC and its affiliated enterprises), local railway operators and railway construction companies (including the CRCC Group).

In order to determine the prevailing market prices, we will make reference to the prices we offer to at least two Independent Third Party customers for the same or similar products or services; we will also primarily take into account the following factors to determine the market prices, to ensure that the prices will be no less favourable to our Company than those of the same type of products and services we provide to the Independent Third Party customers:

- (a) in respect of large railway track maintenance machines and machinery and track equipment, facilities and materials, we take into account our costs and market condition to determine the prices of our products. We adjust our prices with reference to various factors, such as the prevailing market condition, market prospect and competition;
- (b) in respect of parts and components, we determine the prices of our parts and components primarily based on the cost, and adjust our prices with reference to market conditions, logistic requirements, expected profit margins and safety of rails operations;
- (c) in respect of railway line maintenance services, we primarily take into account our costs, timeline, operation quality requirements and operation environment (such as the climate and topographical requirements) to determine the prices of our services;

LETTER FROM THE BOARD

- (d) in respect of overhaul services, we determine our prices primarily based on the condition of the machines to be overhauled;
- (ii) in respect of the principle of the cost plus a reasonable profit margin, we will take into account all relevant factors in determining the underlying costs, which include raw materials, accessories, depreciation, salary, energy, technology consumption and equipment maintenance; and
- (iii) in the unlikely event that no comparable market prices can be taken which are applicable to new types of machinery equipment to be tailor-made for the specifications required by the CRCC Group for its specific business needs, experts in our Group with sufficient industry experience could opine on the fairness and reasonableness of the prices to ensure that the prices would be fair and reasonable to our Company and no less favourable to our Company than the prices our Group offers to the Independent Third Party customers. Such experts in our Group are the overall project consultant of our research center with senior engineer certificate, head of our cost management department with the qualification of certified public accountant, head of our procurement center and head of our marketing department. These experts have adopted a comprehensive evaluation model to determine the prices with reference to the historical transaction prices of the most similar types of machines and also take into account other factors, which include technical specifications, actual costs, payment terms, product quality and geographical areas where we provide products, etc. The prices of such new types of machinery equipment will be submitted to our general manager for approval.

LETTER FROM THE BOARD

Payment terms:

The actual settlement price and the method of payment shall be determined based on the principles, instructions, conditions and terms of the Machinery Equipment and Accessories Sales Framework Agreement and set out in the specific agreements or order forms to be entered into by the parties.

The payment terms will be on market terms which are no less favourable to the Company than those available to Independent Third Parties.

Other major terms:

To implement the transactions contemplated under the Machinery Equipment and Accessories Sales Framework Agreement, the parties will enter into specific agreements or order forms which specify and record the specific terms (such as the types of large maintenance machinery and accessories, machinery and track equipment, facilities and materials, the prices and the payment and delivery terms) and operative provisions of those transactions to be determined in accordance with the terms under the Machinery Equipment and Accessories Sales Framework Agreement.

3. Historical Figures

The aggregate amounts of transactions with respect to (i) the sales of various kinds of large railway track maintenance machines; (ii) the sales of machinery and track equipment, facilities and materials; and (iii) the provision of other related or ancillary products and services by our Group to CRCC and its associates for the three years ended 31 December 2018 were approximately RMB44.8 million, RMB179.52 million, and RMB560.27 million respectively. Specifically, for the three years ended 31 December 2018, (i) the sales of large railway track maintenance machines and provision of relevant ancillary products and services under the Machinery Equipment and Accessories Sales Framework Agreement amount to RMB26.71 million, RMB28.26 million and RMB45.90 million, respectively; (ii) the sales of machinery and track equipment, facilities and materials under the Machinery Equipment and Accessories Sales Framework Agreement amount to RMB0 (the sales of machinery and track equipment, facilities and materials started from 2017), RMB123.62 million and RMB479.27 million, respectively; and (iii) the sales of provision of other related or ancillary products and services (mainly include sales of parts and provision of overhaul services and railway track maintenance services) under the Machinery Equipment and Accessories Sales Framework Agreement amount to RMB18.08 million, RMB27.65 million and RMB35.10 million, respectively. Such relatively low amounts of transactions for the three years ended 31 December 2018 (as compared to the annual caps of such years) were mainly due to the gap between the purchasing amount from CRCC and its associates and the expectancies of the Company.

LETTER FROM THE BOARD

The aggregate amounts of transactions under the Previous Machinery Equipment and Accessories Sales Framework Agreement for the year ended 31 December 2018 increased significantly as compared with those for the two years ended 31 December 2017. Such increase was mainly attributable to the increase in the sales of machinery equipment products to China Railway Construction Heavy Industry Co., Ltd., a subsidiary of CRCC, by the Group, which was due to adjustments in the operation strategy of China Railway Construction Heavy Industry Co., Ltd. to significantly increase its demands of machinery equipment products in 2018, together with our Group's strong ability of supplying such products, and our good relationships with China Railway Construction Heavy Industry Co., Ltd.

4. *Proposed Annual Caps*

The existing annual caps for the three years ending 31 December 2019 for the transactions under the Previous Machinery Equipment and Accessories Sales Framework Agreement are RMB1,100 million, RMB1,100 million and RMB1,100 million, respectively. The annual caps for the two years ended 31 December 2017 for the transactions under the Large Maintenance Machinery and Accessories Sales Framework Agreement were RMB1,000 million and RMB1,100 million, respectively. The Board proposed the annual caps for the three years ending 31 December 2022 for the transactions under the Machinery Equipment and Accessories Sales Framework Agreement as follows:

	12 months ending 31 December 2020 (RMB million)	12 months ending 31 December 2021 (RMB million)	12 months ending 31 December 2022 (RMB million)
Sales:			
Amounts payable to our Group by CRCC and its associates with respect to the sales of large railway track maintenance machinery and accessories, machinery and track equipment, facilities and materials, and the provision of other related or ancillary products and services	1,100	1,100	1,100

5. *Basis of Proposed Annual Caps*

In arriving at the above proposed annual caps, our Company has considered the following factors:

Under the Machinery Equipment and Accessories Sales Framework Agreement, the products and services provided by us to the CRCC Group mainly consist of two types, namely (i) the various kinds of large railway track maintenance machines and other related or ancillary products and services; and (ii) other machines and railway equipment, facilities and materials and other related or ancillary products and services.

LETTER FROM THE BOARD

A. *Large railway track maintenance machines and other related or ancillary products and services*

According to the procurement plan and intention of fixed assets for CRCC and its subsidiaries (including the Company) formulated by CRCC, the products and services we provide are classified into two categories based on geographical locations of projects, namely, (i) our sales of large railway track maintenance machines as well as parts and components, provision of railway line maintenance services and provision of overhaul services to the CRCC Group that will be used in its domestic projects; and (ii) our sales of large railway track maintenance machines as well as parts and components and provision of railway line maintenance services to the CRCC Group that will be used in its overseas railway construction projects. We sell a wide range of products, including large railway track maintenance machines of various technical specifications (such as different gauges, axle loads, etc.) and price ranges, in order to cater to varied speed, climate, topographical and logistics requirements of the railway industry. Details are set out as follows:

Under the relevant procurement plan and intention, the aggregate amounts of our sales of large railway track maintenance machines as well as parts and components, provision of railway line maintenance services and provision of overhaul services to the CRCC Group are expected to reach approximately RMB200 million in aggregate for the year ending 31 December 2020, and they are expected to maintain stable in 2021 and 2022 based on the following three major reasons:

- (a) due to the sustainable growth trend in the aggregate amounts of transactions for the three years ended 31 December 2018, the Company expects more room for growth in the future. Pursuant to the 2018 annual report of CRCC, CRCC's newly-signed railway engineering contract amount to RMB212.0396 billion for 2018 and is an important section of CRCC's engineering business. Pursuant to the information obtained by the Company, CRCC expects its newly-signed engineering contracts to increase at the average speed of 8.7% for 2019 and 2020. Besides, considering that the construction of engineering projects lasts for several years after signing the contract, the demand of the large railway track maintenance machines of CRCC is sustainable. Pursuant to the Company's deep participation in CRCC's railway engineering projects and CRCC's purchase intention which the Company knows, the Company estimates that the sales of large railway track maintenance machines and parts and components to CRCC for 2020 amount to RMB91.80 million, representing an increase speed of approximately 100% than 2018;
- (b) according to the regulations enacted by National Railway Administration of the PRC and relevant competent authorities, the large railway track maintenance machinery would be due for overhaul after being used for 10 to 13 years, or achieving certain level of workload. The Company sold 73 large railway track maintenance machines to CRCC in total from 2008 to 2012, representing a

LETTER FROM THE BOARD

sales peak, and such machines will enter into overhaul period from around 2020; as such, the CRCC Group's demand for our overhaul services is expected to increase in the three years ending 31 December 2022. The Company expects that the sales of parts and provision of overhaul services and railway track maintenance services to CRCC for 2020 amount to approximately RMB108 million, representing an increasing speed of 207% than 2018; and

- (c) taking into account macro-economic conditions, such as the "One Belt, One Road" initiative adopted by the PRC government, we are expected to maintain a steady growth in such sales of large railway track maintenance machines as well as parts and components and provision of overhaul services to the CRCC Group for the three years ending 31 December 2022.

B. Other machines and railway equipment, facilities and materials and other related or ancillary products and services

Pursuant to the strategic arrangement of the Company, it is implementing the development strategy highlighting "strengthening major operation and related sectors and achieving diversified development". In particular, the Company has established strategic alliance with certain subsidiaries of the CRCC Group to drive forward rapid development of the related diversified industries of the Company. In 2017 and 2018, the sales of other machines and railway equipment, facilities and materials and other related or ancillary products and services increased rapidly, representing increasing speed of approximately 569% and 346% than the previous year, respectively, which is due to the Company has established its reputation in market of other machines and railway equipment, facilities and materials and its market share increased rapidly, providing basis of future sales increase for the Company. The Company also proactively acquaints itself on CRCC's projects progress and demands, and keeps in touch with CRCC on projects. Based on the currently available market data and procurement plan and intention, and having taken into account the sustainable growth trend in the aggregate amounts of transactions for the three years ended 31 December 2018, the sales of other machines and railway equipment, facilities and materials and other related or ancillary products and services by the Company to the CRCC Group for the three years ending 31 December 2022 are expected to increase around 20% than 2018, which is expected to reach approximately RMB600 million per year.

In arriving at the proposed annual caps under the Machinery Equipment and Accessories Sales Framework Agreement, the Company has also taken into consideration the buffer of RMB300 million for possible changes in the trade volume due to market condition changes. Since 2018, CRCC started to implement an overseas development strategy. Pursuant to the 2018 annual report of CRCC, its overseas newly-signed contracts increased approximately 24% than the previous year. Moreover, the Company understands that the overseas business of CRCC is under rapid development, and CRCC is proactively promoting its important railway projects in the Middle East, the Latin America, the Europe, the North America and the Africa under "One Belt, One Road" initiative. According to the strategic plan of CRCC which is

LETTER FROM THE BOARD

known to the Company, CRCC expects that its overseas revenue to increase 105% in 2020 than 2018. Pursuant to previous experience of the Company, CRCC's high speed overseas development will bring new sales demand to the Company as overseas projects are with large work quantity and large capital input and demand various kinds of products. The Company expects that if CRCC acquires new overseas projects, the Company can provide products worth RMB10 million to RMB80 million depending on the nature and size of project. Therefore, the Company believes that an enough buffer is necessary. However, the overseas projects are influenced by international economic and political environment so there is uncertainty in obtaining such projects by CRCC, thus the Company thinks it is better to regard the increase of the sales of overseas projects as the buffer to market change. Based on the above, the Board is of the view that such buffer is fair and reasonable.

6. *Reasons for and Benefits of the Transactions under the Machinery Equipment and Accessories Sales Framework Agreement*

In the ordinary and usual course of our business, our Group sells large railway track maintenance machinery and accessories, machinery and track equipment, facilities and materials, and provides other related or ancillary services to CRCC and/or its associates. The Board is of the view that such transactions are beneficial to our Group for the following reasons:

- (i) in accordance with the relevant regulations of competent authorities for all constructions of new railway lines, railway line maintenance (such as tamping, formation and rehabilitation) must be conducted before the inspection and acceptance of such railway lines; CRCC and/or its associates, which are primarily engaged in the railway construction operations, require such products for carrying out railway track maintenance work before the inspection and acceptance of the new railway lines they have constructed;
- (ii) our Company and CRCC and/or its associates have established a long-term relationship, and understand respective planning of operations, quality control as well as certain specific requirements of both parties; and
- (iii) the prices and terms for the sales of large railway track maintenance machinery and accessories, machinery and track equipment, facilities and materials, and the provision of other related or ancillary services by us to CRCC and/or its associates would be no less favourable to our Company than those we offer to any Independent Third Party.

LETTER FROM THE BOARD

The Board (excluding the independent non-executive Directors, whose opinion will be formed after taking into account the advice to be provided by the Independent Financial Adviser) is of the view that: (i) the transactions under the Machinery Equipment and Accessories Sales Framework Agreement are entered into in the ordinary and usual course of business of the Company, on normal commercial terms, which are fair and reasonable and in the interest of the Company and the Shareholders as a whole; and (ii) the proposed annual caps for the three years ending 31 December 2022 for the transactions under the Machinery Equipment and Accessories Sales Framework Agreement are fair and reasonable and in the interest of the Company and the Shareholders as a whole.

As Mr. Sha Mingyuan, being a non-executive Director of the Company, concurrently holds positions in CRCC, he has abstained from voting on the Board resolution with respect to the transaction. Saved as disclosed above, none of the other Directors has any material interest in the transaction contemplated under the Machinery Equipment and Accessories Sales Framework Agreement and therefore none of the other Directors has abstained from voting on such Board resolution.

7. Internal Control Measures for the Implementation of the Machinery Equipment and Accessories Sales Framework Agreement

Our Company has adopted the following internal control measures to ensure that the terms of the Machinery Equipment and Accessories Sales Framework Agreement are fair and reasonable and such transactions are on normal commercial terms:

- (i) our Company has adopted and implemented a management system on connected transactions. Under the relevant system, our finance department is responsible for conducting reviews on compliance with relevant laws, regulations, our Company's policies and the Listing Rules in respect of the Machinery Equipment and Accessories Sales Framework Agreement. In addition, the finance department, marketing department, international department, legal affairs department and other relevant operation departments of our Company are jointly responsible for evaluating the transaction terms under such agreement, in particular, the fairness of the pricing terms under such agreement;
- (ii) the independent non-executive Directors have also reviewed and will continue to review the continuing connected transactions to ensure that the transactions have been entered into on normal commercial terms and according to the Machinery Equipment and Accessories Sales Framework Agreement governing them on terms that are fair and reasonable and in the interests of our Company and the Shareholders as a whole, and provide confirmation in our annual report; and
- (iii) the auditor of our Company will also conduct an annual review on the pricing policies and annual caps of such agreement, and provide confirmation in our annual report.

LETTER FROM THE BOARD

8. *Implications under the Listing Rules*

CRCC is a controlling Shareholder, which directly and indirectly holds approximately 65% of the total issued share capital of the Company as at the Latest Practicable Date of this circular, and thus is a connected person of the Company under the Listing Rules. Therefore, the transactions under the Machinery Equipment and Accessories Sales Framework Agreement constitute continuing connected transactions of the Company under the Listing Rules.

Since the highest applicable percentage ratio for the proposed annual caps for the three years ending 31 December 2019 for the transactions under such agreement is more than 5%, the transactions are subject to the reporting, annual review, announcement and Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

CRCC and its four wholly-owned subsidiaries, namely China Railway Construction Investment Group, CRCC International Group, China Civil Engineering Construction and CRCC China-Africa Company, which directly and indirectly hold 987,984,000 Domestic Shares, representing approximately 65% of the issued share capital of the Company as at the Latest Practicable Date, are required to abstain from voting on the resolutions at the AGM with respect to the transactions under the Machinery Equipment and Accessories Sales Framework Agreement and the proposed annual caps.

9. *General Information*

The Group is principally engaged in: (i) development, manufacturing and sales of large railway track maintenance machines; (ii) manufacturing, purchase and sales of parts and components of large railway track maintenance machines; (iii) overhaul services; and (iv) railway line maintenance services.

CRCC and its subsidiaries (excluding the Group) is primarily engaged in: (i) construction operations; (ii) survey, design and consultancy operations; (iii) manufacturing operations (except the business of the Group); (iv) real estate development operations; and (v) logistics and materials trading.

III. PROPOSED APPOINTMENT OF AUDITORS

1. To consider and approve the payment of audit fees for 2018

As approved by the Shareholders at the annual general meeting for 2017, the Company appointed Deloitte Touche Tohmatsu as the international auditors and Deloitte Touche Tohmatsu Certified Public Accountants LLP as the PRC auditors of the Company for 2018. After the negotiations between the Company, Deloitte Touche Tohmatsu and Deloitte Touche Tohmatsu Certified Public Accountants LLP, audit fees and relevant services for 2018 amounted to RMB1.18 million (excluding tax).

LETTER FROM THE BOARD

The proposal has been considered and approved at the fifth meeting of the second session of the Board and will be put forward at the AGM as an ordinary resolution for Shareholders' approval.

2. To consider and approve the appointment of auditors of the Company for 2019

Deloitte Touche Tohmatsu and Deloitte Touche Tohmatsu Certified Public Accountants LLP have been providing professional services for the Company. The Board intends to re-appoint Deloitte Touche Tohmatsu and Deloitte Touche Tohmatsu Certified Public Accountants LLP as the international and PRC auditors of the Company respectively for the year 2019 to carry out auditing for the financial statements of the Company for the year 2019 and to review its 2019 interim financial statements. The Board will propose to the Shareholders at the AGM to authorize the Board to determine their actual remunerations.

This proposal has been considered and approved at the fifth meeting of the second session of the Board and will be put forward at the AGM as an ordinary resolution for Shareholders' approval.

IV. PROPOSED DISTRIBUTION OF FINAL DIVIDEND

As recommended by the Board, the profit available for distribution by the parent company for 2018 shall be appropriated in the order set out below according to the Company Law of the PRC and the Articles of Association:

- (1) the distributable profit of the Group for the year was RMB496.23 million after the statutory surplus reserve fund of RMB20.09 million withdrawn based on a 10% of net profit realised for year 2018; and
- (2) a cash dividend of RMB0.05 (tax inclusive) per Share will be distributed, based on the total issued share capital of 1,519,884,000 Shares as at 31 December 2018, totaling RMB75.99 million. Upon such distribution, the remaining undistributed profit will amount to RMB420.24 million, which will be carried forward to the next year.

If the profit distribution plan is approved by the Shareholders by way of an ordinary resolution at the AGM to be held on Friday, 28 June 2019, the final dividend is expected to be distributed on or around Wednesday, 21 August 2019 to all Shareholders whose names appear on the register of members of the Company on Wednesday, 10 July 2019.

To determine the identity of the shareholders of the Company entitled to receive the final dividend, the register of holders of H Shares of the Company will be closed from Friday, 5 July 2019 to Wednesday, 10 July 2019 (both days inclusive) during which no transfer of H Shares will be registered. In order to qualify for entitlement to the proposed final dividend, all transfers of H Shares accompanied by the relevant share certificates and transfer forms must

LETTER FROM THE BOARD

be lodged with the Company's H Share registrar, Computershare Hong Kong Investor Services Limited at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong for registration not later than 4:30 p.m. on Thursday, 4 July 2019.

Final dividend for holders of domestic shares of the Company will be declared and calculated in RMB, and paid in RMB whereas final dividend for holders of H shares of the Company will be declared and calculated in RMB, and paid in Hong Kong dollars. The exchange rate shall be determined by the average selling rates promulgated by PBOC within one week before the date declaring to distribute the dividend.

As stipulated by *the Notice on Issues Relating to Corporate Income Tax Withholding over Dividends Distributable to their H-share Shareholders who are Overseas Non-resident Enterprises by Chinese Resident Enterprises published by the State Administration of Taxation (Guoshuihan [2008] No. 897)* (《關於中國居民企業向境外H股非居民企業股東派發股息代扣代繳企業所得稅有關問題的通知》) (國稅函[2008]897號), when Chinese resident enterprises distribute annual dividends for the year 2008 and years thereafter to their H-share shareholders who are overseas non-resident enterprises, corporate income tax shall be withheld at a uniform rate of 10%. According to this, the Company is required to withhold corporate income tax at the rate of 10% before distributing the final dividend to non-resident enterprise shareholders of the Company whose names appear on the H share register of members of the Company at the close of business on Wednesday, 10 July 2019. Any shares registered in the name of the non-individual registered shareholders of the Company, including HKSCC Nominees Limited, other nominees, trustees or other groups and organizations, will be treated as being held by non-resident enterprise shareholders and therefore their dividends receivables will be subject to the withholding of the corporate income tax.

Pursuant to the requirements of *Notice of the Ministry of Finance and the State Administration of Taxation on Certain Policies Regarding Individual Income Tax (Cai Shui Zi [1994]020)* (《財政部、國家稅務總局關於個人所得稅若干政策問題的通知》(財稅字[1994]020號)), foreign individuals are exempted from individual income tax on dividends and bonus received from foreign-invested enterprises in the PRC. As the Company is a foreign-invested joint stock limited company, thus the individual shareholders who hold the H Shares of the Company and whose names appear in the register of members of the H Shares of the Company at the close of business on Wednesday, 10 July 2019 are not required to pay the individual income tax of the PRC.

The Company assumes no liability whatsoever in respect of any claims arising from any delay in, or inaccurate determination of, the status of the Shareholders, or any disputes over the mechanism of withholding and payment.

V. PROPOSED AMENDMENTS TO THE ARTICLES OF ASSOCIATION

Reference is made to the announcement of the Company dated 28 December 2018 in relation to the proposed amendments to the Articles of Association.

LETTER FROM THE BOARD

In order for the relevant expressions regarding the Party organization in the Articles of Association currently in effect to be consistent with the corresponding provisions of the applicable Party's constitution and taking into consideration the actual conditions of the Company and on a prudent, appropriate and necessary basis, the Board proposed to make relevant amendments to the Articles of Association. Please refer to Appendix I to this circular for details of the proposed amendments to the Articles of Association.

The Board considers that the proposed amendments to the Articles of Association are in the interests of the Company and its shareholders as a whole.

The resolution in relation to proposed amendments to the Articles of Association will be proposed at the AGM for approval by the Shareholders as a special resolution.

VI. AGM

At the AGM, the following ordinary resolutions and a special resolution, among other things, will be put forward for the Independent Shareholders or Shareholders (as the case may be) to consider and, if appropriate, to approve ordinary resolutions: (i) continuing connected transactions in relation to the Financial Services Framework Agreement and the proposed maximum daily balance of the deposits; (ii) continuing connected transactions in relation to the Machinery Equipment and Accessories Sales Framework Agreement and the relevant annual caps; (iii) proposed appointment of auditors; and (iv) proposed distribution of final dividend; special resolution: proposed amendments to the Articles of Association.

An Independent Board Committee comprising the independent non-executive Directors has been formed to advise the Independent Shareholders in respect of the Financial Services Framework Agreement and the proposed maximum daily balance of the deposits. The Independent Financial Adviser, Messis Capital Limited, has been appointed to advise the Independent Board Committee and the Independent Shareholders on the same in accordance with the Listing Rules.

CRCC and its four wholly-owned subsidiaries, namely China Railway Construction Investment Group, CRCC International Group, China Civil Engineering Construction and CRCC China-Africa Company, which directly and indirectly hold 987,984,000 Domestic Shares, representing approximately 65% of the issued share capital of the Company as at the Latest Practicable Date, are required to abstain from voting on the resolutions at the AGM with respect to the transactions under the Financial Services Framework Agreement, the Machinery Equipment and Accessories Sales Framework Agreement and their respective proposed maximum daily balance of the deposits and proposed annual caps.

Save as disclosed above, to the best of the Directors' knowledge, information and belief, no other Shareholder has any material interest in the resolutions to be proposed at the AGM and therefore will be required to abstain from voting to approve the relevant resolutions at the AGM.

LETTER FROM THE BOARD

The AGM will be held at Meeting Room, Expo Garden Hotel, No.5 Expo Road, Kunming, Yunnan, the PRC at 9:00 a.m. on Friday, 28 June 2019. Please refer to the notice of the AGM dated Friday, 10 May 2019 published on the Stock Exchange's website and the Company's website. Reply slips and proxy forms to be used at the AGM are also published on the Stock Exchange's website and the Company's website. If you are eligible and intend to attend the AGM, please complete the reply slip for attending the AGM and return the same to the office of the Board not later than 20 days before the date of the AGM, i.e. on or prior to Friday, 7 June 2019.

Shareholders who intend to appoint a proxy to attend the AGM shall complete and return the form of proxy in accordance with the instructions printed thereon not less than 24 hours before the time fixed for holding the AGM or any adjournment thereof (as the case may be). Completion and return of the form of proxy will not preclude you from attending the AGM or any adjourned meeting and voting in person if you so wish.

The H Share register of members of the Company will be closed from Sunday, 26 May 2019 to Friday, 28 June 2019 (both days inclusive), during which period no transfer of H Shares of the Company will be registered. Any holders of H Shares and Domestic Shares, whose names appear on the Company's register of members on Friday, 24 May 2019, are entitled to attend and vote at the AGM after completing the registration procedures for attending the AGM.

VII. VOTING BY WAY OF POLL

In accordance with the relevant provisions of the Listing Rules, any vote of shareholders at a general meeting must be taken by poll. As such, the resolutions set out in the notice convening the AGM will be voted by poll.

VIII. RECOMMENDATION

The Directors, including independent non-executive Directors, are of the view that the transactions under the Financial Services Framework Agreement and the Machinery Equipment and Accessories Sales Framework Agreement are entered into in the ordinary and usual course of business of the Company, on normal commercial terms, which are fair and reasonable and in the interest of the Company and the Shareholders as a whole. Accordingly, the Directors recommend the Independent Shareholders to vote in favour of the relevant resolutions at the AGM so as to approve the Financial Services Framework Agreement, the Machinery Equipment and Accessories Sales Framework Agreement and their respective proposed maximum daily balance of the deposits and proposed annual caps.

Your attention is drawn to the letter from the Independent Board Committee set out on pages 30 to 31 of this circular and the letter of advice from Messis Capital Limited to the Independent Board Committee and the Independent Shareholders set out on pages 32 to 53 of this circular.

LETTER FROM THE BOARD

The Directors, including independent non-executive Directors, are of the view that the other resolutions set out in the notice of the AGM are all in the best interests of the Company and the Shareholders as a whole. Accordingly, the Directors recommend the Shareholders to vote in favour of the other resolutions to be proposed at the AGM.

IX. ADDITIONAL INFORMATION

Your attention is drawn to the additional information set out in the appendices to this circular.

By Order of the Board
CRCC High-Tech Equipment Corporation Limited
Liu Feixiang
Chairman



中国铁建

CRCC High-Tech Equipment Corporation Limited

中國鐵建高新裝備股份有限公司

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

(Stock code: 1786)

13 June 2019

To the Independent Shareholders,

Dear Sir or Madam,

CONTINUING CONNECTED TRANSACTIONS

We refer to the circular dated 13 June 2019 issued by the Company (the “**Circular**”), of which this letter forms a part. Terms defined in the Circular shall have the same meaning when used herein, unless the context requires otherwise.

We have been appointed as the members of the Independent Board Committee to advise you as to whether in our opinion, the Financial Services Framework Agreement, the Machinery Equipment and Accessories Sales Framework Agreement and their respective proposed maximum daily balance of the deposits and proposed annual caps, details of which are set out in the letter from the Board, are fair and reasonable so far as the interests of the Independent Shareholders are concerned.

Messis Capital Limited has been appointed by the Company as the Independent Financial Adviser to advise us and the Independent Shareholders on the fairness and reasonableness of the Financial Services Framework Agreement, the Machinery Equipment and Accessories Sales Framework Agreement and their respective proposed maximum daily balance of the deposits and proposed annual caps. Details of the advice from Mesis Capital Limited, together with the principal factors taken into consideration in arriving at such advice, are set out in its letter on pages 32 to 53 of the Circular.

Your attention is also drawn to the letter from the Board set out on pages 6 to 29 of the Circular.

LETTER FROM THE INDEPENDENT BOARD COMMITTEE

Having considered the terms and conditions of the Financial Services Framework Agreement, the Machinery Equipment and Accessories Sales Framework Agreement and their respective proposed maximum daily balance of the deposits and proposed annual caps, the interests of the Independent Shareholders and the advice and recommendation of Messis Capital Limited, we are of the view that: (i) the transactions under the Financial Services Framework Agreement are entered into in the ordinary and usual course of business of the Company, on normal commercial terms, which are fair and reasonable and in the interest of the Company and the Shareholders as a whole; (ii) the transactions under the Machinery Equipment and Accessories Sales Framework Agreement are entered into in the ordinary and usual course of business of the Company, on normal commercial terms, which are fair and reasonable and in the interest of the Company and the Shareholders as a whole; (iii) the proposed maximum daily balance of the deposits under the Financial Services Framework Agreement are fair and reasonable and in the interest of the Company and the Shareholders as a whole; and (iv) the proposed annual caps under the Machinery Equipment and Accessories Sales Framework Agreement are fair and reasonable and in the interest of the Company and the Shareholders as a whole.

Accordingly, we recommend the Independent Shareholders to vote in favour of the relevant resolutions at the AGM so as to approve the Financial Services Framework Agreement, the Machinery Equipment and Accessories Sales Framework Agreement and their respective proposed maximum daily balance of the deposits and proposed annual caps.

Yours faithfully,

For and on behalf of

Independent Board Committee

Mr. Sun Linfu, *Independent non-executive Director*

Mr. Yu Jiahe, *Independent non-executive Director*

Mr. Wong Hin Wing, *Independent non-executive Director*

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

The following is the full text of the letter from the Independent Financial Adviser which sets out its advice to the Independent Board Committee and the Independent Shareholders for inclusion in this circular.



13 June 2019

*To: The Independent Board Committee and the Independent Shareholders
of CRCC High-Tech Equipment Corporation Limited*

Dear Sir/Madam,

CONTINUING CONNECTED TRANSACTIONS

INTRODUCTION

We refer to our engagement as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in respect of the continuing connected transactions in relation to (i) the Financial Services Framework Agreement and the proposed maximum daily balance of the deposits; and (ii) the Machinery Equipment and Accessories Sales Framework Agreement and the relevant annual caps, details of which are set out in the letter from the Board (the “**Board Letter**”) contained in the circular of the Company dated 13 June 2019 (the “**Circular**”), of which this letter forms part. Terms defined in the Circular shall have the same meanings in this letter unless the context of this letter otherwise requires.

Reference is made to the announcements of the Company dated 26 April 2019, in relation to, among other things, (i) the Financial Services Framework Agreement with CRCC Finance and the proposed maximum daily balance of the deposits; and (ii) the renewal of the Machinery Equipment and Accessories Sales Framework Agreement with CRCC and the relevant annual caps for the transactions thereunder.

CRCC is a controlling Shareholder, which directly and indirectly holds approximately 65% of the total issued share capital of the Company as at the Latest Practicable Date, and thus is a connected person of the Company under the Listing Rules. CRCC Finance is a subsidiary of CRCC, which is owned as to 94% by CRCC as at the Latest Practicable Date, and thus is also a connected person of the Company under the Listing Rules. Therefore, the transactions under each of the Financial Services Framework Agreement and the Machinery Equipment and Accessories Sales Framework Agreement constitute continuing connected transactions of the Company under the Listing Rules. Since the highest applicable percentage ratio for the each of the proposed maximum daily balance of deposits under the Financial Services Framework Agreement and the proposed annual caps under the Machinery Equipment and Accessories

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Sales Framework Agreement is more than 5%, such transactions are subject to the reporting, annual review, announcement and Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

An Independent Board Committee comprising all independent non-executive Directors has been established to advise the Independent Shareholders in respect of such continuing connected transactions.

We, Messis Capital Limited, have been appointed by the Company as the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders as to (i) whether the continuing connected transactions contemplated thereunder are in the ordinary and usual course of business of the Company, on normal commercial terms, fair and reasonable so far as the Independent Shareholders are concerned and in the interests of the Company and the Shareholders as a whole; and (ii) how the Independent Shareholders should vote in respect of the relevant resolutions to approve (a) the Financial Services Framework Agreement and the proposed maximum daily balance of the deposits; and (b) the Machinery Equipment and Accessories Sales Framework Agreement and the proposed annual caps at the AGM.

OUR INDEPENDENCE

As at the Latest Practicable Date, we did not have any relationship with or interest in the Company or any other parties that could reasonably be regarded as relevant to our independence. In the last two years, we have acted as the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders of the Company for the following transactions (the “**Previous Appointments**”):

Date of the relevant circular and our letter of advice	Nature of the transaction
31 May 2017	Continuing connected transactions
7 June 2018	Continuing connected transactions

With regard to our independence from the Company, it is noted that (i) apart from normal professional fees paid or payable to us in connection with the Previous Appointments as well as the current appointment as the Independent Financial Adviser, no arrangements exist whereby we had received or will receive any fees or benefits from the Company or any other parties that could reasonably be regarded as relevant to our independence; (ii) we have maintained our independence from the Company during the Previous Appointments; (iii) the service fees received separately or aggregately from the Previous Appointments and the current appointment do not constitute a significant portion of our total revenue; and (iv) our independence from the Company has not been compromised because of the Previous Appointments. Accordingly, we consider that we are independent pursuant to Rule 13.84 of the Listing Rules.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

BASIS OF OUR OPINION AND RECOMMENDATION

In formulating our opinion to the Independent Board Committee and the Independent Shareholders, we have relied on the statements, information, opinions and representations contained or referred to in the Circular and the representations made to us by the Company, the Directors and the management of the Company. We have assumed that all statements, information and representations provided by the Company, the Directors and the management of the Company, for which they are solely responsible, are true and accurate at the time when they were provided and continue to be so as at the Latest Practicable Date. We have also assumed that all statements of belief, opinion, expectation and intention made by the Directors in the Circular were reasonably made after due enquiry and careful consideration. We have no reason to suspect that any material facts or information have been withheld or to doubt the truth, accuracy and completeness of the information and facts contained in the Circular, or the reasonableness of the opinions expressed by the Company and/or the Directors, which have been provided to us.

The Directors jointly and severally accept full responsibility for the accuracy of the information contained in the Circular and confirm, having made all reasonable enquiries, that to the best of their knowledge, opinions expressed in the Circular have been arrived at after due and careful consideration and there are no other facts not contained in the Circular the omission of which would make any statement contained in the Circular, including this letter, incorrect or misleading.

We have not carried out any independent investigation into the business and affairs of the Company. However, we have taken the steps pursuant to the Listing Rules which include the following:

- (a) obtained all the information and documents relevant to an assessment of the fairness and reasonableness of the transactions, including but not limited to, the Financial Services Framework Agreement, the Machinery Equipment and Accessories Sales Framework Agreement, the contracts of sales of large railway track maintenance machinery and accessories and provision of other related or ancillary products and services by the Company to the Independent Third Parties, the circular of the Company dated 31 May 2017, the annual reports of the Company for the three years ended 31 December 2018 (collectively the “**Annual Reports**”) and the announcements of the Company dated 28 December 2018 and 26 April 2019;
- (b) reviewed the background of, the reasons for and benefits of the transactions under each of the Financial Services Framework Agreement and the Machinery Equipment and Accessories Sales Framework Agreement;
- (c) researched the macro-economic conditions affecting the transactions under the Machinery Equipment and Accessories Sales Framework Agreement in particularly the “One Belt, One Road” initiative adopted by the PRC government;

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

- (d) reviewed the fairness, reasonableness and completeness of any assumptions or projections relevant to the transactions; and
- (e) confirmed that no third-party expert opinion being relevant to the transactions.

Our opinion is based on the information made available to us as at the Latest Practicable Date. Shareholders should note that subsequent developments (including any material change in market and economic conditions) may affect and/or change our opinion and we have no obligation to update this opinion to take into account events occurring after the Latest Practicable Date or to update, revise or reaffirm our opinion. In addition, nothing contained in this letter should be construed as a recommendation to hold, sell or buy any Shares or any other securities of the Company. This letter is issued for the information of the Independent Board Committee and the Independent Shareholders solely in connection with their consideration of the transactions and, except for its inclusion in the Circular, is not to be quoted or referred to, in whole or in part, nor shall this letter be used for any other purposes, without our prior written consent.

PRINCIPAL FACTORS TAKEN INTO ACCOUNT

In arriving at our opinions and recommendations to the Independent Board Committee and the Independent Shareholders in respect of whether the transactions are in the interests of the Company and the Shareholders as a whole and fair and reasonable so far as the Independent Shareholders are concerned, we have considered the individual factors and reasons in relation to the transactions set out below:

FINANCIAL SERVICES FRAMEWORK AGREEMENT

1. Background of, reasons for and benefits of the entering into the Financial Services Framework Agreement

Reference is made to the announcements of the Company dated 28 December 2018 and 26 April 2019 in relation to, among other things, the Previous Financial Services Framework Agreement and the Financial Services Framework Agreement, respectively.

On 28 December 2018, the Company and CRCC Finance entered into the Previous Financial Services Framework Agreement, pursuant to which CRCC Finance agreed to provide deposit services to the Group for the term commencing from 1 January 2019 to 31 December 2019.

As the Company proposes to increase the proposed maximum daily balance of the deposits under the Previous Financial Services Framework Agreement and renew such agreement, on 26 April 2019, the Company and CRCC Finance entered into the Financial Services Framework Agreement to replace the Previous Financial Services Framework Agreement, pursuant to which CRCC Finance agreed to provide deposit services to the Group for the term commencing upon the conclusion of the AGM to 31 December 2021. Other than the above change, all existing terms and conditions of the Previous Financial Services Framework Agreement have remained unchanged.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

CRCC Finance is a non-banking financial institution incorporated in the PRC on 28 March 2012 and is subject to the Administrative Measures on Finance Companies within Group Enterprises (《企業集團財務公司管理辦法》) and other relevant regulations promulgated by PBOC and CBIRC. The establishment of such non-banking financial institutions is subject to approval by CBIRC and its operation is subject to the ongoing supervision of CBIRC. Non-banking financial institutions shall comply with applicable regulations relating to interest rates issued by PBOC and CBIRC.

In the PRC, finance companies within group enterprises are only permitted under applicable PRC laws and regulations to provide financial services to enterprises within the same parent group. Therefore, CRCC Finance only provides financial services to members of the CRCC Group, including the Group.

With reference to the Board Letter, the Board is of the view that the transactions are beneficial to the Group for the following reasons:

- (i) the Group is expected to benefit from CRCC Finance's familiarity of the industry and operations of the Group. Through years of cooperation, CRCC Finance has become familiar with the Group's capital structure, business operations, funding needs, cash flow pattern, cash management and the overall financial management system, which may enable CRCC Finance to render more expedient, efficient and flexible deposit services to the Group than other commercial banks and independent financial institutions in the PRC. The terms of the Financial Services Framework Agreement were negotiated on an arm's length basis, the capital flows under the Financial Services Framework Agreement were in relation to the Group's daily operations, and the revenue generated from the Financial Services Framework Agreement will be applied to the development of the Group's usual businesses. Based on the above, the Board is of the view that transactions under the Financial Services Framework Agreement are in the ordinary and usual course of business of the Group;
- (ii) with respect to deposits place by the Group with CRCC Finance, the Group will be able to receive interest at rates not lower, and thus no less favourable, than the prevailing rates offered by the major PRC commercial banks for deposits of similar nature; and
- (iii) the Group is not prohibited or restricted in any way to use deposit services provided by other commercial banks or independent financial institutions in the open market, and the Group retain discretion to make its selection according to business needs as well as the fees and quality of such deposit services. The Group may (but is not obliged to) utilise the deposit services provided by CRCC Finance so as to deploy and manage the financial resources flexibly and efficiently.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Having considered that (i) there is commercial need of the Group to deploy and manage its financial resources through deposit services; (ii) the financial resources used in and generated from the Financial Services Framework Agreement were in relation to the Group's daily operations and will be used for the Group's usual business purposes; (iii) the Group may, but is not obliged to, utilise the deposit services provided by CRCC Finance if the interest rates are not lower, and thus no less favourable, than the prevailing rates offered by the major PRC commercial banks for deposits of similar nature; and (iv) the Group and CRCC Finance have established a long-term relationship, we are of the view that the entering into the Financial Services Framework Agreement is in the ordinary and usual course of business of the Company and in the interests of the Company and the Shareholders as a whole.

2. Principal terms of the Financial Services Framework Agreement

Details of the Financial Services Framework Agreement are set out as follows:

- Date:** 26 April 2019
- Parties:** The Company (as the service recipient); and
CRCC Finance (as the service provider).
- Term:** Commence upon the conclusion of the AGM to 31 December 2021, subject to early termination by either party giving at least three months' prior written notice to the other party.
- Parties can extend or renew such terms by mutual agreement, provided that the requirements under the relevant laws, regulations and the Listing Rules are complied with.
- Pricing policy:** Pursuant to the Financial Services Framework Agreement, CRCC Finance shall accept deposits from the Group at interest rates not lower, and thus no less favourable, than the prevailing rates offered by the other PRC commercial banks or financial institutions for deposits of similar nature.
- Other major terms:** The Group and CRCC Finance will enter into specific agreement to set out specific terms with respect to the financial services contemplated under the Financial Services Framework Agreement in accordance with the aforementioned principle terms thereunder.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

We have, on a sampling basis, obtained and reviewed three transactions of interest income received by the Company in relation to the historical deposit services provided by each of CRCC Finance and other independent financial institutions with similar type of deposit services conducted for the year ended 31 December 2018 and three months ended 31 March 2019. Samples were selected randomly with one set of samples (comparing both the historical deposit services provided by each of CRCC Finance and other independent financial institutions with similar type of deposit services) for each of the half year ended 30 June 2018, half year ended 31 December 2018 and three months ended 31 March 2019. It is noted that the interest rate provided by CRCC Finance was not lower, and thus no less favourable, than the prevailing rates offered by the major PRC commercial banks for deposits of similar nature. Having reviewed the abovementioned historical deposit services of the Company, we are of the view that the entering into of the Financial Services Framework Agreement is in line with the financial needs of the Company's business, and the transactions under the Financial Services Framework Agreement are fair and reasonable, on normal commercial terms or better and in the interest of the Company and the Shareholders as a whole.

3. Historical transaction amounts

As set out in the Annual Reports, the historical maximum daily balance of the deposits (including accrued interest) placed by the Group with CRCC Finance for each of the three years ended 31 December 2018 was approximately RMB468.9 million, RMB973.88 million and RMB926.30 million, respectively.

The historical maximum daily balance of the deposits (including accrued interest) placed by the Group with CRCC Finance for the two years ended 31 December 2018 increased significantly as compared with that for the year ended 31 December 2016. Such increase was mainly due to that the Company has placed USD payments received from the sales of energy efficiency and safety improvement projects for railways in Western China (the “**USD Payments**”) funded by loans of China Railway Corporation obtained from Asian Development Bank with CRCC Finance.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

4. Proposed maximum daily balances of the deposits under the Financial Services Framework Agreement

The existing maximum daily balance of the deposits under the Previous Financial Services Framework Agreements for the year ending 31 December 2019 (the “**Existing Maximum Cap**”) is RMB100 million. The maximum daily balance of the deposits for the three years ended 31 December 2018 under the Previous Financial Services Framework Agreement of 2016 were RMB1,200 million, RMB1,200 million and RMB1,200 million, respectively. The table below summarised the proposed maximum daily balance of the deposits under the Financial Services Framework Agreement (the “**Proposed Maximum Caps**”):

	From the date of AGM to 31 December 2019	Year ending 31 December	
	<i>RMB million</i>	2020	2021
		<i>RMB million</i>	<i>RMB million</i>
Proposed Maximum Caps	600	600	600

As noted from the Board Letter, the Proposed Maximum Caps have been determined by the Company based on the following factors:

- (i) for the three years ended 31 December 2018, the historical maximum daily balance of the deposits the Group placed with CRCC Finance was approximately RMB468.9 million, RMB973.88 million and RMB926.30 million, respectively. The limit for deposit amount for the period from the date of AGM to 31 December 2019 and the two years ending 31 December 2021 has been determined taking into account normal deposit sizes of the Company (which do not include the USD Payments placed with CRCC Finance for the two years ended 31 December 2018, due to the occasionality of such payments and deposits). The normal deposit sizes are determined by the Company through considering the capital scale in the daily operation of the Company and the future development of the business of the Company. Specifically, the amounts of the aforementioned USD payments are approximately USD55.77 million (equals to approximately RMB382.74 million) and RMB304.44 million for the two years ended 31 December 2018, respectively. After deduction such USD payments, the normal deposit sizes of the Company for the two years ended 31 December 2018 are approximately RMB591.14 million and RMB621.86 million, respectively; and
- (ii) the interest rate of deposits from CRCC Finance is more competitive than that from general commercial banks.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

The abovementioned competitive interest rate is also the main consideration of the Company for increasing the maximum daily balance of the deposits for the year ending 31 December 2019 from RMB100 million to RMB600 million. As compared to the mainstream commercial banks with which the Company cooperates, CRCC Finance provides higher interest rates in service fields including, among others, current deposits, short-term deposits and agreement savings (especially the current deposits). Such favoured interest rates would result in a higher return of the Company's investment capital.

In assessing the fairness and reasonableness of the Proposed Maximum Caps, we have reviewed (i) the historical maximum daily balance of deposits (including accrued interest) placed by the Group with CRCC Finance for each of the three years ended 31 December 2018 (as discussed in the above section headed "3. Historical transaction amounts"); (ii) samples of transactions for the year ended 31 December 2018 and three months ended 31 March 2019 (as discussed in the above section headed "2. Principal terms of the Financial Services Framework Agreement") and noted that the interest rate of deposits from CRCC Finance is more competitive than from general commercial banks; (iii) deposit slips of the USD Payments to CRCC Finance during the two years ended 31 December 2018; and (iv) as set out in the 2018 Annual Report, the Group's cash and cash equivalents as at 31 December 2018 amounted to approximately RMB1,789 million, representing an increase of approximately 15.0% as compared to that of approximately RMB1,556 million as at 31 December 2017.

We have further discussed with the management of the Company the assumptions and basis of deriving the expected transaction amounts in determining the Proposed Maximum Caps. We noted that (i) the Company takes into account the normal deposit sizes of approximately RMB591.14 million and RMB621.86 million, which ignores the effect from the deposits of USD Payments of approximately USD55.77 million (equivalent to RMB382.74 million) and RMB304.44 million, for the two years ended 31 December 2018 respectively; (ii) the historical maximum daily balance of the deposits the Group placed with CRCC Finance for the period from 1 January 2019 to the Latest Practicable Date did not exceed the Existing Maximum Cap of RMB100 million; and (iii) the cash and cash equivalents of the Group increased as at 31 December 2018 as compared to that of 31 December 2017. The Company therefore proposed to increase the Proposed Maximum Caps.

Given the basis of determining the Proposed Maximum Caps as discussed above, we consider that the Proposed Maximum Caps are fair and reasonable and in the interest of the Company and the Shareholders as a whole.

5. Internal Control Procedures

As set out in the Board Letter, the following internal control procedures have been implemented by the Company in order to ensure and safeguard that the transactions contemplated under the Financial Services Framework Agreement will not be prejudicial to the interests of the Company and the Shareholders as a whole:

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

- (i) before the Company or any of the subsidiaries enters into any deposit services with CRCC Finance, the Group will obtain quotes from three other independent financial institutions for similar deposit services for the same duration, namely Bank of China Kunming North Station Branch, China CITIC Bank Kunming Baita Road Branch and Industrial and Commercial Bank of China Kunming Huguo Branch. Such quotes, together with the offer from CRCC Finance, will be reviewed by the finance department and the audit and risk control department of the Company, and the offer from CRCC Finance has to be approved by the heads of these departments in order to pass the Company's internal approval process before it can be accepted;
- (ii) CRCC Finance shall set up and maintain, or procure the setting up and maintenance of, a secured and stable on-line system through which the relevant subsidiary of the Company, which deposits money with them, can view the balance of such deposits at any time on any day;
- (iii) CRCC Finance shall, in taking the deposits from the Group, not affect the normal use of the deposits by the Group; CRCC Finance shall ensure that their deployment of the funds will not inhibit or restrict the ability of the Group from utilizing the deposits, and if the funding needs of the Group do not exceed the total deposits placed by the Group with CRCC Finance, CRCC Finance shall ensure that there will be sufficient funds for the Group's timely withdrawal to meet the funding needs of the Group;
- (iv) CRCC Finance shall facilitate any annual inspection by the Group of the management of the deposits placed by the Group with CRCC Finance, including inspection of records of fund flows, interest rates and payments provided to the Company's deposits, the balance of the Company's deposits placed, and other information and records that may be required by the auditors of the Company for the purpose of reporting on the relevant continuing connected transactions;
- (v) CRCC Finance will provide its annual financial report and other documents and information to the Company at its request; and
- (vi) the auditor of the Company will also conduct an annual review on the pricing policies and annual caps of such agreement, and provide confirmation in the Company's annual report.

As set out in the 2018 Annual Report, the Directors (including independent non-executive Directors) reviewed and the external auditor issued an unqualified letter pursuant to Rule 14A.56 of the Listing Rules, in relation to the Company's continuing connected transactions for the year ended 31 December 2018.

In light of the above, we have obtained and reviewed samples of transactions for the year ended 31 December 2018 and three months ended 31 March 2019 (as discussed in the above section headed "2. Principal terms of the Financial Services Framework Agreement"), we are

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

of the view that there are sufficient internal control procedures to ensure that the transactions under the Financial Services Framework Agreement will be conducted on normal commercial terms or better and will not be prejudicial to the interests of the Company and the Shareholders.

MACHINERY EQUIPMENT AND ACCESSORIES SALES FRAMEWORK AGREEMENT

1. Background of, reasons for and benefits of the entering into the Machinery Equipment and Accessories Sales Framework Agreement

The Group is principally engaged in (i) development, manufacturing and sale of large railway track maintenance machines; (ii) manufacturing, purchase and sales of parts and components of large railway track maintenance machines; (iii) overhaul services; and (iv) railway line maintenance services.

CRCC and its subsidiaries (excluding the Group) are primarily engaged in: (i) construction operation; (ii) survey, design and consultancy operations; (iii) manufacturing operations (except the business of the Group); (iv) real estate development operations; and (v) logistics and materials trading.

Reference is made to the announcement of the Company dated 5 May 2017 and the circular of the Company dated 31 May 2017 in relation to, among other things, the Previous Machinery Equipment and Accessories Sales Framework Agreement.

As the Previous Machinery Equipment and Accessories Sales Framework Agreement will expire on 31 December 2019, the Company and CRCC entered into the Machinery Equipment and Accessories Sales Framework Agreement on 26 April 2019 to renew the Previous Machinery Equipment and Accessories Sales Framework Agreement, pursuant to which the Company agreed to (i) sell various kinds of large railway track maintenance machines comprising all products of the Group; (ii) sell machinery and track equipment, facilities and materials; and (iii) provide other related or ancillary products and services to CRCC and/or its associates, commencing from 1 January 2020 to 31 December 2022. Other than the above change, all existing terms and conditions of the Previous Machinery Equipment and Accessories Sales Framework Agreement have remained unchanged.

With reference to the Board Letter, the Group sells large railway track maintenance machinery and accessories, machinery and track equipment, facilities and materials, and provides other related or ancillary services to CRCC and/or its associates in the ordinary and usual course of the Group's business. The Board is of the view that the transactions are beneficial to the Group for the following reasons:

- (i) in accordance with the relevant regulations of competent authorities for all constructions of new railway lines, railway line maintenance (such as tamping, formation and rehabilitation) must be conducted before the inspection and acceptance of such railway lines; CRCC and/or its associates, which are primarily

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

engaged in the railway construction operations, require such products for carrying out railway track maintenance work before the inspection and acceptance of the new railway lines they have constructed;

- (ii) the Company and CRCC and/or its associates have established a long-term relationship, and understand respective planning of operations, quality control as well as certain specific requirements of both parties; and
- (iii) the prices and terms for the sales of large railway track maintenance machinery and accessories, machinery and track equipment, facilities and materials, and the provision of other related or ancillary services by the Company to CRCC and/or its associates would be no less favourable to the Company than those the Company offers to any Independent Third Party.

Given that (i) the Group's principal business is manufacturing and sale of large railway track maintenance machinery, parts and components; (ii) CRCC and/or its associates has a demand of products for carrying out railway track maintenance work before the inspection and acceptance of the new railway lines they have constructed; (iii) the Company and CRCC and/or its associates have established a long-term relationship; and (iv) the prices and terms for the transactions to CRCC and/or its associates would be no less favourable to the Company than those the Company offers to any Independent Third Party, we are of the view that the entering into the Machinery Equipment and Accessories Sales Framework Agreement is in the ordinary and usual course of business of the Company and in the interests of the Company and the Shareholders as a whole.

2. Principal terms of the Machinery Equipment and Accessories Sales Framework Agreement

Details of the Machinery Equipment and Accessories Sales Framework Agreement are set out as follows:

- Date:** 26 April 2019
- Parties:** The Company (as the supplier of products and services); and CRCC (as the purchaser of products and services).
- Term:** From 1 January 2020 to 31 December 2022, subject to early termination by either party giving at least three months' prior written notice to the other party.

Parties can extend or renew such terms by mutual agreement, provided that the requirements under the relevant laws, regulations and the Listing Rules are complied with.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Conditions precedent: The transactions are subject to the reporting, annual review, announcement and Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

The Machinery Equipment and Accessories Sales Framework Agreement is conditional upon the resolution regarding the transactions and the relevant annual caps having been approved by the Independent Shareholders at the AGM.

Pricing policy: In line with the general pricing policy of fairness and reasonableness set out in the Machinery Equipment and Accessories Sales Framework Agreement, the prices for products and services under such agreement shall be determined based on the following pricing principles:

- (i) where there are market prices for the relevant products and services, the prices shall be determined with reference to the prevailing market prices at which the same type of products and services provided to an Independent Third Party customer on normal commercial terms; and
- (ii) where there are no market prices for the relevant products which are applicable to new types of machinery equipment to be tailor-made for the specifications required by the CRCC Group for its specific business needs, the price shall be determined according to the price to be agreed between the parties; the agreed price will be calculated based on the actual costs, which include raw materials, accessories, depreciation, salary, energy, technology consumption and equipment maintenance, incurred in providing such products plus reasonable profits; we will charge a mark-up rate, taking into consideration of the specific types of products, for the transactions on a cost-plus basis. Such mark-up rate charged to the CRCC Group is not lower than 15% for all cases, which is the same mark-up rate charged to an Independent Third Party customer. The Board is of the view that such mark-up rate is fair and reasonable, on normal commercial terms and not prejudicial to the interest of the Company's minority Shareholders.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

**Internal control
procedures for
pricing policy:**

In order to ensure that (i) the sales of large railway track maintenance machinery and accessories; (ii) the sales of machinery and track equipment, facilities and materials; and (iii) the provision of other related or ancillary products and services from the Group to CRCC and/or its associates will not be prejudicial to the interests of the Company and the minority Shareholders, the Company adopts the following measures in negotiating the prices and terms of the transactions to be carried out under the Machinery Equipment and Accessories Sales Framework Agreement:

- (i) the prices will generally be agreed following arm's length negotiation between the parties with reference to the prevailing market prices;

A large portion of the Group's purchase orders are won through public tenders with the largest customer group (i.e. CRC and its affiliated enterprises), local railway operators and railway construction companies (including the CRCC Group).

In order to determine the prevailing market prices, the Company will make reference to the price offer to at least two Independent Third Party customers for the same or similar products or services; the Company will also primarily take into account the following factors to determine the market prices, to ensure that the prices will be no less favourable to the Company than those of the same type of products and services the Company provides to the Independent Third Party customers:

- (a) in respect of large railway track maintenance machines, the Group takes into account the costs and market condition to determine the prices of products. The Group adjusts the prices with reference to various factors, such as the prevailing market condition, market prospect and competition;
- (b) in respect of parts and components, the Group determines the prices of parts and components primarily based on the cost, and adjusts prices with reference to market conditions, logistic requirements, expected profit margins and safety of rails operations;

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

- (c) in respect of railway line maintenance services, the Group primarily takes into account costs, timeline, operation quality requirements and operation environment (such as the climate and topographical requirements) to determine the prices of services;
 - (d) in respect of overhaul services, the Group determines prices primarily based on the condition of the machines to be overhauled;
- (ii) in respect of the principle of the cost plus a reasonable profit margin, the Group will take into account all relevant factors in determining the underlying costs, which include raw materials, accessories, depreciation, salary, energy, technology consumption and equipment maintenance; and
- (iii) in the unlikely event that no comparable market price can be taken which are applicable to new types of large railway track maintenance machines to be tailor-made for the specifications required by the CRCC Group for its specific business needs, experts in the Group with sufficient industry experience could opine on the fairness and reasonableness of the prices to ensure that the prices would be fair and reasonable to the Company and no less favourable to the Company than the prices the Group offers to the Independent Third Party customers. Such experts in the Group are the overall project consultant of the Group's research centre with senior engineer certificate, head of cost management department with the qualification of certified public accountant, head of procurement centre and head of marketing department. These experts have adopted a comprehensive evaluation model to determine the prices with reference to the historical transaction prices of the most similar types of machines and also take into account other factors, which include technical specifications, actual costs, payment terms, product quality and geographical areas where the Group provides products, etc. The prices of such new types of machinery equipment will be submitted to the general manager of the Group for approval.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Payment terms: The actual settlement price and the method of payment shall be determined based on the principles, instructions, conditions and terms of the Machinery Equipment and Accessories Sales Framework Agreement and set out in the specific agreements or order forms to be entered into by the parties.

The payment terms will be on market terms which are no less favourable than those available to Independent Third Parties.

As mentioned above, the Company has designed and implemented internal control procedures in relation to its pricing policy under the Machinery Equipment and Accessories Sales Framework Agreement. We have obtained and reviewed (i) the Machinery Equipment and Accessories Sales Framework Agreement; (ii) the relevant procedure manual in relation to the pricing policy; (iii) on a sampling basis, three sets of sales agreements for the sales of large railway track maintenance machinery and accessories, three sets of value-added tax invoices for the sales of machinery and track equipment, facilities and materials and one set of services agreements for the provision of other related or ancillary products and services, entered into between the Company and each of the CRCC Group and the Independent Third Party customers under the Previous Machinery Equipment and Accessories Sales Framework Agreement. We noted that the prices and terms of the sales of large railway track maintenance machinery and accessories, sales of machinery and track equipment, facilities and materials and provision of other related or ancillary products and services offered to CRCC Group by the Company were similar and no less favourable than those offered to Independent Third Parties. Therefore, we are of the view that the terms of the Machinery Equipment and Accessories Sales Framework Agreement are fair and reasonable, on normal commercial terms and in the interest of the Company and the Shareholders as a whole.

3. Historical transaction amounts

As set out in the Annual Reports, the aggregate amounts of transactions with respect to the sales of large railway track maintenance machinery and accessories, as well as the provision of other related or ancillary products and services by the Group to CRCC Group for the three years ended 31 December 2018 were approximately RMB44.8 million, RMB179.52 million and RMB560.27 million, respectively.

Specifically, for the three years ended 31 December 2018, (i) the sales of large railway track maintenance machines and provision of relevant ancillary products and services under the Machinery Equipment and Accessories Sales Framework Agreement amount to RMB26.71 million, RMB28.26 million and RMB45.90 million, respectively; (ii) the sales of machinery and track equipment, facilities and materials under the Machinery Equipment and Accessories Sales Framework Agreement amount to RMB0 (the sales of machinery and track equipment, facilities and materials started from 2017), RMB123.62 million and RMB479.27 million, respectively; and (iii) the sales of provision of other related or ancillary products and services

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

(mainly include sales of parts and provision of overhaul services and railway track maintenance services) under the Machinery Equipment and Accessories Sales Framework Agreement amount to RMB18.08 million, RMB27.65 million and RMB35.10 million, respectively. Such relatively low amounts of transactions for the three years ended 31 December 2018 (as compared to the annual caps of such years) were mainly due to the gap between the purchasing amount from CRCC and its associates and the expectancies of the Company.

The aggregate amounts of transactions under the Previous Machinery Equipment and Accessories Sales Framework Agreement for the year ended 31 December 2018 increased significantly as compared with those for the two years ended 31 December 2017. Such increase was mainly attributable to the increase in the sales of machinery equipment products to China Railway Construction Heavy Industry Co., Ltd., the subsidiary of CRCC, by the Group, which was due to adjustments in the operation strategy of China Railway Construction Heavy Industry Co., Ltd. to significantly increase its demands of machinery equipment products in 2018, together with the Group's strong ability of supplying such products, and the good relationships with China Railway Construction Heavy Industry Co., Ltd.

4. Proposed annual caps under the Machinery Equipment and Accessories Sales Framework Agreement

The existing annual caps for the three years ending 31 December 2019 for the transactions under the Previous Machinery Equipment and Accessories Sales Framework Agreement are RMB1,100 million, RMB1,100 million and RMB1,100 million, respectively. The annual caps for the two years ended 31 December 2017 for the transactions under the Large Maintenance Machinery and Accessories Sales Framework Agreement were RMB1,000 million and RMB1,100 million, respectively. The proposed annual caps for the Machinery Equipment and Accessories Sales Framework Agreement (the “**Proposed Annual Caps**”) are as follows:

	Year ending 31 December		
	2020	2021	2022
	<i>RMB million</i>	<i>RMB million</i>	<i>RMB million</i>
Proposed Annual Caps	1,100	1,100	1,100

As noted from the Board Letter, the Proposed Annual Caps have been determined by the Company based on the following factors:

Under the Machinery Equipment and Accessories Sales Framework Agreement, the products and services provided by the Company to the CRCC Group mainly consist of two types, namely (i) the various kinds of large railway track maintenance machines and other related or ancillary products and services; and (ii) other machines and railway equipment, facilities and materials and other related or ancillary products and services.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

(i) Large railway track maintenance machines and other related or ancillary products and services

According to the procurement plan and intention of fixed assets for CRCC and its subsidiaries (including the Company) formulated by CRCC, the products and services the Company provide are classified into two categories based on geographical locations of projects, namely, (i) the sales of large railway track maintenance machines as well as parts and components, provision of railway line maintenance services and provision of overhaul services to the CRCC Group that will be used in its domestic projects; and (ii) the sales of large railway track maintenance machines as well as parts and components and provision of railway line maintenance services to the CRCC Group that will be used in its overseas railway construction projects. The Company sells a wide range of products, including large railway track maintenance machines of various technical specifications (such as different gauges, axle loads, etc.) and price ranges, in order to cater to varied speed, climate, topographical and logistics requirements of the railway industry. Details are set out as follows:

Under the relevant procurement plan and intention, the aggregate amounts of the Company's sales of large railway track maintenance machines as well as parts and components, and provision of railway line maintenance services and provision of overhaul services to the CRCC Group are expected to reach approximately RMB200 million for the year ending 31 December 2020, and they are expected to maintain stable in 2021 and 2022 based on the following three major reasons:

- (a) due to the sustainable growth trend in the aggregate amounts of transactions for the three years ended 31 December 2018, the Company expects more room for growth in the future. Pursuant to the 2018 annual report of CRCC, CRCC's newly-signed railway engineering contract amount to RMB212.0396 billion for 2018 and is an important section of CRCC's engineering business. Pursuant to the information obtained by the Company, CRCC expects its newly-signed engineering contracts to increase at the average speed of 8.7% for 2019 and 2020. Besides, considering that the construction of engineering projects lasts for several years after signing the contract, the demand of the large railway track maintenance machines of CRCC is sustainable. Pursuant to the Company's deep participation in CRCC's railway engineering projects and CRCC's purchase intention which the Company knows, the Company estimates that the sales of large railway track maintenance machines and parts and components to CRCC for 2020 amount to RMB91.80 million, representing an increase speed of approximately 100% than 2018;
- (b) according to the regulations enacted by National Railway Administration of the PRC and relevant competent authorities, the large railway track maintenance machinery would be due for overhaul after being used for 10 to 13 years, or achieving certain level of workload. The Company sold 73 large railway track maintenance machines to CRCC in total from 2008 to 2012, representing a

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

sales peak, and such machines will enter into overhaul period from around 2020; as such, the CRCC Group's demand for the Company's overhaul services is expected to increase in the three years ending 31 December 2022. The Company expects that the sales of parts and provision of overhaul services and railway track maintenance services to CRCC for 2020 amount to approximately RMB108 million, representing an increasing speed of 207% than 2018; and

- (c) taking into account macro-economic conditions, such as the "One Belt, One Road" initiative adopted by the PRC government, the Company is expected to maintain a steady growth in such sales of large railway track maintenance machines as well as parts and components and provision of overhaul services to the CRCC Group for the three years ending 31 December 2022.

(ii) Other machines and railway equipment, facilities and materials and other related or ancillary products and services

Pursuant to the strategic arrangement of the Company, it is implementing the development strategy highlighting "strengthening major operation and related sectors and achieving diversified development". In particular, the Company has established strategic alliance with certain subsidiaries of the CRCC Group to drive forward rapid development of the related diversified industries of the Company. In 2017 and 2018, the sales of other machines and railway equipment, facilities and materials and other related or ancillary products and services increased rapidly, representing increasing speed of approximately 569% and 346% than the previous year, respectively, which is due to the Company has established its reputation in market of other machines and railway equipment, facilities and materials and its market share increased rapidly, providing basis of future sales increase for the Company. The Company also proactively acquaints itself on CRCC's projects progress and demands, and keeps in touch with CRCC on projects. Based on the currently available market data and procurement plan and intention, and having taken into account the sustainable growth trend in the aggregate amounts of transactions for the three years ended 31 December 2018, the sales of other machines and railway equipment, facilities and materials and other related or ancillary products and services by the Company to the CRCC Group for the three years ending 31 December 2022 are expected to increase around 20% than 2018, which is expected to reach approximately RMB600 million per year.

In arriving at the proposed annual caps under the Machinery Equipment and Accessories Sales Framework Agreement, the Company has also taken into consideration the buffer of RMB300 million for possible changes in the trade volume due to market condition changes. Since 2018, CRCC started to implement an overseas development strategy. Pursuant to the 2018 annual report of CRCC, its overseas newly-signed contracts increased approximately 24% than the previous year. Moreover, the Company understands that the overseas business of CRCC is under rapid development, and CRCC is proactively promoting its important railway projects in the Middle East, the Latin America, the Europe, the North America and the Africa

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

under “One Belt, One Road” initiative. According to the strategic plan of CRCC which is known to the Company, CRCC expects that its overseas revenue to increase 105% in 2020 than 2018. Pursuant to previous experience of the Company, CRCC’s high speed overseas development will bring new sales demand to the Company as overseas projects are with large work quantity and large capital input and demand various kinds of products. The Company expects that if CRCC acquires new overseas projects, the Company can provide products worth RMB10 million to RMB80 million depending on the nature and size of project. Therefore, the Company believes that an enough buffer is necessary. However, the overseas projects are influenced by international economic and political environment so there is uncertainty in obtaining such projects by CRCC, thus the Company thinks it is better to regard the increase of the sales of overseas projects as the buffer to market change. Based on the above, the Board is of the view that such buffer is fair and reasonable.

In assessing the fairness and reasonableness of the Proposed Annual Caps, we have reviewed the historical transaction amounts incurred between the Group and CRCC Group for the three years ended 31 December 2018, and noted that the historical transaction amounts increased significantly for the year ended 31 December 2018. Having considered that the aggregate amounts of transactions for the three years ended 31 December 2018, were equal to the figures disclosed in the Annual Reports (as discussed in the above section headed “3. Historical transaction amounts”), which were subject to annual audit by the external auditor of the Company, we are of the view that the information of the internal records is reliable and representable.

We further discussed with the management of the Company the assumptions and basis of deriving the expected transaction amounts in determining the Proposed Annual Caps. We were given to understand that the management of the Company considered that the macro-economic environment and market sentiment shall remain similar to that in the current year and decided the Proposed Annual Caps at the same level as that of the Previous Machinery Equipment and Accessories Sales Framework Agreement for the year ending 31 December 2019.

Furthermore, we noted that CRCC Group has won several sizeable domestic construction projects in 2019. As disclosed in the announcements of CRCC, including but not limited to, (i) dated 11 April 2019, CRCC Group won a bid for the NYJZQ-6 pre-construction work for the newly-built intercity railway along the South Yangtze River in Jiangsu Province and all construction project supervision (excluding the construction and supervision of the pre-construction work of the preliminary construction section) with a bidding price of approximately RMB3.047 billion; (ii) dated 13 April 2019, CRCC Group won a bid for the pre-construction work for the newly-built Guangzhou (Xintang)-Shanwei Railway Project with a bidding price of approximately RMB3.023 billion; and (iii) dated 30 April 2019, CRCC Group won a bid for the PPP project of Chongqing Railway Transportation Line 5A (Fuhua Road – Tiaodeng South) with a total investment amount of RMB18,022.11 million. Having considered the above bid-winning of CRCC Group, we are of the view that there is sustainable demand of the products and services provided by the Company to the CRCC Group under the Machinery Equipment and Accessories Sales Framework Agreement.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Given the basis of determining the Proposed Annual Caps as discussed above, we consider that the Proposed Annual Caps are fair and reasonable and in the interest of the Company and the Shareholders as a whole.

5. Internal Control Procedures

As set out in the Board Letter, the following internal control procedures have been implemented by the Group in order to ensure and safeguard that the transactions will not be prejudicial to the interests of the Company and the Shareholders as a whole:

- (i) the Company has adopted and implemented a management system on connected transactions. Under the relevant system, the finance department is responsible for conducting reviews on compliance with relevant laws, regulations, the Company's policies and the Listing Rules in respect of the Machinery Equipment and Accessories Sales Framework Agreement. In addition, the finance department, marketing department, international department, legal affairs department and other relevant operation departments of the Company are jointly responsible for evaluating the transaction terms under such agreement, in particular, the fairness of the pricing terms under such agreement;
- (ii) the independent non-executive Directors have also reviewed and will continue to review the continuing connected transactions to ensure that the transactions have been entered into on normal commercial terms and according to the Machinery Equipment and Accessories Sales Framework Agreement governing them on terms that are fair and reasonable and in the interests of the Company and the Shareholders as a whole, and provide confirmation in the Group's annual report; and
- (iii) the auditor of the Company will also conduct an annual review on the pricing policies and annual caps of such agreement, and provide confirmation in the annual report.

As set out in the 2018 Annual Report, the Directors (including independent non-executive Directors) reviewed and the external auditor issued an unqualified letter pursuant to Rule 14A.56 of the Listing Rules, in relation to the Company's continuing connected transactions for the year ended 31 December 2018.

In light of the above and we have obtained and reviewed samples of transactions conducted under the Previous Machinery Equipment and Accessories Sales Framework Agreement (as discussed in the above section headed "2. Principal terms of the Machinery Equipment and Accessories Sales Framework Agreement"), we are of the view that are sufficient internal control procedures to ensure that the transactions under the Machinery Equipment and Accessories Sales Framework Agreement will be conducted on normal commercial terms which are no less favourable to those conducted with Independent Third Parties, and will not be prejudicial to the interests of the Company and the Shareholders.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

RECOMMENDATION

We are of the view that (i) the Financial Services Framework Agreement and the Machinery Equipment and Accessories Sales Framework Agreement are entered into in the ordinary and usual course of business of the Company, on normal commercial terms, fair and reasonable so far as the Independent Shareholders are concerned and in the interests of the Company and Shareholders as a whole; and (ii) the Proposed Maximum Caps and the Proposed Annual Caps are fair and reasonable so far as the Independent Shareholders are concerned. Accordingly, we recommend the Independent Shareholders, as well as the Independent Board Committee to advise the Independent Shareholders, to vote in favour of the relevant resolutions at the AGM so as to approve the relevant continuing connected transactions.

Yours faithfully,
For and on behalf of
Messis Capital Limited
Erica Law
Director

Ms. Erica Law is a licensed person registered with the Securities and Future Commission of Hong Kong and a responsible officer of Mesis Capital Limited to carry out type 6 (advising on corporate finance) regulatory activity under the SFO and has over 9 years of experience in corporate finance industry.

Details of proposed amendments to the Articles of Association* are set out as follows:

No.	Original Articles	Amended Articles
1	<p>Article 1 These Articles of Association have been formulated in accordance with the Company Law of the People’s Republic of China (the “Company Law”), the Securities Law of the People’s Republic of China (the “Securities Law”), the Special Regulations of the State Council for the Share Offerings and Listings Overseas of Joint Stock Limited Companies (the “Special Regulations”), the Mandatory Provisions of Articles of Association of Companies That List Overseas (the “Mandatory Provisions”), the Guidelines for the Articles of Association of Listed Companies (the “AOA Guidelines”), the Listing Rules of the Shanghai Stock Exchange, the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited, the Constitution of the Communist Party of China and other relevant laws of the People’s Republic of China (the “PRC”) (which, for the purposes of these Articles of Association, does not include the Hong Kong Special Administrative Region, the Macao Special Administrative Region or Taiwan) in order to protect the lawful rights and interests of China Railway High-Tech Equipment Corporation Limited (the “Company”) and its shareholders and creditors, and regulate the organization and acts of the Company.</p>	<p>Article 1 These Articles of Association have been formulated in accordance with the Company Law of the People’s Republic of China (the “Company Law”), the Securities Law of the People’s Republic of China (the “Securities Law”), the Special Regulations of the State Council for the Share Offerings and Listings Overseas of Joint Stock Limited Companies (the “Special Regulations”), the Mandatory Provisions of Articles of Association of Companies That List Overseas (the “Mandatory Provisions”), the Guidelines for the Articles of Association of Listed Companies (the “AOA Guidelines”), the Listing Rules of the Shanghai Stock Exchange, the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited, the Constitution of the Communist Party of China and other relevant laws of the People’s Republic of China (the “PRC”) (which, for the purposes of these Articles of Association, does not include the <u>laws of the</u> Hong Kong Special Administrative Region, the Macao Special Administrative Region or Taiwan) in order to protect the lawful rights and interests of China Railway High-Tech Equipment Corporation Limited (the “Company”) and its shareholders and creditors, and regulate the organization and acts of the Company.</p>

No.	Original Articles	Amended Articles
2	<p>Article 12 In accordance with the requirements of the Constitution of the Communist Party of China, an organisation of the Communist Party of China shall be established and play the core leadership and political role of the Company, providing direction, managing the overall situation and ensuring implementation. The working committee of the Party shall be established within the Company, and shall be equipped with sufficient staff to deal with Party affairs and provided with sufficient funds to operate the Party organisation.</p>	<p>Article 12 In accordance with the requirements of the Constitution of the Communist Party of China, an organisation of the Communist Party of China shall be established and play the core leadership and political role of the Company. <u>The Party Committee shall play a leadership role,</u> provide direction, manage the overall situation, ensure implementation, <u>and discuss and decide on major issues of the Company in accordance with regulations.</u> The working committee of the Party shall be established within the Company, and shall be equipped with sufficient staff to deal with Party affairs and provided with sufficient funds to operate the Party organisation.</p>
3	<p>Article 216 The Company shall set up a Party committee composed of one secretary and several members. The Chairman of the Board and the Secretary to the Party Committee may be assumed by the same person. A full-time deputy secretary shall be appointed to be responsible for the Party building. Eligible Party Committee members may enter the Board of Directors, the Supervisory Committee and the management via legal procedures; and members of the Board of Directors, the Supervisory Committee and the management may enter the Party Committee according to relevant provisions and procedures. Meanwhile, a discipline inspection commission shall be established as stipulated.</p>	<p>Article 216 The Company shall set up a Party committee composed of one secretary and several members. The Chairman of the Board and the Secretary to the Party Committee may be <u>shall be in principle</u> assumed by the same person. A full-time deputy secretary shall be appointed to be responsible for the Party building. Eligible Party Committee members may enter the Board of Directors, the Supervisory Committee and the management via legal procedures; and members of the Board of Directors, the Supervisory Committee and the management may enter the Party Committee according to relevant provisions and procedures. Meanwhile, a discipline inspection commission shall be established as stipulated.</p>

* The Articles of Association and its amendments were originally drafted in Chinese and there was no official English version. Therefore, any English translation is for reference only. In case of any discrepancies, the Chinese version shall prevail.

1. RESPONSIBILITY STATEMENTS

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

2. MATERIAL ADVERSE CHANGE

As at the Latest Practicable Date, the Directors were not aware of any material adverse change in the financial or trading position of the Group since 31 December 2018, the date to which the latest published audited consolidated financial statements of the Group were made up.

3. DIRECTORS', CHIEF EXECUTIVE'S AND SUPERVISORS' INTEREST IN SHARES OF THE COMPANY

As at the Latest Practicable Date, none of the Directors, Supervisors and chief executive of the Company and their respective associates had any interests and/or short positions in the shares, underlying shares and debentures of the Company and its associated corporations which are required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and/or short positions which they have taken or which they are deemed to have taken under such provisions of the SFO), or which were required to be recorded in the register maintained by the Company pursuant to Section 352 of the SFO, or otherwise required to be notified to the Company pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers under Appendix 10 of the Listing Rules.

As at the Latest Practicable Date, none of the other Directors, Supervisors and chief executive was a director, supervisor or employee of a company which had an interest or short position in the shares and underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO.

4. COMPETING INTEREST

As at the Latest Practicable Date, none of the Directors or, so far as is known to them, any of their respective close associates (as defined in the Listing Rules) was interested in any business (apart from the Group's business) which competes or is likely to compete either directly or indirectly with the Group's business (as would be required to be disclosed under Rule 8.10 of the Listing Rules as if each of them were a controlling Shareholder).

5. SERVICE CONTRACTS

As at the Latest Practicable Date, none of the Directors or Supervisors had any existing or proposed service contract with any member of the Group (excluding contracts expiring or terminable by the employer within a year without payment of any compensation (other than statutory compensation)).

6. INTERESTS IN THE GROUP'S ASSETS OR CONTRACTS OR ARRANGEMENTS SIGNIFICANT TO THE GROUP

As at the Latest Practicable Date, none of the Directors or Supervisors had any interest in any assets which have been, since 31 December 2018 (being the date to which the latest published audited accounts of the Company were made up), acquired or disposed of by or leased to any member of the Group, or are proposed to be acquired or disposed of by or leased to any member of the Group.

As at the Latest Practicable Date, none of the Directors or Supervisors was materially interested in any contract or arrangement subsisting at the date of this circular, which is significant in relation to the business of the Group.

7. EXPERT'S QUALIFICATION AND CONSENT

- (a) The following is the qualification of the expert who has given its opinion or advice which is contained in this circular:

Name	Qualifications
Messis Capital Limited	a licensed corporation to carry on type 1 (dealing in securities) and type 6 (advising on corporate finance) regulated activities under the SFO

- (b) As at the Latest Practicable Date, the expert mentioned in paragraph (a) above did not have any shareholding in the Group nor any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in the Group.
- (c) The expert has on 13 June 2019 given and has not withdrawn its written consent to the issue of this circular with the inclusion of its letter and opinion dated 13 June 2019 and reference to its name in the form and context in which they appear.
- (d) The letter and recommendation given by Mesis Capital Limited are given as of the date of this circular for incorporation herein.

- (e) The expert has no direct or indirect interest in any assets which have been acquired or disposed of by, or leased to, or which are proposed to be acquired or disposed of by, or leased to, the Company or any of its subsidiaries since 31 December 2018, being the date to which the latest published audited consolidated financial statements of the Group were made up.

8. LITIGATION

As at the Latest Practicable Date, no member of the Group was engaged in any litigation or arbitration or claim of material importance and, so far as the Directors were aware, no litigation or claims of material importance are pending or threatened by or against any member of the Group.

9. DOCUMENTS AVAILABLE FOR INSPECTION

Copy of the following document will be made available for inspection at the Company's principal place of business in Hong Kong at 23/F, Railway Plaza, 39 Chatham Road South, Tsim Sha Tsui, Kowloon, Hong Kong during normal business hours on any weekday (except for public holidays) up to the date which is 14 days from the date of this circular:

- (a) the Financial Services Framework Agreement;
- (b) the Previous Financial Services Framework Agreement;
- (c) the Machinery Equipment and Accessories Sales Framework Agreement; and
- (d) the Previous Machinery Equipment and Accessories Sales Framework Agreement.