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## THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

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**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.

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**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; AND**  
**(2) PROPOSED ELECTION OF SHAREHOLDER**  
**REPRESENTATIVE SUPERVISOR FOR THE SECOND SESSION OF**  
**THE SUPERVISORY COMMITTEE**

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



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A letter from the Board is set out on pages 5 to 21 of this circular. A letter from the Independent Board Committee in respect of the Financial Services Framework Agreement, the Products and Services Procurement Framework Agreement and their respective proposed maximum daily balance of the deposits and proposed maximum transaction amounts is set out on pages 22 to 23 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 24 to 42 of this circular.

The EGM will be held at the office building of the Company at No. 384, Yangfangwang, Jinma Town, Kunming City, Yunnan Province, the PRC at 9:00 a.m. on Friday, 23 October 2020. Please refer to the notice of the EGM dated 31 August 2020 published on the Stock Exchange's website and the Company's website.

9 September 2020

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## DEFINITIONS

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

“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
“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)

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## DEFINITIONS

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“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
“EGM”	the extraordinary general meeting to be held by the Company at the office building of the Company at No. 384, Yangfangwang, Jinma Town, Kunming City, Yunnan Province, the PRC at 9:00 a.m. on Friday, 23 October 2020
“Financial Services Framework Agreement”	the financial services framework agreement dated 31 July 2020 between the Company and CRCC Finance 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 upon the conclusion of the EGM and ending on 31 December 2022
“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
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“IFRS 16”	International Financial Reporting Standard 16 “Leases”
“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 is formed to advise (i) the Financial Services Framework Agreement, together with the proposed maximum daily balance of the deposits thereunder, and (ii) the Products and Services Procurement Framework Agreement, together with the proposed maximum transaction amounts thereunder

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## DEFINITIONS

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“Independent Financial Adviser”	Messis Capital Limited, being the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders in relation to (i) the Financial Services Framework Agreement, together with the proposed maximum daily balance of the deposits thereunder, and (ii) the Products and Services Procurement Framework Agreement, together with the proposed maximum transaction amounts thereunder
“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 EGM with respect to the Financial Services Framework Agreement, the Products and Services Procurement Framework Agreement and their respective proposed maximum daily balance of the deposits and proposed maximum transaction amounts
“Latest Practicable Date”	3 September 2020, 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
“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”	the financial services framework agreement dated 9 December 2019 between the Company and CRCC Finance, pursuant to which CRCC Finance agreed to provide deposit services to the Group for the term commenced from 1 January 2020 and ending on 31 December 2020

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## DEFINITIONS

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“Previous Products and Services Procurement Framework Agreement”	the Product Sales and Paid Services Framework Agreement dated 31 July 2018 between the Company and CRCC, pursuant to which CRCC and/or its associates agreed to provide product sales and paid services to the Company and/or its subsidiaries for the term commenced from 1 January 2018 and ending on 31 December 2020
“Products and Services Procurement Framework Agreement”	the Products and Services Procurement Framework Agreement dated 31 July 2020 between the Company and CRCC, pursuant to which the Company and/or its subsidiaries agreed to procure products and services from CRCC and/or its associates, including: (i) materials and equipment required by the Company and/or its subsidiaries in their productions and sales; (ii) construction services; (iii) assets and equipment leasing services; (iv) railway line usage services; (v) maintenance services; and (vi) other paid services
“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
“%”	percent

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## LETTER FROM THE BOARD

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**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. Tong Pujiang

Mr. Chen Yongxiang

***Non-executive Directors:***

Mr. Zhao Hui

Mr. Sha Mingyuan

***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

9 September 2020

*To the Shareholders*

Dear Sir or Madam,

**(1) CONTINUING CONNECTED TRANSACTIONS; AND  
(2) PROPOSED ELECTION OF SHAREHOLDER  
REPRESENTATIVE SUPERVISOR FOR THE SECOND SESSION OF  
THE SUPERVISORY COMMITTEE**

**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 Products and Services Procurement Framework Agreement and the proposed maximum transaction amounts; and (iii) proposed election of shareholder representative Supervisor for the second session of the Supervisory Committee, to enable you to make an informed decision on whether to vote in favour of or against the relevant resolutions at the EGM.

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## LETTER FROM THE BOARD

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### II. CONTINUING CONNECTED TRANSACTIONS

#### The Financial Services Framework Agreement

##### **1. Background**

Reference is made to the announcement of the Company dated 9 December 2019, the announcement of the Company dated 31 July 2020 and the supplemental announcement of the Company dated 3 August 2020 in relation to, among other things, the Previous Financial Services Framework Agreement and the Financial Services Framework Agreement, respectively.

On 9 December 2019, 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 commenced from 1 January 2020 and ending on 31 December 2020.

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 31 July 2020 to replace the Previous Financial Services Framework Agreement. The term of the Financial Services Framework Agreement will commence upon the conclusion of the EGM and end on 31 December 2022. 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:

**Date:** 31 July 2020

**Parties:** Our Company (as the service recipient); and  
CRCC Finance (as the service provider)

**Nature of transactions:** CRCC Finance agreed to provide deposit services to the Group.

**Term:** The term of the Financial Services Framework Agreement will commence upon the conclusion of the EGM 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.



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## LETTER FROM THE BOARD

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**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 EGM.

**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 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.

### 3. *Historical Annual Caps and Historical Figures*

Pursuant to the financial services framework agreements entered into between the Company and CRCC Finance in March 2016 and December 2018, the historical maximum daily balance of the deposits (including accrued interest) placed by the Group with CRCC Finance (the “**historical annual caps**”), as well as the actual maximum daily balance of the deposits (including accrued interest) placed by the Group with CRCC Finance (the “**historical figures**”) for each of the three years ended 31 December 2019 are set out as follows:

	For the year ended 31 December		
	2017	2018	2019
	<i>(RMB million)</i>		
Historical annual caps	1,200	1,200	100
Historical figures	974	926	99

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## LETTER FROM THE BOARD

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#### 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 EGM to 31 December 2020 and the two years ending 31 December 2022 are as follows:

	<b>From the date of EGM to 31 December 2020 (RMB million)</b>	<b>12 months ending 31 December 2021 (RMB million)</b>	<b>12 months ending 31 December 2022 (RMB million)</b>
Proposed maximum daily balance of the deposits to be placed by our Group with CRCC Finance (note)	350	350	350

*Note:*

Pursuant to the Previous Financial Services Agreement, the maximum daily balance of the deposits (including accrued interest) from 1 January 2020 to 31 December 2020 is RMB75 million. The Company confirms that such maximum daily balance was not exceeded during the period from 1 January 2020 to the Latest Practicable Date.

#### 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 sales of products and services transactions that the Company enters into with CRCC, a large proportion of the payment is expected to be made through (a) credit certificates issued by a member of the CRCC Group, or (b) acceptance bills drawn by CRCC Finance. Payments through both methods will be made to the Company's account at CRCC Finance. Such payment methods have relevantly shorter collection period, and are more efficient and reliable, especially between members of the CRCC Group. To better enjoy the efficiency and reliability of such credit certificates and acceptance bills, the Company is expected to receive payment from members of the CRCC Group through such payment methods to a greater extent as much as possible. It is expected that the maximum amount of the payment made through such methods will amount to approximately RMB100 million from the date of EGM to 31 December 2020 and the two years ending 31 December 2022;

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## LETTER FROM THE BOARD

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- (ii) the Company is expected to make payments to its suppliers through acceptance bills drawn by CRCC Finance, which provides more efficient services at relevantly lower costs, as compared to independent commercial banks (for example, the commission fee rate charged by CRCC Finance is 0.03% with a minimum charge of RMB200 for each transaction, while the average commission fee rate charged by independent commercial banks amounts to approximately 0.05% with a minimum charge of RMB500 for each transaction). To better enjoy the efficiency and lower costs of acceptance bills drawn by CRCC Finance, the Company is expected to make payment through such payment methods to a greater extent as much as possible. It is expected that the maximum amount of the payment made by the Company through the acceptance bills drawn by CRCC Finance will amount to approximately RMB270 million from the date of EGM to 31 December 2020 and the two years ending 31 December 2022;
- (iii) the interest rate of deposits from CRCC Finance is more competitive than that from general commercial banks. The latest benchmark interest rates for deposits as announced by the PBOC for 6-month deposit, one-year deposit and two-year deposit are 1.30%, 1.50% and 2.10%, respectively. However, the interest rate of 6-month deposit, one-year deposit and two-year deposit offered by CRCC Finance to the Group were 1.89%, 2.10% and 2.94% respectively; and
- (iv) taking into account macro-economic conditions, such as the latest policies adopted by the PRC government to boost economy and increase infrastructure construction after the outbreak of the COVID-19 pandemic, the machine depot repair business and the overseas business of the Company are expected to recover steadily from second half of 2020 and the two years ending 31 December 2022. The metro railway business, the engineering construction business, together with the sand aggregates and steelwork businesses newly expanded by the Company are also expected to bring growth to the Company's cash flow, which will lead to the necessity to increase the deposit amounts.

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

The Group is expected to benefit from CRCC Finance's familiarity of our industry and the Group's operations. 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 our 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 and in the ordinary and usual course of business of the Group.

With respect to deposits placed by the Group with CRCC Finance, the 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.

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## LETTER FROM THE BOARD

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For the avoidance of doubt, 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 we retain discretion to make our selection according to business needs as well as the fees and quality of such deposit services. The 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 (including the independent non-executive Directors) 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 EGM to 31 December 2020 and the two years ending 31 December 2022 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.

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

The 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 the Company or any of our 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 quote from CRCC Finance, will be reviewed by the finance department and the audit and risk control department of the Company, and the quote 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 enables the relevant subsidiary of the Company, which deposits money with CRCC Finance, to view the balance of such deposits at any time on any day;

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## LETTER FROM THE BOARD

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- (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 its deployment of the funds will not inhibit or restrict the ability of the Group from utilizing our 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 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 the Company at our 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 our annual report.

### **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 transactions contemplated under the Financial Services Framework Agreement is more than 5% but less than 25%, such transactions are subject to the reporting, annual review, announcement and Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules. Such transactions also constitute discloseable transactions for the Company and are subject to reporting and announcement requirements under Chapter 14 of the Listing Rules.

### **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.

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## LETTER FROM THE BOARD

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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.

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.

### **The Products and Services Procurement Framework Agreement**

#### **1. Background**

Reference is made to the announcement of the Company dated 31 July 2018 and the announcement of the Company dated 31 July 2020 in relation to, among other things, the Previous Products and Services Procurement Framework Agreement, respectively.

As the Previous Products and Services Procurement Framework Agreement is expected to expire on 31 December 2020, the Company entered into the Products and Services Procurement Framework Agreement with CRCC on 31 July 2020 to renew the Previous Products and Services Procurement Framework Agreement, pursuant to which the Company and/or its subsidiaries agreed to procure products and services from CRCC and/or its associates for the term commencing from 1 January 2021 and ending on 31 December 2023.

#### **2. Products and Services Procurement Framework Agreement**

The principal terms of the Products and Services Procurement Framework Agreement are set out below:

<b>Date:</b>	31 July 2020
<b>Parties:</b>	the Company (as the purchaser of products and services); and CRCC (as the supplier of products and services)

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## LETTER FROM THE BOARD

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***Nature of transactions:*** The Company and/or its subsidiaries agreed to procure products and services from CRCC and/or its associates, including: (i) materials and equipment required by the Company and/or its subsidiaries in their productions and sales; (ii) construction services; (iii) assets and equipment leasing services; (iv) railway line usage services; (v) maintenance services; and (vi) other paid services.

***Term:*** The term of the Products and Services Procurement Framework Agreement will commence on 1 January 2021 and end on 31 December 2023, 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 Products and Services Procurement Framework Agreement is conditional upon the resolution regarding the Products and Services Procurement Framework Agreement and the proposed maximum transaction amounts being approved by the Independent Shareholders at the EGM.

***Pricing policy:*** The prices for the products and services under the Products and Services Procurement Framework Agreement shall be determined based on the following principles and in the following order:

Where there are market prices for the relevant products and services, the prices shall be determined with reference to the prevailing market prices, which are the prices charged by CRCC and/or its associates for providing the same type of products and services to an independent third party customer on normal commercial terms. In determining the prevailing market prices for the relevant products and services, the Company will make reference to the quotations offered by at least two independent third party suppliers for providing the same or similar products or services. The Company will also take into account the following factors to ensure that the prices offered by CRCC and/or its associates will be no less favourable than those available to the Company from the independent third party suppliers for purchasing the same type of products or services, including the costs of the relevant products or services, quality requirements, market conditions, and time arrangement;

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## LETTER FROM THE BOARD

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Where there are no market prices for the relevant products and services that are aimed at meeting the Group's specific business requirements, the prices shall be determined according to the agreed prices between the parties. The agreed prices will be calculated based on the actual costs incurred in providing such products and services, which include the costs of raw materials, accessories, depreciation, salary, energy, required technology and equipment maintenance, plus reasonable profits. CRCC and/or its associates will charge a mark-up rate generally not higher than 15% for all transactions under the Products and Services Procurement Framework Agreement, 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.

***Payment terms:***

The actual settlement price and the method of payment shall be determined based on the principles, instructions, conditions and terms of the Products and Services Procurement Framework Agreement and set out in the specific agreements to be entered into by the parties.

The payment terms will be no less favourable than the market terms available from independent third parties.

***Other major terms:***

The parties shall enter into a specific agreement for a single or a series of transactions based on the principles under the Products and Services Procurement Framework Agreement to specify the terms of each transaction thereunder.



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## LETTER FROM THE BOARD

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### 3. *Historical Annual Caps and Historical Figures*

The Group and CRCC and/or its associates have conducted relevant transactions under the Previous Products and Services Procurement Framework Agreement since 1 January 2018. Pursuant to the Previous Products and Services Procurement Framework Agreement, the annual caps for each of the two years ended 31 December 2019 and the year ending 31 December 2020 (the “**historical annual caps**”), as well as the historical transaction amounts for each of the two years ended 31 December 2019 (the “**historical figures**”) are set out as follows:

	For the year ended 31 December		For the year ending
	2018	2019	31 December
	(RMB million)		2020
Historical annual caps	80	80	80
Historical figures	1.3	30	/

### 4. *Proposed Annual Caps*

The proposed maximum transaction amounts for the three years ending 31 December 2023 under the Products and Services Procurement Framework Agreement are as follows:

	12 months ending	12 months ending	12 months ending
	31 December	31 December	31 December
	2021	2022	2023
	(RMB million)	(RMB million)	(RMB million)
Proposed maximum transaction amounts:			
Procurement of products and services by the Group from CRCC and/or its associates	350	350	350

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## LETTER FROM THE BOARD

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### **5. Basis of Proposed Annual Caps**

In arriving at the above proposed maximum transaction amounts, the Company has considered the following factors:

- (i) the main reason for the significant increase in the proposed annual cap is the influence of IFRS 16 in relation to the provision of assets and equipment leasing services by CRCC and/or its associates to the Company (as the lessee). Pursuant to IFRS 16, the value of the right-of-use assets relating to the assets and equipment leasing services to be entered into by the Company under the Products and Services Procurement Framework Agreement is expected to be approximately RMB340 million for each of the three financial years ending 31 December 2023, which is initially measured on present value basis and calculated by discounting the lease payments. Based on two preliminary lease agreements to be entered into by the Company (as the lessee) and CRCC (as the lessor) in relation to (i) aggregate production machine, and (ii) engineering construction machine, the value of the Company's rights to use the aggregate production machine and the engineering construction machine for the lease term will amount to approximately RMB150 million and RMB190 million, respectively;
- (ii) the amount of the historical transactions between the Group and CRCC and/or its associates;
- (iii) for the three financial years ending 31 December 2023, taking into account the expected increase in equipment manufacturing businesses, the demands for parts, components and materials required by the Company and/or its subsidiaries in their productions and sales are expected to increase slightly. In addition, certain of the key parts and components of such business are of weak substitutability on the market from independent third party suppliers, and therefore need to be purchased from CRCC and/or its associates;
- (iv) a large proportion of the historical transaction amount for the year 2019 was taken by the construction of the Company's engineering research center. As such project is currently near to completion, it is expected that the construction services to be received by the Company and/or its subsidiaries for the three financial years ending 31 December 2023 will drop by approximately RMB20 million; and
- (v) in addition to the above business and service, the demands of the Company and/or its subsidiaries for other products and services under the Product and Services Procurement Framework Agreement, including assets and equipment leasing services, railway line usage services, maintenance services and other paid services are expected to remain stable for the three financial years ending 31 December 2023.

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## LETTER FROM THE BOARD

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### **6. *Reasons for and Benefits of the Transactions under the Products and Services Procurement Framework Agreement***

In the ordinary and usual course of the business, the Group procures products and services from CRCC and/or its associates, including: (i) materials and equipment required by the Company and/or its subsidiaries in their productions and sales; (ii) construction services; (iii) assets and equipment leasing services; (iv) railway line usage services; (v) maintenance services; and (vi) other paid services.

The Board (including the independent non-executive Directors) is of the view that such transactions are beneficial to the Group for the following reasons: under the Products and Services Procurement Framework Agreement, the products and related services procured by the Company from CRCC and/or its associates can meet the rigid demands of the Company for rail testing and over-the-rail delivery of overhaul products in the daily productions and operation processes of the Company. In addition, key parts and components required in the special engineering equipment manufacturing business of the Company are of weak substitutability from independent third party suppliers and therefore need to be purchased from CRCC and/or its associates. In addition, the terms (including the pricing terms and payment terms) entered into by the Company and CRCC and/or its associates will not be less favorable than the normal commercial terms available from independent third parties.

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 Products and Services Procurement Framework Agreement, and therefore none of the other Directors has abstained from voting on such Board resolution.

### **7. *Internal Control Measures to Ensure the Fairness and Reasonableness of the Transactions Under the Products and Services Procurement Framework Agreement***

- (i) Before the Group enters into any specific procurement agreement with CRCC and/or its associates, the Group shall conduct public procurement for the business through methods including, among others, public tenders on governmental platforms, public tenders on corporate platforms, invitation tenders, competitive negotiation after invitation quotations, inquiry comparison purchase, direct competitive negotiation and inquiry comparison purchase. The bid-winner of the procurement will be determined with comprehensive evaluation conducted by professional institutions or professional departments (if the comprehensive evaluation scores of CRCC and/or its associates are at disadvantages, they will not be determined as the bid-winners). The results of the bidding shall be reviewed by professional judges, professional departments and the senior management of the Company. The entering into of the specific procurement contracts is subject to the review by the finance department, legal affairs department, audit department and the senior management of the Company;

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## LETTER FROM THE BOARD

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- (ii) The procurement department, finance department, audit department and the senior management of the Company shall conduct examination on the execution of the specific procurement contracts; and
- (iii) The auditor of the Company will also conduct annual audit on the pricing policies and annual caps of the agreement, and provide confirmation in the annual report.

### **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, and thus is a connected person of the Company under the Listing Rules. Therefore, the transactions under the Products and Services Procurement 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 2023 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.

### **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. EGM**

At the EGM, ordinary resolutions, among other things, will be put forward for the Independent Shareholders to consider and, if appropriate, to approve (i) the Financial Services Framework Agreement, together with the proposed maximum daily balance of the deposits thereunder, and (ii) the Products and Services Procurement Framework Agreement, together with the proposed maximum transaction amounts thereunder.

An Independent Board Committee comprising the independent non-executive Directors is formed to advise the Independent Shareholders in respect of (i) the Financial Services Framework Agreement, together with the proposed maximum daily balance of the deposits thereunder, and (ii) the Products and Services Procurement Framework Agreement, together with the proposed maximum transaction amounts thereunder. 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.

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## LETTER FROM THE BOARD

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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 resolution at the EGM with respect to the transactions under the Financial Services Framework Agreement, the Products and Services Procurement Framework Agreement and their respective proposed maximum daily balance of the deposits and proposed maximum transaction amounts.

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 EGM and therefore will be required to abstain from voting to approve the relevant resolutions at the EGM.

The EGM will be held at the office building of the Company at No. 384, Yangfangwang, Jinma Town, Kunming City, Yunnan Province, the PRC at 9:00 a.m. on Friday, 23 October 2020. Please refer to the notice of the EGM dated Monday, 31 August 2020 published on the Stock Exchange's website and the Company's website. Reply slips and proxy forms to be used at the EGM are also published on the Stock Exchange's website and the Company's website. If you are eligible and intend to attend the EGM, please complete the reply slip for attending the EGM and return the same to the office of the Board not later than 20 days before the date of the EGM, i.e. on or prior to Wednesday, 30 September 2020.

Shareholders who intend to appoint a proxy to attend the EGM 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 EGM or any adjournment thereof (as the case may be). Completion and return of the form of proxy will not preclude you from attending the EGM 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 Wednesday, 23 September 2020 to Friday, 23 October 2020 (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 Tuesday, 22 September 2020, are entitled to attend and vote at the EGM after completing the registration procedures for attending the EGM.

#### **IV. PROPOSED ELECTION OF SHAREHOLDER REPRESENTATIVE SUPERVISOR FOR THE SECOND SESSION OF THE SUPERVISORY COMMITTEE**

Reference is made to the announcement of the Company dated 7 May 2020 in relation to resignation of Supervisor and the announcement of the Company dated 11 August 2020 in relation to the proposed election of Supervisor.

Due to other work commitments, Mr. Wang Shuchuan, a Shareholder representative Supervisor of the second session of the Supervisory Committee, has tendered his resignation as a Supervisor. The above resignation will become effective immediately upon the approval for the appointment of a new shareholder representative Supervisor at the EGM.

According to the nomination by CRCC, the Company proposed to elect Mr. Zhong Xiangjun as a shareholder representative Supervisor of the second session of the Supervisory Committee. Biographical details of Mr. Zhong Xiangjun are as follows:

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## LETTER FROM THE BOARD

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**Zhong Xiangjun (鍾祥軍)**, aged 41, currently serves as the office director of the committee for discipline inspection and deputy director of the inspection office of the Communist Party committee of China Railway Construction Heavy Industry Co., Ltd. (中國鐵建重工集團股份有限公司). He is a senior political engineer and has 17 years of work experience in corporate management and disciplinary inspection and supervision. From September 1999 to July 2003, he studies in the School of Humanities and Social Sciences of Southwest Jiaotong University, majoring in political science and public administration, and graduated with a bachelor's degree in July 2003. From July 2003 to July 2009, he served as a trainee, secretary, office director and assistant political engineer of the project department of China Railway 17th Bureau Yuantong Engineering Co., Ltd. (中鐵十七局遠通工程有限有限公司). From July 2009 to November 2009, he served as the deputy secretary of party working committee, office director and assistant political engineer of the fundamental project department of China Railway 17th Bureau 6th Engineering Co., Ltd. (中鐵十七局六公司). From November 2009 to March 2012, he served as the secretary of party working committee, deputy manager and political engineer of the project department of Section II of Phase 1 of Civil Engineering Work of Line II of Changsha Rail Transit (長沙軌道交通II號線一期土建工程II標段項目部) of China Railway 17th Bureau 6th Engineering Co., Ltd. From March 2012 to July 2012, he served as the deputy head (in charge of relevant works) and political engineering of the human resource department of China Railway 17th Bureau 6th Engineering Co., Ltd. From July 2012 to September 2015, he served as the principal staff member and political engineer of the working department under the Communist Party committee of China Railway Construction Heavy Industry Co., Ltd. From September 2015 to October 2018, he served as the deputy secretary of the Communist Party committee, chairman of labour union and senior political engineer of China Railway Construction Heavy Industry Co., Ltd., Xinjiang Branch (中國鐵建重工集團股份有限公司新疆公司). From October 2018 to May 2019, he served as the deputy office director of the committee for discipline inspection and senior political engineer of China Railway Construction Heavy Industry Co., Ltd. Since 2019, he served as the office director of the committee for discipline inspection, deputy director of the inspection office of the Communist Party committee and senior political engineer of China Railway Construction Heavy Industry Co., Ltd.

Mr. Zhong Xiangjun has no and is not deemed to have any interest or short positions in any shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)).

Save as disclosed above, Mr. Zhong Xiangjun did not hold any other positions in the Company or any of its subsidiaries, or any directorships in other listed public companies in the last three years. Mr. Zhong Xiangjun does not have any relationship with any Directors, senior management or substantial or controlling Shareholders of the Company. There is no information relating to Mr. Zhong Xiangjun that is required to be disclosed pursuant to the requirements of Rule 13.51 (2) (h) to (v) of the Listing Rules. Save as disclosed above, there is no other matter in relation to the appointment of Mr. Zhong Xiangjun that needs to be brought to the attention of the Shareholders.

Upon the appointment of Mr. Zhong Xiangjun being approved by the Shareholders, the Company will enter into a service contract with him. The term of office of Mr. Zhong Xiangjun as a Supervisor will start from the date of being elected at the EGM to the date of expiration of the term of office of the second session of the Supervisory Committee. The remuneration of Mr. Zhong Xiangjun as a Supervisor will be determined based on the Company's remuneration policy for Supervisors and subject to the approval at a general meeting of the Company.

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## LETTER FROM THE BOARD

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An ordinary resolution in relation to the appointment of Mr. Zhong Xiangjun will be proposed at the EGM for Shareholders' consideration and approval.

### **V. 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 EGM will be voted by poll.

### **VI. RECOMMENDATION**

The Directors, including independent non-executive Directors, are of the view that the transactions under the Financial Services Framework Agreement and the Products and Services Procurement 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 EGM so as to approve the Financial Services Framework Agreement, the Products and Services Procurement Framework Agreement and their respective proposed maximum daily balance of the deposits and proposed maximum transactional amounts.

Your attention is drawn to the letter from the Independent Board Committee set out on pages 22 to 23 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 24 to 42 of this circular.

The Directors, including independent non-executive Directors, are of the view that the other resolutions set out in the notice of the EGM 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 EGM.

### **VII. 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*

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# LETTER FROM THE INDEPENDENT BOARD COMMITTEE

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**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)**

9 September 2020

*To the Independent Shareholders,*

Dear Sir or Madam,

## **CONTINUING CONNECTED TRANSACTIONS**

We refer to the circular dated 9 September 2020 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 Products and Services Procurement Framework Agreement and their respective proposed maximum daily balance of the deposits and proposed maximum transaction amounts, 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 Products and Services Procurement Framework Agreement and their respective proposed maximum daily balance of the deposits and proposed maximum transaction amounts. 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 24 to 42 of the Circular.

Your attention is also drawn to the letter from the Board set out on pages 5 to 21 of the Circular.



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## LETTER FROM THE INDEPENDENT BOARD COMMITTEE

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Having considered the terms and conditions of the Financial Services Framework Agreement, the Products and Services Procurement Framework Agreement and their respective proposed maximum daily balance of the deposits and proposed maximum transaction amounts, 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 Products and Services Procurement 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 maximum transaction amounts under the Products and Services Procurement 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 EGM so as to approve the Financial Services Framework Agreement, the Products and Services Procurement Framework Agreement and their respective proposed maximum daily balance of the deposits and proposed maximum transaction amounts.

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*

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# LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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*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.*



9 September 2020

*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 Products and Services Procurement 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 9 September 2020 (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 announcement of the Company dated 31 July 2020, in relation to, among other things, (i) the renewal of the Previous Financial Services Framework Agreement with CRCC Finance and the proposed maximum daily balance of the deposits; and (ii) the renewal of the Previous Products and Services Procurement Framework Agreement with CRCC and the relevant annual caps for the transactions thereunder.

As at the Latest Practicable Date, (i) CRCC is a controlling Shareholder, which directly and indirectly holds approximately 65% of the total issued share capital of the Company, and thus is a connected person of the Company under the Listing Rules; (ii) CRCC Finance is a subsidiary of CRCC, which is owned as to 94% by CRCC, 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 Products and Services Procurement 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 Products and Services Procurement 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.

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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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 Products and Services Procurement Framework Agreement and the proposed annual caps at the EGM.

### 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**”):

<b>Date of the relevant circular and our letter of advice</b>	<b>Nature of the transaction</b>
7 June 2018	Continuing connected transactions
13 June 2019	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.

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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### 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 Products and Services Procurement Framework Agreement, the contract of sales of products and provision of services by the CRCC to each of the Group and its independent third parties, the annual reports of the Company for the three years ended 31 December 2019 (collectively the “**Annual Reports**”) and the announcements of the Company dated 31 July 2018, 9 December 2019 and 31 July 2020;
- (b) reviewed the background of, the reasons for and benefits of the transactions under each of the Financial Services Framework Agreement and the Products and Services Procurement Framework Agreement;
- (c) reviewed the fairness, reasonableness and completeness of any assumptions or projections relevant to the transactions; and
- (d) confirmed that no third-party expert opinion being relevant to the transactions.

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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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 9 December 2019 and 31 July 2020, among other things, the Previous Financial Services Framework Agreement and the Financial Services Framework Agreement, respectively.

On 9 December 2019, 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 2020 to 31 December 2020.

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 31 July 2020 to replace the Previous Financial Services Framework Agreement. The term of the Financial Services Framework Agreement will commence upon the conclusion of the EGM and end on 31 December 2022. Other than the above change, all existing terms and conditions of the Previous Financial Services Framework Agreement have remained unchanged.

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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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, and 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) as 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, the Group retains 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.

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.

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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### 2. Principal terms of the Financial Services Framework Agreement

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

**Date:** 31 July 2020

**Parties:** The Company (as the service recipient); and  
CRCC Finance (as the service provider).

**Nature of transactions:** CRCC Finance agreed to provide deposit services to the Group.

**Term:** The term of the Financial Services Framework Agreement will commence upon the conclusion of the EGM 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.

**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 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.

**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 EGM.

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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We have, on a sampling basis, obtained and reviewed two sets of transactions regarding the 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 2019 and the six months ended 30 June 2020. 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 year ended 31 December 2019 and the six months ended 30 June 2020. 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 2019 was approximately RMB973.88 million, RMB926.30 million and RMB99.00 million, respectively.

The historical maximum daily balance of the deposits (including accrued interest) placed by the Group with CRCC Finance for the year ended 31 December 2019 decreased significantly as compared with that for the two years ended 31 December 2018. Such decrease was mainly due to the difference in maximum daily balance of deposits (including accrued interest) under the relevant agreements, in which (i) according to the previous financial services framework agreement dated 30 March 2016 which was considered and approved at the Company's 2015 annual general meeting on 21 June 2016, the maximum daily balance of deposits to be placed by the Group with CRCC Finance for each of the two years ended 31 December 2018 was RMB1,200 million; and (ii) while the renewal of the previous financial services framework agreement dated 20 March 2016 at the Company's board meeting on 29 June 2018 was not approved, under which the proposed maximum daily balance of deposits to be placed by the Group with CRCC Finance for each of the three years ending 31 December 2021 to be RMB450 million, the Company resorted to convene another board meeting on 28 December 2018, on which it considered and approved the resolution on the lowered maximum daily balance of deposits to be placed by the Group with CRCC Finance for the year ended 31 December 2019 to be RMB100 million.



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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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

The existing maximum daily balance of the deposits (including accrued interest) under the Previous Financial Services Framework Agreement for the year ended 31 December 2020 (the “**Existing Maximum Cap**”) is RMB75 million. The table below summarised the proposed maximum daily balance of the deposits (including accrued interest) under the Financial Services Framework Agreement (the “**Proposed Maximum Caps**”):

	From the date of EGM to 31 December 2020 <i>RMB million</i>	Year ending 31 December 2021 <i>RMB million</i>	2022 <i>RMB million</i>
Proposed Maximum Caps	350	350	350

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

- (i) for sales of products and services transactions that the Company enters into with CRCC, a large proportion of the payment is expected to be made through (a) credit certificates issued by a member of the CRCC Group; or (b) acceptance bills drawn by CRCC Finance. Payments through both methods will be made to the Company’s account at CRCC Finance. Such payment methods have relatively shorter collection period, and are more efficient and reliable, especially between members of the CRCC Group. To better enjoy the efficiency and reliability of such credit certificates and acceptance bills, the Company is expected to receive payments from members of the CRCC Group through such payment methods to a greater extent as much as possible. It is expected that the maximum amount of the payment made through such methods will amount to approximately RMB100 million from the date of EGM to 31 December 2020 and the two years ending 31 December 2022;
- (ii) the Company is expected to make payments to its suppliers through acceptance bills drawn by CRCC Finance, which provides more efficient services at relatively lower costs, as compared to independent commercial banks (for example, the commission fee rate charged by CRCC Finance is 0.03% with a minimum charge of RMB200 for each transaction, while the average commission fee rate charged by independent commercial banks amounts to approximately 0.05% with a minimum charge of RMB500 for each transaction). It is expected that the maximum amount of the payment made by the Company through the acceptance bills drawn by CRCC Finance will amount to approximately RMB270 million from the date of EGM to 31 December 2020 and the two years ending 31 December 2022;

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- (iii) the interest rate of deposits from CRCC Finance is more competitive than that from general commercial banks. The latest benchmark interest rates for deposits as announced by the PBOC for 6-month deposit, one-year deposit and two-year deposit are 1.30%, 1.50% and 2.10%, respectively. However, the interest rate of 6-month deposit, one-year deposit and two-year deposit offered by CRCC Finance to the Group were 1.89%, 2.10% and 2.94%, respectively; and
- (iv) taking into account macro-economic conditions, such as the latest policies adopted by the PRC government to boost economy and increase infrastructure construction after the outbreak of the COVID-19 pandemic, the Company's machine depot repair business and the overseas business are expected to recover steadily from second half of 2020 and the two years ending 31 December 2022. The metro railways business, engineering construction business, together with the sand aggregates and steelwork businesses which was a new business expansion of the Company, are also expected to bring growth to the Company's cash flow, which will lead to the necessity to increase the deposit amounts.

The abovementioned competitive interest rate is also the main consideration of the Company for increasing the maximum daily balance of the deposits for the three years ending 31 December 2022 from the Existing Maximum Cap to the Proposed Maximum Caps. 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.

We have enquired with the management of the Company regarding the underlying reasons and bases for the significant increase of the Proposed Maximum Caps as compared to the Existing Maximum Cap, and we were given to understand that (i) regarding the expected maximum amount of payments made through credit certificates and acceptance bills using CRCC Finance's services of RMB100 million, reference was made to the historical aggregate amount of payments made through such payment methods of approximately RMB166 million for the year ended 31 December 2019. Due to the limitation of the maximum cap for daily balance of deposits to be placed by the Group with CRCC Finance for the year ended 31 December 2019 of RMB100 million, the Company had to make additional efforts to coordinate with the customers and CRCC Finance to ensure payment size did not exceed such maximum cap and such coordination also negatively affected the efficiency of payment collection process; and (ii) regarding the expected maximum amount of payments to be made by the Company to its suppliers through acceptance bills drawn by CRCC Finance of RMB270 million, reference was made to the historical aggregate amount of payments made through acceptance bills drawn by both independent commercial banks and CRCC Finance of approximately RMB1,080 million for the year ended 31 December 2019. Similarly, due to the limitation of the maximum cap for daily balance of deposits to be placed by the Group with CRCC Finance for the year ended 31 December 2019 of RMB100 million, the Company had to control the payment size made through CRCC Finance and instead to make more payments through independent commercial banks which in turn increased the Company's financial burden in higher commission rate charged therein. Accordingly, the Company endeavours to increase the proportion of payments to be made through CRCC Finance in order to enjoy a lower commission rate and higher efficiency of payment cycle.

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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In assessing the fairness and reasonableness of the Proposed Maximum Caps, we have (i) reviewed 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 2019 (as discussed in the above section headed “3. Historical transaction amounts”); (ii) reviewed samples of transactions for the year ended 31 December 2019 and six months ended 30 June 2020 (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; and (iii) discussed and understood from the management of the Company in relation to the underlying reasons and bases for the significant increase of the Proposed Maximum Caps as compared to the Existing Maximum Cap as mentioned in the above paragraph. 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:

- (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;

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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- (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 deposits, the balance of the deposits placed, and other information and records that may be required by the 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 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 2019 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 2019.

In light of the above, we have obtained and reviewed samples of transactions for the year ended 31 December 2019 and the six months ended 30 June 2020 (as discussed in the above section headed "2. Principal terms of the Financial Services Framework Agreement") and quotations obtained from the abovementioned three independent financial institutions, we are 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.

### PRODUCTS AND SERVICES PROCUREMENT FRAMEWORK AGREEMENT

#### **1. Background of, reasons for and benefits of the entering into the Products and Services Procurement Framework Agreement**

The Group is principally engaged in (i) the research, development, manufacture and sales of large railway track maintenance machines; (ii) the manufacture and sales of parts and components; and (iii) the provision of overhaul services, railway line maintenance services, railway locomotive and vehicle engineering services and technical services.

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

Reference is made to the announcement of the Company dated 31 July 2018 in relation to the Previous Products and Services Procurement Framework Agreement. As the Previous Products and Services Procurement Framework Agreement is expected to expire on 31 December 2020, the Company entered into the Products and Services Procurement Framework Agreement with CRCC on 31 July 2020 to renew the Previous Products and Services Procurement Framework Agreement, pursuant to which the Company and/or its subsidiaries agreed to procure products and services from CRCC and/or its associates for the term commencing from 1 January 2021 to 31 December 2023.

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With reference to the Board Letter, the Group procures products and services from CRCC and/or its associates, including (i) materials required by the Company and/or its subsidiaries in their production and sales; (ii) construction services; (iii) assets and equipment leasing services; (iv) railway line usage services; (v) maintenance services; and (vi) other paid services, in the ordinary and usual course of the Group's business. The Board is of the view that such transactions are beneficial to the Group for the following reasons:

- (i) under the Products and Services Procurement Framework Agreement, the products and related services procured by the Company from CRCC and/or its associates can meet the rigid demands of the Company for rail testing and over-the-rail delivery of overhaul products in the daily productions and operation processes of the Company;
- (ii) key parts and components required are of weak substitutability from independent third-party suppliers and therefore need to be purchased from CRCC and/or its associates; and
- (iii) the terms (including the pricing terms and payment terms) entered into by the Company and CRCC and/or its associates will not be less favourable than the normal commercial terms available from independent third parties.

Given that (i) the Group's principal business is manufacturing and sale of large railway track maintenance machinery, parts and components; (ii) the Group has a demand of products for carrying out rail testing and over-the-rail delivery of overhaul products in the daily productions and operation processes of the Company; (iii) certain key parts and components required cannot be easily substituted and purchased from independent third-party suppliers; and (iv) the pricing terms and payment terms for the transactions entered into by the Company and CRCC and/or its associates will be no less favourable to the Company than the normal commercial terms available from Independent Third Parties, we are of the view that the entering into the Products and Services Procurement 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 Products and Services Procurement Framework Agreement

Details of the Products and Services Procurement Framework Agreement are set out as follows:

**Date:** 31 July 2020

**Parties:** The Company (as the purchaser of products and services); and  
CRCC (as the supplier of products and services)

**Nature of transactions:** The Company and/or its subsidiaries agreed to procure products and services from CRCC and/or its associates, including: (i) materials required by the Company and/or its subsidiaries in their productions and sales; (ii) construction services; (iii) assets and equipment leasing services; (iv) railway line usage services; (v) maintenance services; and (vi) other paid services.

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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**Term:** The term of the Products and Services Procurement Framework Agreement will commence on 1 January 2021 and end on 31 December 2023, subject to early termination by either party giving at least three months' prior written notice to the other party.

Parties can extend or renew the Products and Services Procurement Framework Agreement by mutual agreement, provided that the requirements under the Listing Rules are complied with.

**Pricing policy:** The prices for the products and services under the Products and Services Procurement Framework Agreement shall be determined based on the following principles and in the following order:

- (i) Where there are market prices for the relevant products and services, the prices shall be determined with reference to the prevailing market prices, which are the prices charged by CRCC and/or its associates for providing the same type of products and services to an independent third-party customer on normal commercial terms. In determining the prevailing market prices for the relevant products and services, the Company will make reference to the quotations offered by at least two independent third party suppliers for providing the same or similar products or services. The Company will also take into account the following factors to ensure that the prices offered by CRCC and/or its associates will be no less favourable than those available to the Company from the independent third party suppliers for purchasing the same type of products or services, including the costs of the relevant products or services, quality requirements, market conditions, and time arrangement.

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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- (ii) Where there are no market prices for the relevant products and services that are aimed at meeting the Group's specific business requirements, the prices shall be determined according to the agreed prices between the parties. The agreed prices will be calculated based on the actual costs incurred in providing such products and services, which include the costs of raw materials, accessories, depreciation, salary, energy, required technology and equipment maintenance, plus reasonable profits. CRCC and/or its associates will charge a mark-up rate, taking into consideration of the specific types of products and services, for the transactions on a cost-plus basis. Such mark-up rate charged to the Group is generally not higher than 15% for all transactions under the Products and Services Procurement Framework Agreement, 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.

**Payment terms:**

The actual settlement price and the method of payment shall be determined based on the principles, instructions, conditions and terms of the Products and Services Procurement Framework Agreement and set out in the specific agreements to be entered into by the parties.

The payment terms will be no less favourable than the market terms available from independent third parties.

**Other major terms:**

The parties shall enter into a specific agreement for a single or a series of transactions based on the principles under the Products and Services Procurement Framework Agreement to specify the terms of each transaction thereunder.

**Conditions precedent:**

The Products and Services Procurement Framework Agreement is conditional upon the resolution regarding the Products and Services Procurement Framework Agreement and the proposed maximum transaction amounts being approved by the Independent Shareholders at the EGM.



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As mentioned above, the Company has designed and implemented internal control procedures in relation to its pricing policy under the Products and Services Procurement Framework Agreement. We have obtained and reviewed (i) the Products and Services Procurement Framework Agreement; (ii) the relevant procedure manual in relation to the pricing policy; (iii) on a sampling basis, three sets of purchase agreements for the purchase of products and services, entered into between the CRCC Group and each of the Company under the Previous Products and Services Procurement Framework Agreement and independent third-party customers under separate agreements. We noted that the prices and terms of the products and services offered by CRCC Group to 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 Products and Services Procurement 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

The Group and CRCC and/or its associates have conducted relevant transactions under the Previous Products and Services Framework Agreement since 1 January 2018. As set out in the Annual Reports, the historical transaction amounts with respect to the purchase of products and services by the Group from CRCC Group for each of the two years ended 31 December 2019 were approximately RMB1.30 million and RMB30.00 million, respectively.

As discussed with the management of the Company, the volume of historical transactions under the Previous Products and Services Framework Agreement depended on the actual business operations in the relevant financial years, where (i) transactions occurred in the year ended 31 December 2018 mainly related to construction services provided by CRCC Group amounting to approximately RMB1.25 million; and (ii) transactions occurred in the year ended 31 December 2018 mainly related to construction services amounting to approximately RMB29.70 million and the remaining amounts for materials provided by CRCC Group, respectively. The increase of construction services employed by the Group was mainly due to the Group's construction of engineering research centre in 2019 after the relevant public tender for such project.

### 4. Proposed annual caps under the Products and Services Procurement Framework Agreement

The existing annual caps for the three years ending 31 December 2020 for the transactions under the Previous Products and Services Procurement Framework Agreement are RMB80 million, RMB80 million and RMB80 million, respectively. The proposed annual caps for the Products and Services Procurement Framework Agreement (the “**Proposed Annual Caps**”) are as follows:

	Year ending 31 December		
	2021	2022	2023
	<i>RMB million</i>	<i>RMB million</i>	<i>RMB million</i>
Proposed Annual Caps	350	350	350



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

- (i) the main reason for the significant increase in the proposed annual cap is the influence of IFRS 16 in relation to the provision of assets and equipment leasing services by CRCC and/or its associates to the Company (as the lessee). Pursuant to IFRS 16, the value of the right-of-use assets relating to the assets and equipment leasing services to be entered into by the Company under the Products and Services Procurement Framework Agreement is expected to be approximately RMB340 million for each of the three financial years ending 31 December 2023, which is initially measured on the present value basis and calculated by discounting the lease payments. Based on two preliminary lease agreements to be entered into by the Company (as the lessee) and CRCC (as the lessor) in relation to (a) aggregate production machine and (b) engineering construction machine, the value of the Company's rights to use the aggregate production machine and the engineering construction machine for the lease term will amount to approximately RMB150 million and RMB190 million, respectively;
- (ii) the amount of the historical transactions between the Group and CRCC and/or its associates;
- (iii) for the three financial years ending 31 December 2023, taking into account the expected increase in equipment manufacturing businesses, the demands for parts, components and materials required by the Company and/or its subsidiaries in their productions and sales are expected to increase slightly. In addition, certain of the key parts and components of such business are of weak substitutability on the market from independent third party suppliers, and therefore need to be purchased from CRCC and/or its associates;
- (iv) a large proportion of the historical transaction amount for the year ended 31 December 2019 was taken by the construction of the Company's engineering research centre. As such project is currently near to completion, it is expected that the construction services to be received by the Company and/or its subsidiaries for the three financial years ending 31 December 2023 will drop by approximately RMB20 million (i.e. to be amounted to approximately RMB10 million); and
- (v) in addition to the above business and service, the demands of the Company and/or its subsidiaries for other products and services under the Product and Services Procurement Framework Agreement, including assets and equipment leasing services, railway line usage services, maintenance services and other paid services are expected to remain stable for the three financial years ending 31 December 2023.

We noted from the Company's interim results announcement for the six months ended 30 June 2020 dated 31 July 2020 that the Company recorded a decrease in revenue from its main business by approximately 62.2% as compared to the corresponding period in 2019, which was mainly due to the global economic turndown as resulted from the COVID-19 pandemic, in a considerable decline in product orders, delay in delivering overseas projects, and stagnation in the return of vehicles for overhaul. According to the Directors, the Company is endeavoured in recovering the business opportunities in the second half of 2020 and onwards as the pandemic has been gradually under control in the PRC since March 2020.

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In assessing the fairness and reasonableness of the Proposed Annual Caps, we have (i) performed independent research on the statistics and prospect of the industry in which the Company is operating in. We noted from the statistics issued by the National Bureau of Statistics (國家統計局), the monthly negative growth rate of infrastructure investment has narrowed month by month from February to May 2020 and has rebounded to a positive growth rate of 2.6% in June 2020. According to the government working report (政府工作報告) at the third session of the Thirteenth National People's Congress issued on 22 May 2020 by Mr. Li Keqiang, Premier of the State Council, the PRC government proposed to issue RMB3.75 trillion in local special bonds (地方專行債), representing an increase of RMB1.6 trillion as compared to the previous year, and the proportion of special bonds that could be applied for infrastructure investment has increased significantly. As noted from such report, one of the main focus of the PRC government's initiatives would be supporting new infrastructure construction and thus this may impose a positive impact to the infrastructure construction industry in the PRC market in the near future; (ii) obtained and reviewed the proposed list of machines to be leased by the Company from CRCC for the three years ended 31 December 2023 and noted that the aggregate value of the Company's right to use of such machines amounted to approximately RMB340 million; and (iii) discussed with and understood from the management of the Company the basis of determining the remaining amounts of the Proposed Annual Caps to be approximately RMB10 million, considering the completion stage of the construction of engineering research centre which in turn reduced the expected amount of construction services to be employed by the Company by RMB20 million as compared to that for the year ended 31 December 2019.

Having considered that (i) the increase in the Proposed Annual Caps mainly represented the change in accounting standards of RMB340 million as mentioned above; and (ii) the remaining amounts represented the approximate similar average level as that of the Previous Products and Services Procurement Framework Agreement for each of the two years ended 31 December 2019, excluding the one-off construction services employed by the Company for the construction of engineering research centre in 2019, which is also supported by the industry statistics of market recovery in the infrastructure sector in the PRC, we consider that the Proposed Annual Caps are fair and reasonable and in the interest of the Company and the Shareholders as a whole.

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### 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) before the Group enters into any specific procurement agreement with CRCC and/or its associates, the Group shall conduct public procurement for the business through methods including, among others, public tenders on governmental platforms, public tenders on corporate platforms, invitation tenders, competitive negotiation after invitation quotations, inquiry comparison purchase, direct competitive negotiation and inquiry comparison purchase. The bid-winner of the procurement will be determined with comprehensive evaluation conducted by professional institutions or professional departments (if the comprehensive evaluation scores of CRCC and/or its associates are at disadvantages, they will not be determined as bid-winners). The results of the bidding shall be reviewed by professional judges, professional departments and the senior management of the Company. The entering into of the specific procurement contracts is subject to the review by the finance department, legal affairs department, audit department and the senior management of the Company;
- (ii) the procurement department, finance department, audit department and the senior management of the Company shall conduct examination on the execution of the specific procurement contracts; and
- (iii) the auditor of the Company will also conduct annual audit on the pricing policies and annual caps of the agreement, and provide confirmation in the annual report.

As set out in the 2019 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 2019.

In light of the above and we have obtained and reviewed samples of transactions conducted under the Previous Products and Services Procurement Framework Agreement (as discussed in the above section headed "2. Principal terms of the Products and Services Procurement Framework Agreement"), we are of the view that are sufficient internal control procedures to ensure that the transactions under the Products and Services Procurement 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.

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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### RECOMMENDATION

We are of the view that (i) the Financial Services Framework Agreement and the Products and Services Procurement 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 EGM 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 10 years of experience in corporate finance industry.*

**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 disclosed in the 2020 interim report of the Company dated 19 August 2020, the Group recorded a net loss of approximately RMB26.15 million for the first half of 2020, as compared to a net profit of approximately RMB94.32 million recorded for the corresponding period in 2019.

Save as disclosed above, 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 2019, 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, Mr. Sha Mingyuan, being a non-executive Director of the Company, concurrently holds positions in CRCC. Save as disclosed above, 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 2019 (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:

<b>Name</b>	<b>Qualifications</b>
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 9 September 2020 given and has not withdrawn its written consent to the issue of this circular with the inclusion of its letter and opinion dated 9 September 2020 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 2019, 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 Products and Services Procurement Framework Agreement; and
- (d) the Previous Products and Services Procurement Framework Agreement.