THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

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

If you have sold or transferred all your shares in China Machinery Engineering Corporation*, you should at once hand this circular, together with the accompanying form of proxy and reply slip to the purchaser(s) or the transferee(s) or to the bank, licensed securities dealer or other agent through whom the sale or transfer was effected for transmission to the purchaser(s) or the transferee(s).

CMEC 中國機械設備工程股份有限公司

China Machinery Engineering Corporation*

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

(Stock Code: 1829)

(1) CONNECTED AND DISCLOSEABLE TRANSACTION ACQUISITION OF 100% EQUITY INTEREST IN CHINA NATIONAL COMPLETE ENGINEERING CORPORATION AND (2) NOTICE OF 2016 FIRST EXTRAORDINARY GENERAL MEETING

Financial Adviser to the Company for the Acquisition

ICBC 工銀国际

Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders

PLATINUM Securities

Capitalized terms used in the lower part of this cover page shall have the same respective meanings as those defined in the section headed "Definitions" of this circular.

A notice convening the First EGM to be held at the Meeting Room, 3/F, DoubleTree by HILTON, No. 168 Guang'anmenwai Street, Beijing, the PRC on Tuesday, March 29, 2016 at 9:00 a.m. is set out on pages N-1 to N-3 of this circular.

If you do not intend to attend the First EGM in person, you are urged to complete and return the form(s) of proxy in accordance with the instructions printed thereon as soon as possible. To be valid, the form(s) of proxy together with any power of attorney or other authority (if any) under which it is signed or a notarially certified copy of that power of attorney or authority must be deposited, in case of H Shareholders, with the Company's H share registrar Computershare Hong Kong Investor Services Limited at 17M, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, and in case of Domestic Shareholders, to the Company's registered office address at The Office of the Board of Directors, No. 178 Guang'anmenwai Street, Beijing, the PRC, not later than 24 hours before the time appointed for holding the relevant meeting(s) or any adjournment(s) thereof.

If you intend to attend the First EGM in person or by proxy, you are required to complete and return the accompanying reply slip(s) in accordance with the instructions printed thereon on or before Wednesday, March 9, 2016. Completion and delivery of the form(s) of proxy will not preclude you from attending and voting in person at the First EGM or any adjournment(s) thereof if you so wish.

* *For identification purposes only*

February 6, 2016

CONTENTS

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

"Acquisition"	the acquisition of the entire equity interests in CNCEC by the Company in accordance with the terms and conditions set out in the CNCEC Acquisition Agreement
"Acquisition Agreement"	the equity transfer agreement dated February 5, 2016 entered into by and between the Company and SINOMACH in relation to the transfer of the 100% equity interest in CNCEC by SINOMACH to the Company
"applicable percentage ratios"	the five ratios as set out in the Rule 14.07 of the Listing Rules to be applied for determining the classification of a transaction under the Listing Rules
"Articles of Association"	the articles of association adopted by the Company and as amended from time to time
"associate(s)"	has the meaning ascribed hereto under the Listing Rules
"Board"	the board of directors of the Company
"Business Day"	any day that is not a Saturday, a Sunday or other day on which banks are required or authorized by law to be closed in the PRC and Hong Kong
"CNCEC"	China National Complete Engineering Corporation* (中國成套工程有限公司), a corporation established in the PRC on September 5, 1985 and wholly-owned by SINOMACH
"Company"	China Machinery Engineering Corporation* (中國機械設備工程股份有限公司), a company incorporated in the PRC with limited liability, whose H shares are listed and traded on the Main Board of the Stock Exchange
"controlling shareholder"	has the meaning ascribed thereto under the Listing Rules
"Director(s)"	the director(s) of the Company
"Domestic Shareholders"	holders of the Domestic Shares

"Domestic Shares"	ordinary shares in the capital of the Company, with a nominal value of RMB1.00 each, which are subscribed for and paid up in Renminbi by PRC nationals and/or PRC incorporated entities
"EPC"	a common form of contracting arrangement whereby the contractor is commissioned by the project owner to carry out such project work as design, procurement, construction and trial operations, or any combination of the above, either through the contractor's own labour or by subcontracting part or all of the project work, and be responsible for the quality, safety, timely delivery and cost of the project
"Equity Custodian Agreement"	the equity custodian agreement dated June 26, 2013 entered into by and between the Company and SINOMACH
"First EGM"	the 2016 first extraordinary general meeting of the Company to be held at the Meeting Room, 3/F, DoubleTree by HILTON, No. 168 Guang'anmenwai Street, Beijing, the PRC at 9:00 a.m. on Tuesday, March 29, 2016
"Group"	the Company and, except where the context otherwise requires, all its subsidiaries
"H Share"	overseas listed foreign shares in the Company's ordinary share capital with a nominal value of RMB1.00 each, which are subscribed for and traded in HK$ and listed on the Stock Exchange
"H Shareholders"	holders of the H Shares
"HK$"	Hong Kong dollars, the lawful currency of Hong Kong
"Hong Kong"	the Hong Kong Special Administrative Region of the PRC
"ICBCI"	ICBC International Capital Limited (工銀國際融資有限公司), a corporation licensed to carry out type 1 (dealing in securities) and type 6 (advising on corporate finance) regulated activities under the SFO, which is the financial adviser to the Company for the Acquisition

"IFRS"	International Financial Reporting Standards
"Independent Board Committee"	an independent committee of the Board composed of all INEDs, namely Mr. LIU Li, Ms. LIU Hongyu, Mr. FANG Yongzhong and Mr. WU Tak Lung, and formed to advise the Independent Shareholders in relation to the Acquisition Agreement and the transaction contemplated thereunder
"Independent Financial Adviser"	Platinum Securities Company Limited (百德能證券有限公司), a licensed corporation to carry out type 1 (dealing in securities) and type 6 (advising on corporate finance) regulated activities under the SFO, which is the independent financial adviser to the Independent Board Committee and the Independent Shareholders
"Independent Shareholders"	the Shareholders who are not required to abstain from voting on the resolutions for approving the proposed resolutions in the First EGM under the Listing Rules
"independent third party(ies)"	an individual or a company who is not connected with (within the meaning of the Listing Rules) any Directors, chief executive or substantial shareholders of the Company, its subsidiaries or any of their respective associates
"INEDs"	the independent non-executive Directors of the Company
"Latest Practicable Date"	January 29, 2016, being the latest practicable date prior to the printing of this circular to ascertain certain information contained herein
"Listing Rules"	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, as amended from time to time
"Members(s)" or "Shareholder(s)"	holder(s) of the Share(s)
"Non-Competition Agreement"	the non-competition agreement dated July 12, 2011 and a supplemental agreement dated December 10, 2012 entered into by and between the Company and SINOMACH

"PRC"	the People's Republic of China (for the purpose of this circular, excluding Hong Kong, the Macao Special Administrative Region of the PRC and Taiwan)
"Prospectus"	the prospectus of the Company dated December 11, 2012
"RMB"	Renminbi yuan, the lawful currency of the PRC
"SFO"	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong), as amended from time to time
"Share(s)"	share(s) in the share capital of the Company, with a nominal value of RMB1.00 each, including the Domestic Shares and the H Shares
"SINOMACH"	China National Machinery Industry Corporation* (中國機械工業集團有限公司), a state-owned enterprise established in the PRC on May 21, 1988, the controlling shareholder of the Company
"SINOMACH Group"	SINOMACH and its subsidiaries, which for the purpose of this circular excludes the Group
"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"Supervisor(s)"	the supervisor(s) of the Company
"%"	per cent.

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

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

Executive Directors:	*Registered office:*
Mr. SUN Bai	No. 178 Guang'anmenwai Street
Mr. ZHANG Chun	Beijing, the PRC
Non-executive Directors:	*Principal place of business in Hong Kong:*
Mr. WANG Zhian	Room 804, 8/F, Tower 1
Mr. YU Benli	South Sea Centre
Mr. ZHANG Fusheng	75 Mody Road
	Tsimshatsui East
Independent Non-executive Directors:	Kowloon, Hong Kong
Mr. LIU Li	
Ms. LIU Hongyu	
Mr. FANG Yongzhong	
Mr. WU Tak Lung	

February 6, 2016

To the Shareholders

Dear Sir or Madam,

(1) CONNECTED AND DISCLOSEABLE TRANSACTION ACQUISITION OF 100% EQUITY INTEREST IN CHINA NATIONAL COMPLETE ENGINEERING CORPORATION AND (2) NOTICE OF 2016 FIRST EXTRAORDINARY GENERAL MEETING

INTRODUCTION

We refer to the announcement of the Company dated February 5, 2016 in relation to the Acquisition, pursuant to which the Company has agreed to acquire, and SINOMACH has agreed to dispose of, the entire equity interest in CNCEC for an aggregate consideration of RMB532,678,100 (equivalent to approximately HK$634,299,170), subject to the terms and conditions of the Acquisition Agreement. We also refer to the Non-Competition Agreement and the Equity Custodian Agreement as disclosed in the Prospectus and the announcement of the Company dated June 26, 2013, respectively.

* *For identification purposes only*

At the forthcoming First EGM, ordinary resolutions will be proposed to seek the Shareholders' approval for, among other things, the Acquisition Agreement and the transaction contemplated thereunder.

The Acquisition contemplated under the Acquisition Agreement constitutes a connected transaction of the Company under Chapter 14A of the Listing Rules and a discloseable transaction (acquisition) of the Company under Chapter 14 of the Listing Rules as the applicable percentage ratio exceeds 5% but does not exceed 25%, and is therefore subject to the notification, publication and Independent Shareholders' approval requirements. SINOMACH, who has material interests in the Acquisition and directly and indirectly holds approximately 77.99% of the issued share capital of the Company (including approximately 0.78% of the issued share capital of the Company directly held by its wholly-owned subsidiary, China United Engineering Corporation) as at the date of this circular, will abstain from voting at the First EGM.

The purpose of this circular is to provide you with, among other things, (i) details of the Acquisition; (ii) recommendation of the Independent Board Committee to the Independent Shareholders; (iii) a letter from the Independent Financial Adviser (containing its advice to the Independent Board Committee and the Independent Shareholders on the Acquisition); and (iv) a notice convening the First EGM for considering and, if thought fit, approving, confirming and ratifying the Acquisition Agreement and the transaction contemplated thereunder.

ACQUISITION OF 100% EQUITY INTEREST IN CNCEC

On February 5, 2016, the Company and SINOMACH entered into the Acquisition Agreement, pursuant to which the Company has agreed to acquire, and SINOMACH has agreed to dispose of, the entire equity interest in CNCEC for an aggregate consideration of RMB532,678,100 (equivalent to approximately HK$634,299,170), subject to the terms and conditions of the Acquisition Agreement, which are described in more detail below.

I. Principal Terms of the Acquisition Agreement

1. Date

February 5, 2016

2. Parties

(1) The Company (as Purchaser); and

(2) SINOMACH (as Seller).

3. Interests to be acquired

The entire equity interest in CNCEC held by SINOMACH.

4. Consideration

The aggregate consideration for the transfer of the entire equity interest in CNCEC by SINOMACH to the Company is RMB532,678,100 (equivalent to approximately HK$634,299,170).

The consideration was determined after arm's length negotiations between the parties to the Acquisition Agreement, taking into account the total equity interest of CNCEC as at June 30, 2015 (the "**Benchmark Date**"), based on the asset valuation report issued on December 31, 2015 (the "**Valuation Report**") by Beijing Zhuoxindahua Appraisal Co., Ltd. (北京卓信大華資產評估有限公司) ("**Zhuoxindahua**"), an independent appraiser, adopting the income approach. The Company shall be entitled to the profits generated or assume the losses incurred by CNCEC as applicable for the period from the Benchmark Date to the Completion Date (as defined below).

Profit Forecast in relation to the Valuation Report

Given that the appraisal of CNCEC has adopted the use of the income approach, which involves the discounted cash flow method, such valuation is regarded as a profit forecast under Rule 14.61 of the Listing Rules.

Pursuant to Rule 14.62(1) of the Listing Rules, the principal assumptions upon which the Valuation Report has been prepared are set out below:

(1) Assuming the appraised enterprise will continue as a going concern after the Benchmark Date.

(2) Assuming that both parties, whose assets are in trading or proposed to be traded on the market, have equal status, chance and time to obtain enough market information, so as to make rational judgment on the transaction value of the appraised enterprise.

(3) There is no significant change in the current applicable laws, regulations and policies of the country and the national macroeconomic situation; there is no significant change to the political, economic and social environment of the areas at which the parties of this transaction are located.

(4) Assuming the operator is responsible for the appraised enterprise and the appraised enterprise's management is competent for its job.

(5) Assuming the appraised enterprise maintains the existing management style and level, business scope and mode.

(6) Assuming the appraised enterprise complies with all relevant laws and regulations, unless otherwise stated.

(7) Assuming that the accounting policies that the appraised enterprise will adopt are the same as the accounting policies adopted when preparing this Report in material aspects.

(8) There is no significant change in interest rates, exchange rates, tax base, tax rates and policy-based collection costs.

(9) There are no force majeure events or unforeseeable factors that may have material adverse impact on the appraised enterprise.

Ernst & Young ("**EY**") has reviewed the calculation method of the income approach used in the Valuation Report, and ICBCI, as the financial adviser, has also confirmed that the forecast has been made by the directors after due and careful enquiry. A letter from EY and a letter from ICBCI are set out in Appendix I and Appendix II of this circular, respectively.

The qualifications of the experts who have provided their opinions and advises, which are included in this circular, are as follows:

Name	**Qualification**
Zhuoxindahua	Independent Professional Appraiser
EY	Certified Public Accountants
ICBCI	Financial Adviser
Platinum Securities Company Limited	Licensed to carry out type 1 (dealing in securities) and type 6 (advising on corporate finance) regulated activities under the SFO, which is the independent financial adviser to the Independent Board Committee and the Independent Shareholders

Each of the above experts has given and has not withdrawn its written consent to the issue of this circular with a copy of its letter and/or the reference to its name and its advice included in this circular in the form and context in which it respectively appears.

To the best of the knowledge, information and belief of the Directors, having made all reasonable enquiries, all the above experts are third parties independent from the Group and its connected persons.

As at the date of this circular, none of the above experts had any shareholding or was beneficially interested in, directly or indirectly, in any member of the Group or the right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group.

Payment Terms

The consideration for the Acquisition Agreement will be settled by cash on the Completion Date.

5. *Conditions Precedent*

The Company's payment obligation shall be conditional on, among other things, the following conditions having been fulfilled or waived partially or entirely by the Company:

(1) SINOMACH and CNCEC have obtained their respective internal corporate approvals and authorizations;

(2) The Company has obtained its internal corporate approvals and authorizations, including the Independent Shareholders' approval and authorization;

(3) SINOMACH has approved the Acquisition and completed the registration of the valuation results of CNCEC;

(4) CNCEC has completed the change of registration in relation to the Acquisition with relevant industrial and commercial administration;

(5) There has been no material adverse change to CNCEC as at or up to the Completion Date;

(6) The representations and warranties made by SINOMACH remain true, accurate, complete and not misleading and have been fulfilled by SINOMACH as at or up to the Completion Date; and

(7) The business, financial and legal due diligence on CNCEC conducted by the Company have been completed, the results of which are satisfactory to the Company.

6. *Indemnity*

SINOMACH agrees to fully indemnify the Company against all actions, claims, proceedings, losses, liabilities, damages and whatsoever the Company may suffer after the Completion Date which arise out of or are in connection with any act or omission of CNCEC incurred prior to the Completion Date.

7. *Completion*

Completion shall take place on the 5th Business Day from the date on which all the conditions precedent set out in the Acquisition Agreement have been fulfilled or waived by the Company in writing, or any other date agreed by SINOMACH and the Company (the "**Completion Date**").

Upon completion, the Company will hold 100% equity interest in CNCEC, and SINOMACH will cease to hold any equity interest in CNCEC.

II. Reasons for and Benefits from the Acquisition

The Directors are of the view that the reasons for and benefits from the Acquisition are as follows:

1. Avoiding competition to fulfil the undertakings made upon listing

The Group is an international engineering contractor and service provider with a primary focus on EPC projects and particular expertise in the power sector, capable of providing one-stop customized and integrated engineering contracting solutions and services. As disclosed in the Prospectus dated December 11, 2012, SINOMACH Group (including CNCEC) retains certain operation of business which is, or is likely, in competition, directly or indirectly, with the Group, such as the international engineering contracting business and trading business. In order to safeguard the interests of the Company and its Shareholders against such potential competition from SINOMACH Group, the Company has entered into the Non-Competition Agreement, dated July 12, 2011 and as amended on December 10, 2012, with SINOMACH Group. Pursuant to the Non-Competition Agreement, including, among other things, SINOMACH Group undertakes to transfer its equity interests held in CNCEC to the Company within three years upon the listing of the Company in order to eliminate any potential competition between SINOMACH Group and the Group.

To facilitate a smooth transfer of SINOMACH Group's equity interest in CNCEC pursuant to the undertaking made by SINOMACH Group as set out in the Non-Competition Agreement, the Company and SINOMACH entered into the Equity Custodian Agreement, pursuant to which SINOMACH entrusts the Company to manage CNCEC on its behalf. Due to the aforesaid, the Acquisition is a key and timely step for SINOMACH Group to honor its non-competition undertakings, which would enable the Company to better utilize such business integration to strengthen its competitiveness of its core business.

2. Implementing strategic planning and optimizing resource allocation to enhance corporate competitiveness

The Acquisition is in line with the strategic planning of SINOMACH Group and the Company. Both being international engineering contractors and service providers, CNCEC and the Company primarily focus on EPC projects and have accumulated extensive experience. Through the Acquisition, favourable synergies can be achieved with optimized resource allocation: (i) the Company will be able to increase its assets, revenue and profits, expand its business scale, avoid repeated and inefficient investments and reduce development costs, thus achieving economies of scale; (ii) upon completion of the Acquisition, the Company will be able to further develop its similar business in the existing markets and expand the business scale and efficiency by leveraging CNCEC's experience and professional teams in its own business and industries (such as agriculture); and (iii) upon completion of the Acquisition, CNCEC will be able to further develop its business and expand the business scale and efficiency within the existing fields by taking advantage of the Company's well-known brand, strong and proven track records and reputation, extensive financial resources and financing capability as well as commercial operation capability. The Acquisition is consistent with the requirements of the Stock Exchange regarding the Company and its substantial shareholders, and will further consolidate the position of the Company as SINOMACH Group's flagship in international engineering contracting business to enhance the competitiveness of the Company.

3. Effectively strengthening the Company's business position in agricultural sector to enhance the strength and depth of its business diversification

In recent years, the international imports and exports of CNCEC have been driven by engineering contracting business. Under the Ukrainian Comprehensive Agricultural Development Package Project entered into in 2012, CNCEC and Ukraine government signed a 15-year grain trade contract with a contract value of approximately US$28 billion, pursuant to which CNCEC shall import a total of approximately 4 million tons of grain annually from Ukraine, so as to enter the agricultural trade market in Ukraine. Great progress has already been made in recent years. Currently, grain import has become an important source of income for CNCEC, and CNCEC will gradually carry out each engineering and trade business in agricultural sector under the entire cooperation framework. The engineering contracting business of the Company has already extensively covered many sectors, including power, transportation and telecommunication, housing construction, plant construction, environmental protection, mining and resource exploration, but with relatively less involvement in agriculture so far. Therefore, the Acquisition will help the Company to strengthen its business position and team construction in agricultural sector and enhance the strength and depth of its business diversification.

4. Expanding the business presence of the Company by effectively entering new regions

Currently, the Company is undertaking international engineering contracting projects in more than 48 countries and regions, mainly in Asia, Africa, Europe and South America. Over more than ten years of overseas development, CNCEC has secured and completed a number of major contracting projects in Zambia, Angola, Ukraine and Russia, etc. and has built up favourable industrial and channel resources and established its experienced project team which is familiar with the local practices and situation. Those are the key areas in which the Company places great interest and intends for in-depth development. Through the Acquisition, the Company will be able to leverage the existing resources of CNCEC in the above-mentioned areas to develop and explore the local engineering contracting business and expand its business frontier.

III. Directors' Opinion

The Directors (including the INEDs who are members of the Independent Board Committee and whose views are further set out on page 17 and 18 of this circular after taking into account the advice from the Independent Financial Adviser) confirm that (i) the terms of the Acquisition Agreement and the transaction contemplated thereunder are fair and reasonable, on normal commercial terms or better and in the ordinary and usual course of business of the Group; and (ii) in the interests of the Company and the Shareholders (including the independent Shareholders) as a whole.

Except for Mr. SUN Bai, who is the chairman of the board of directors of CNCEC, and Mr. ZHANG Fusheng, who is a director of CNCEC, none of the Directors (including the INEDs) holds management position in SINOMACH or has any material interests in the Acquisition Agreement and the transaction contemplated thereunder and hence, except for Mr. SUN Bai and Mr. ZHANG Fusheng, none of the Directors (including the INEDs) has abstained from voting on the board resolution approving the entering into of the Acquisition Agreement and the transaction contemplated thereunder.

IV. Listing Rules Implications

As at the date of this circular, SINOMACH directly and indirectly holds approximately 77.99% of the issued share capital of the Company. SINOMACH is a controlling shareholder and thus a connected person of the Company according to Rule 14A.07(1) of the Listing Rules. Therefore, the Acquisition contemplated under the Acquisition Agreement between the Company and SINOMACH constitutes a connected transaction of the Company under Rule 14A.25 of the Listing Rules. In addition, the Acquisition contemplated under the Acquisition Agreements constitutes a discloseable transaction (acquisition) for the Company under Chapter 14 of the Listing Rules as the applicable percentage ratio exceeds 5% but does not exceed 25%. Therefore, the Acquisition is subject to the notification, publication and Independent Shareholders' approval requirements.

The First EGM will be held to seek the approval and ratification of the Acquisition Agreement and the transaction contemplated thereunder from the Independent Shareholders. SINOMACH, who has material interests in the Acquisition and directly and indirectly holds approximately 77.99% of the issued share capital of the Company (including approximately 0.78% of the issued share capital of the Company directly held by its wholly-owned subsidiary, China United Engineering Corporation) as at the date of this circular, will abstain from the voting at the First EGM.

An Independent Board Committee, comprising all the INEDs who do not have a material interest in the Acquisition contemplated under the Acquisition Agreement, has been established to advise the Independent Shareholders in relation to the Acquisition, taking into account the recommendations concerning the same provided by the Independent Financial Adviser. Platinum Securities Company Limited (百德能證券有限公司) has been appointed as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in this regard.

V. Information on the Parties

1. Information on SINOMACH

SINOMACH is a state-owned company established in accordance with the laws of the PRC where the State-owned Assets Supervision and Administration Commission of the State Council of the PRC acts as its contributor. It is the controlling shareholder of the Company. The principal business of SINOMACH Group is manufacturing and research and development of machinery and equipment, engineering contracting, as well as trading and services. As at the date of this circular, SINOMACH directly and indirectly holds 77.99% of the issued share capital of the Company.

2. Information on the Group

The Company is a joint stock company incorporated in the PRC with limited liability. The Group is an international engineering contractor and service provider with a primary focus on EPC projects and particular expertise in the power sector, capable of providing one-stop customized and integrated engineering contracting solutions and services. The engineering contracting solutions and services that the Group provides include preliminary project consultation, financing solutions for projects, project design, procurement, logistics, construction, installation, commissioning and related works, in a combination of any of the above services in keeping with the needs of the project owners.

3. Information on CNCEC

CNCEC is a company incorporated in the PRC and a wholly-owned subsidiary of SINOMACH. CNCEC is principally engaged in (i) construction contracts business, being a one-stop customized and integrated turnkey solution and service provider to manage and implement the engineering contracting projects, including preliminary project consultation, financing solutions for projects, project design, procurement, logistics, construction, installation, commissioning and related works, in a combination of any of the above services in keeping with the needs of the project owners; (ii) trading business, primarily including grain and medical equipment trading; and (iii) real estate development business, being a property development contractor. CNCEC does not expect real estate development business to be its primary focus in the future.

The financial information of CNCEC for the two financial years and six months immediately preceding the Acquisition, which are prepared in accordance with the IFRS, is set out in the table below.

	For the year ended December 31, 2013	**For the year ended December 31, 2014**	**For the six months ended June 30, 2014**	**For the six months ended June 30, 2015**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
	(audited)	*(audited)*	*(unaudited)*	*(audited)*
Net profit before taxation	77,178	135,195	41,425	146,062
Net profit after taxation	56,686	98,838	29,656	109,043

	As at December 31, 2013	**As at December 31, 2014**	**As at June 30, 2014**	**As at June 30, 2015**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
	(audited)	*(audited)*	*(unaudited)*	*(audited)*
Total assets	3,258,368	2,111,758	2,388,291	2,439,733
Net assets	153,197	225,538	158,687	289,468

After the completion of the Acquisition, CNCEC shall be consolidated into the consolidated financial statements of the Company.

FIRST EGM

A notice convening the First EGM to be held at the Meeting Room, 3/F, DoubleTree by HILTON, No. 168 Guang'anmenwai Street, Beijing, the PRC on Tuesday, March 29, 2016 at 9:00 a.m. is set out on pages N-1 to N-3 of this circular.

Pursuant to Rule 14A.36 of the Listing Rules, any Shareholder with a material interest in the connected transaction must abstain from voting on the resolutions in respect of that transaction. Therefore, SINOMACH who directly and indirectly holds approximately 77.99% of the issued share capital of the Company (including approximately 0.78% of the issued share capital of the Company directly held by its wholly-owned subsidiary, China United Engineering Corporation) as at the date of this circular, the controlling shareholder of the Company, is required to abstain from voting at the First EGM in respect of the ordinary resolutions to approve the Acquisition Agreement and the transaction contemplated thereunder. As at the Latest Practicable Date, SINOMACH directly and indirectly owned 3,217,430,000 shares of the Company, representing approximately 77.99% of the total issued share capital of the Company. SINOMACH was entitled to control all voting rights in respect of such shares.

To the best knowledge, information and belief of the Directors after having made all reasonable enquiries, apart from SINOMACH, no other Shareholder has a material interest in the Acquisition Agreement or the transaction contemplated thereunder, and therefore no other Shareholder will be required to abstain from voting on the ordinary resolutions to approve the Acquisition Agreement and the transaction contemplated thereunder at the First EGM.

If you do not intend to attend the First EGM in person, you are urged to complete and return the form(s) of proxy in accordance with the instructions printed thereon as soon as possible. To be valid, the form(s) of proxy together with any power of attorney or other authority (if any) under which it is signed or a notarially certified copy of that power of attorney or authority must be deposited, in case of H Shareholders, with the Company's H share registrar Computershare Hong Kong Investor Services Limited at 17M, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, and in case of Domestic Shareholders, to the Company's registered office address at The Office of the Board of Directors, No. 178 Guang'anmenwai Street, Beijing, the PRC, not later than 24 hours before the time appointed for holding the First EGM or any adjournment(s) thereof. Completion and return of the form(s) of proxy will not preclude you from subsequently attending and voting at the First EGM or at any adjournment(s) thereof should you so wish.

The register of members of the Company will be closed from Saturday, February 27, 2016 to Tuesday, March 29, 2016, both days inclusive, during which period no transfer of the H Shares will be effected. In order to determine the list of Members who are qualified to attend and vote at the First EGM, all transfer documents accompanied by the relevant share certificates must be lodged with the Company's H share registrar, Computershare Hong Kong Investor Services Limited at Shops 1712-1716, 17/F, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong no later than 4:30 p.m. on Friday, February 26, 2016.

VOTING BY POLL AT FIRST EGM

Pursuant to Rule 13.39(4) of the Listing Rules, any votes of the Shareholders at the general meetings must be taken by poll except where the chairman, in good faith, decides to allow a resolution which relates purely to a procedural or administrative matter to be voted on by a show of hands. Accordingly, the resolutions will be taken by poll at the First EGM pursuant to Article 72 of the Articles of Association.

RESPONSIBILITY STATEMENT

This circular, for which the Directors collectively and individually accept full responsibility, includes particulars given in the compliance with the Listing Rules for the purpose of giving information with regard to the Group. 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 therein or in this circular misleading.

RECOMMENDATION

The Independent Board Committee has been established to advise the Independent Shareholders in connection with the Acquisition Agreement and the transaction contemplated thereunder. The Independent Board Committee, having considered, amongst other matters, the factors and reasons considered by, and the opinion of the Independent Financial Adviser as stated in its letter of advice, consider that (i) the terms of the connected transaction under the Acquisition Agreement are fair and reasonable; (ii) the connected transaction under the Acquisition Agreement is on normal commercial terms or better and in the ordinary and usual course of business of the Group; and (iii) the connected transaction under the Acquisition Agreement is in the interests of the Company and the Shareholders (including the Independent Shareholders) as a whole. Accordingly, the Independent Board Committee recommends the Independent Shareholders to vote in favor of the ordinary resolutions in respect of the Acquisition Agreement and the transaction contemplated thereunder to be proposed at the First EGM.

Given that the Directors (including the INEDs whose opinion is stated in the letter from the Independent Board Committee to the Independent Shareholders set out on pages 17 and 18 of this circular) are of the view that (i) the terms of the connected transaction under the Acquisition Agreement are fair and reasonable; (ii) the connected transaction under the Acquisition Agreement is on normal commercial terms or better and in the ordinary and usual course of business of the Group; and (iii) the connected transaction under the Acquisition Agreement is in the interests of the Company and the Shareholders as a whole, the Directors recommend that the Independent Shareholders should vote in favour of the ordinary resolutions in respect of the Acquisition Agreement and the transaction contemplated thereunder to be proposed at the First EGM.

PROPOSED TRANSFER BY SINOMACH

As contemplated in the Non-competition Agreement and disclosed in the Prospectus, apart from the Acquisition, SINOMACH intended to transfer all its equity interest in China National Electric Engineering Co., Ltd. (中國電力工程有限公司) ("**CNEEC**") and China National Automation Control System Corporation (中國自動化控制系統總公司) ("**CACS**") to the Company as well within three years after the Listing, subject to, among other things, the requisite approvals to be granted by the relevant PRC governmental authorities.

Currently, SINOMACH and the Company are in progress of carrying out the work in respect of the transfer of the equity interest in each of CNEEC and CACS (the "**Proposed Transfer**"). Due to reasons including the complexity inherent in the preparatory work, the requisite approvals to be obtained from the relevant PRC governmental authorities and the lengthy process to reform state-owned enterprises into stock companies, the Proposed Transfer is currently expected to be delayed. That said, SINOMACH and the Company will continue to carry out the Proposed Transfer step by step taking into account the circumstances peculiar to each of CNEEC and CACS. It is currently expected that the transfer process for CNEEC and CACS will take longer period of time than that for CNCEC and the Company will make further announcement in relation to the Proposed Transfer at appropriate timing should more definitive steps be formulated.

During the transition period and prior to the completion of the Acquisition and the Proposed Transfer, both SINOMACH and the Company will continue to comply with the relevant terms of the Non-Competition Agreement and the Equity Custodian Agreement, as renewed on February 5, 2016, which has extended (a) the custodian period of CNCEC up to the earlier of (i) June 30, 2016; or (ii) the Completion Date; and (b) the custodian period of CNEEC up to February 4, 2017, which may be extended automatically pursuant to the terms and conditions therein but no later than February 4, 2019, manage any potential competition through the mechanism as stipulated therein, and duly disclose in the Company's annual reports or by way of public announcement on the compliance with and enforcement of the Non-competition Agreement.

FURTHER INFORMATION

Your attention is drawn to the letter from the Independent Board Committee to the Independent Shareholders set out on pages 17 and 18 of this circular, and the letter from the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders in respect of the Acquisition set out on pages 19 to 40 of this circular.

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

For the purpose of this circular, conversion of RMB into HK$ is calculated at the exchange rate of HK$1.00 to RMB0.83979.

Yours faithfully,
For and on behalf of the Board of
China Machinery Engineering Corporation*
ZHANG Chun
President

* *For identification purposes only*

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

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

Independent Board Committee
Mr. LIU Li
Ms. LIU Hongyu
Mr. FANG Yongzhong
Mr. WU Tak Lung

February 6, 2016

To the Independent Shareholders

Dear Sir or Madam,

We refer to the circular of the Company to the Shareholders dated February 6, 2016 (the "**Circular**"), of which this letter forms a part. Unless the context requires otherwise, capitalized terms used in this letter will have the same meanings as given to them respectively in the section headed "Definitions" of the Circular.

We have been appointed by the Board as members of the Independent Board Committee to advise the Independent Shareholders on (i) whether the terms of the connected transaction under the Acquisition Agreement are fair and reasonable so far as the Independent Shareholders are concerned; (ii) whether the connected transaction under the Acquisition Agreement is on normal commercial terms or better and in the ordinary and usual course of business of the Group; (iii) whether the connected transaction under the Acquisition Agreement is in the interests of the Company and the Shareholders as a whole; and (iv) how to vote on the Acquisition Agreement and the transaction contemplated thereunder.

Platinum Securities Company Limited (百德能證券有限公司) has been appointed as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in respect of the terms, the fairness and the reasonableness of the Acquisition Agreement and the transaction contemplated thereunder.

We wish to draw your attention to the letter of advice from the Independent Financial Adviser, which contains details of its advice, together with the principal factors taken into consideration in arriving at such advice, as set out on pages 19 to 40 of the Circular and the section headed "Letter from the Board" as set out on pages 5 to 16 of the Circular.

* *For identification purposes only*

Having discussed with the management of the Company and taken into account, amongst other matters, the factors and reasons considered by, and the opinion of the Independent Financial Adviser as stated in its letter of advice, we are of the view that (i) the terms of the connected transaction under the Acquisition Agreement are fair and reasonable so far as the independent Shareholders are concerned; (ii) the connected transaction under the Acquisition Agreement is on normal commercial terms or better and in the ordinary and usual course of business of the Group; and (iii) the connected transaction under the Acquisition Agreement is in the interests of the Company and the Shareholders as a whole. Our view related to fairness and reasonableness is necessarily based on information, facts and circumstances currently prevailing.

Accordingly, we recommend the Independent Shareholders to vote in favour of the ordinary resolutions in respect of the Acquisition Agreement and the transaction contemplated thereunder to be proposed at the First EGM.

Yours faithfully,
Independent Board Committee

Mr. LIU Li	**Ms. LIU Hongyu**	**Mr. FANG Yongzhong**	**Mr. WU Tak Lung**
Independent Non-executive Director	*Independent Non-executive Director*	*Independent Non-executive Director*	*Independent Non-executive Director*

The following is the text of the letter of advice from the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders for the purpose of incorporation into this circular.

PLATINUM Securities Company Limited

21/F LHT Tower
31 Queen's Road Central
Hong Kong

Telephone	(852) 2841 7000
Facsimile	(852) 2522 2700
Website	www.platinum-asia.com

February 6, 2016

To the Independent Board Committee and the Independent Shareholders

Dear Sir or Madam,

**CONNECTED AND DISCLOSEABLE TRANSACTION
ACQUISITION OF 100% EQUITY INTEREST IN
CHINA NATIONAL COMPLETE ENGINEERING CORPORATION**

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 connected and discloseable transaction (the "Acquisition") contemplated under the Acquisition Agreement. Details of the Acquisition are contained in the Letter from the Board as set out in the circular of the Company dated February 6, 2016 (the "Circular"). Terms used in this letter shall have the same meanings as defined in the Circular unless the context requires otherwise.

The Board announced on February 5, 2016 in relation to the Acquisition, pursuant to which the Company has agreed to acquire, and SINOMACH has agreed to dispose of, the entire equity interest in CNCEC for an aggregate consideration of RMB532,678,100 (equivalent to approximately HK$634,299,170), subject to the terms and conditions of the Acquisition Agreement. The Acquisition can be referred to the Non-Competition Agreement and the Equity Custodian Agreement as disclosed in the Prospectus and the announcement of the Company dated June 26, 2013, respectively.

BASIS OF OUR OPINION

In our capacity as the Independent Financial Adviser, our role is to advise the Independent Board Committee and the Independent Shareholders as to whether the Acquisition is in the ordinary and usual course of business of the Company, the terms of the Acquisition Agreement was agreed on normal commercial terms and are fair and reasonable, and in the interests of the Company and the Shareholders as a whole; and to give independent advice to the Independent Board Committee.

In formulating our opinion, we have relied on the information and facts supplied to us by the Directors and/or management of the Company. We have reviewed, among other things: i) the independent valuation report dated December 31, 2015 (the "Valuation Report") prepared by Beijing Zhuoxindahua Appraisal Co., Ltd; ii) the Acquisition Agreement; iii) the audited annual report of the Company for the year ended December 31, 2014 (the "2014 Annual Report of the Company"); iv) the unaudited interim report of the Company for the six months ended June 30, 2015 (the "2015 Interim Report of the Company"); v) the audited report of CNCEC for the year ended December 31, 2014 (the "2014 Annual Report of CNCEC); and vi) the audited report of CNCEC for the six months ended June 30, 2015 (the "2015 Interim Report of CNCEC").

We have assumed that all information, facts, opinions and representations contained in the Circular and all information, statements and representation provided to us by the Directors and/or the management of the Company, which we have relied on, are true, complete and accurate and not misleading in all material respects as at the date hereof. The Directors have confirmed that they take full responsibility for the contents of the Circular and have made all reasonable inquiries that no material facts have been omitted from the information supplied 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 matters not contained in the Circular, the omission of which would make any statement in the Circular misleading or deceptive.

We have no reason to suspect that any material facts or information have been withheld or to doubt the truth, accuracy or completeness of the information of all facts as set out in the Circular and of the information and representations provided to us by the Directors and/or management of the Company. Furthermore, we have no reason to suspect the reasonableness of the opinions and representations expressed by the Directors and/or management of the Company which have been provided to us. In line with normal practice, we have not, however, conducted a verification process of the information supplied to us, nor have we conducted any independent in-depth investigation into the business and affairs of the Company. We consider that we have reviewed sufficient information to enable us to reach an informed view and to provide a reasonable basis for our opinion, and we consider that we have taken sufficient and necessary steps based on which to form a reasonable basis and an informed view for our opinion in compliance with Rule 13.80 of the Listing Rules.

We are independent from, and are not associated with the Company or any other party to the Transactions, or their respective substantial shareholder(s) or connected person(s), as defined under the Listing Rules and accordingly, are considered eligible to give independent advice on the Transactions. We will receive a fee from the Company for our role as the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders in relation to the Transactions. Apart from this normal professional fee payable to us in connection with this appointment, no arrangements exist whereby we will receive any fees or benefits from the Company or any other party to the Transactions or their respective substantial shareholder(s) or connected person(s), as defined under the Listing Rules.

The Independent Board Committee, comprising Mr. LIU Li, Ms. LIU Hongyu, Mr. FANG Yongzhong and Mr. WU Tak Lung, has been established to advise the Independent Shareholders as to whether the Acquisition Agreement was entered into in the ordinary and usual course of business of the Company, the terms of the Acquisition Agreement was agreed on normal commercial terms and are fair and reasonable so far as the Independent Shareholders are concerned and that the entering into the Transactions are in the best interests of the Company and the Shareholders as a whole.

PRINCIPAL FACTORS AND REASONS CONSIDERED

In formulating and giving our independent financial advice to the Independent Board Committee and the Independent Shareholders, we have taken into account the following principal factors:

1. Background of the Acquisition

On February 5, 2016, the Company and SINOMACH entered into the Acquisition Agreement, pursuant to which the Company has agreed to acquire, and SINOMACH has agreed to dispose of, the entire equity interest in CNCEC for an aggregate consideration of RMB532,678,100 (equivalent to approximately HK$634,299,170), subject to the terms and conditions of the Acquisition Agreement, which are described in the section headed "Principal terms of the Acquisition".

2. Information on the Company, SINOMACH and CNCEC

2.1 Information on the Group

The Company is a joint stock company incorporated in the PRC with limited liability. The Group is an international engineering contractor and service provider with a primary focus on EPC projects and particular expertise in the power sector, capable of providing one-stop customized and integrated engineering contracting solutions and services. The engineering contracting solutions and services that the Group provides include preliminary project consultation, financing solutions for projects, project design, procurement, logistics, construction, installation, commissioning and related works, in a combination of any of the above services in keeping with the needs of the project owners.

Set out below is the financial highlights of the Company's consolidated financial statements in accordance with Hong Kong Financial Reporting Standards:

Table 1: Financial highlights of the Group

	For the year ended December 31, 2013		For the year ended December 31, 2014		For the six months ended June 30, 2014		For the six months ended June 30, 2015	
	%	*(RMB million) (Audited)*	%	*(RMB million) (Audited)*	%	*(RMB million) (Unaudited)*	%	*(RMB million) (Unaudited)*
Revenue by segment:	100%	21,426	100%	23,008	100%	11,090	100%	8,237
– International engineering contracting business	72%	15,386	67%	15,461	76%	8,429	64%	5,289
– Trading business	23%	4,908	28%	6,443	20%	2,233	30%	2,491
– Other businesses	5%	1,132	5%	1,104	4%	428	6%	457
Net profit attributable to owners of the parent		1,959		2,097		1,088		820

	As at December 31, 2013	As at December 31, 2014	As at June 30, 2014	As at June 30, 2015
	(Audited)	*(Audited)*	*(Unaudited)*	*(Unaudited)*
Cash and cash equivalents	14,550	17,793	15,686	18,447
Bank and other borrowings	314	566	299	501
Total assets	31,953	37,223	33,560	37,955
Total equity attributable to owners of the parent	11,740	13,035	12,033	13,019

According to the 2014 Annual Report of the Company, the Group generated its revenue mainly from the international engineering contracting business, trading business and other businesses. The Group's revenue generated from the international engineering contracting business amounted to approximately RMB15,461 million in 2014 as compared to approximately RMB15,386 million in 2013, representing an increase of approximately 0.5% compared with the previous year. The Group's revenue generated from the trading business increased by approximately 31.3% to approximately RMB6,443 million in 2014 compared to approximately RMB4,908 million in 2013, primarily due to the increase in trading volume in the United States and Asia and also increase in revenue in the sales of metal products. The Group's revenue generated from the other businesses decreased by approximately 2.5% to approximately RMB1,104 million in 2014 as compared to approximately RMB1,132 million in 2013, primarily due to the effect of the decrease in revenue generated from agency business and design services of the Group.

We note that the profit attributable to the owners of the parent increased from approximately RMB1,959 million in 2013 to approximately RMB2,097 million in 2014, representing a year-on-year increase of approximately 7.0%, as the Group delivered satisfactory progress in the performance of its projects whilst exploring new markets and pursuing further development especially on the power sector, which was the largest contributor to the results of the Group and the core sector of the international engineering contracting business.

As at June 30, 2015, the Group's cash and cash equivalents amounted to approximately RMB18,447 million, which represents a marginal increase of approximately 3.7% as compared to approximately RMB17,793 million as at December 31, 2014. In addition, the Group's borrowings decreased by approximately 11.5% to approximately RMB501 million as at June 30, 2015 as compared to approximately RMB566 million as at December 31, 2014. Short-term borrowings, which primarily include credit borrowings, mortgage borrowings and guarantee borrowings from financial institutions, amounted to approximately RMB64.6 million (including the current portion of long-term borrowings), accounting for approximately 12.9% of the total borrowings as at June 30, 2015. Long-term borrowings primarily include pledge borrowings from commercial banks related to projects financed by export seller's credit, with the balance of such borrowings (excluding the current portion) amounted to approximately RMB436.6 million, accounting for approximately 87.1% of the total borrowings as at June 30, 2015. The decrease in total borrowings was primarily due to the repayment of short-term bank borrowings using cash generated from business operations with a view to reduce the finance expenses. As at June 30, 2015, all borrowings were denominated in RMB and were subject to interest rates ranging from approximately 0.06% to 6.16% per annum.

The Group's total equity attributable to owners of parent amounted to approximately RMB13,035 million as at December 31, 2014, which represents an increase of approximately 11.0% as compared to approximately RMB11,740 million as at December 31, 2013. Furthermore, according to the 2015 Interim Report, the total equity attributable to shareholders of the Company amounted to approximately RMB13,019 million as at June 30, 2015, keeping stable as compared to the previous year.

2.2 Information on SINOMACH

SINOMACH is a state-owned company established in accordance with the laws of the PRC where the State-owned Assets Supervision and Administration Commission of the State Council of the PRC acts as its contributor. It is the controlling shareholder of the Company. The principal business of SINOMACH Group is manufacturing and research and development of machinery and equipment, engineering contracting, as well as trading and services. As at the date of this circular, SINOMACH directly and indirectly holds 77.99% of the issued share capital of the Company.

2.3 Information on CNCEC

CNCEC is a company incorporated in the PRC and a wholly-owned subsidiary of SINOMACH. CNCEC is principally engaged in (i) construction contracts business, being a one-stop customized and integrated turnkey solution and service provider to manage and implement the engineering contracting projects, including preliminary project consultation, financing solutions for projects, project design, procurement, logistics, construction, installation, commissioning and related works, in a combination of any of the above services in keeping with the needs of the project owners; (ii) trading business, primarily including grain and medical equipment trading; and (iii) real estate development business, being a property development contractor. CNCEC does not expect real estate development business to be its primary focus in the future. After the completion of the Acquisition, CNCEC would be consolidated into the consolidated financial statements of the Company.

We understand from the management of the Company that CNCEC signed a 15-year framework agreement ("Framework Agreement") with a total contract value of more than US$20 billion on cooperation in agriculture with the participation of the PJSC State Food and Grain Corporation of Ukraine ("SFGCU"), Export-Import Bank of China and the Ministry of Finance of Ukraine in 2012. The general contract and its supplementary agreements consist of two sections, the Ukrainian grain trade and Chinese product trade. The Ukrainian grain trade stipulates the Ukrainian party to supply a total of 80 million tons of grain over 15 consecutive years, while the Chinese product trade requires the Ukrainian party to purchase made-in-China products, services, and other commodities from Chinese parties over five years with an annual contract value of no less than US$300 million. In particular, the Framework Agreement involves import and export trade (purchase of pesticide, seeds, farm machinery and other agriculture products from China to Ukraine; promoting high-quality product in Ukraine), EPC projects (building insecticide factory and sapropel factory in Ukraine) and investment projects (land tillage and planting).

Table 2: Financial highlights of CNCEC

	For the year ended December 31, 2013		**For the year ended December 31, 2014**		**For the six months ended June 30, 2015**	
	%	*(RMB million) (Audited)*	%	*(RMB million) (Audited)*	%	*(RMB million) (Audited)*
Revenue by segment:	100%	4,084	100%	3,033	100%	1,533
– construction contracts business	13%	551	22%	660	6%	86
– trading business	84%	3,425	75%	2,284	91%	1,407
– real estate development business	3%	108	3%	89	3%	40
Net profit attributable to owners of CNCEC		55		97		109

	As at December 31, 2013 *(Audited)*	As at December 31, 2014 *(Audited)*	As at June 30, 2015 *(Audited)*
Cash and cash equivalents	706	821	511
Bank and other borrowings	113	270	151
Total assets	3,258	2,112	2,440
Total equity attributable to owners of CNCEC	142	214	280

According to the audited consolidated financial statements of CNCEC, the firm generated its revenue mainly from construction contracts business, trading business and real estate development business. CNCEC's revenue generated from the construction contracts business amounted to approximately RMB660 million in 2014 as compared to approximately RMB551 million in 2013, representing an increase of approximately 20% compared with the previous year. CNCEC's revenue generated from the trading business decreased by approximately 33% to approximately RMB2,284 million in 2014 compared to approximately RMB3,425 million in 2013. CNCEC's revenue generated from real estate development business decreased by approximately 18% to approximately RMB89 million in 2014 as compared to approximately RMB108 million in 2013. We note that the contribution of trading business to the total revenue has been increasing over the past years due to the effect of Framework Agreement, however, it is expected that construction contracts business will begin to pick up in the near future due to the implementation and realisation of engineering contracting projects.

Despite the decrease in total revenue in 2014, profit attributable to the owners of CNCEC increased from approximately RMB55 million in 2013 to approximately RMB97 million in 2014, representing a year-on-year increase of approximately 76%, which is primarily due to the significant drop in operating costs. Profit attributable to the owners of CNCEC in the six months ended June 30, 2015 also recorded a substantial increase to RMB109 million, which was mainly contributed by the higher profit margin of grain trading business.

As at June 30, 2015, CNCEC's cash and cash equivalents amounted to approximately RMB511 million, which represents a decrease of approximately 38% as compared to approximately RMB821 million as at December 31, 2014, while CNCEC's borrowings decreased by approximately 44% to approximately RMB151 million as at June 30, 2015 as compared to approximately RMB270 million as at December 31, 2014. We note that a portion of cash and cash equivalents was used to bring down the balance of bank and other borrowings and all borrowings were subject to interest rates ranging from approximately 4.8% to 6.6% per annum.

Total equity attributable to owners of CNCEC amounted to approximately RMB214 million as at December 31, 2014, which represents an increase of 51% as compared to approximately RMB142 million as at December 31, 2013. Furthermore, the total equity attributable to owners of CNCEC further increased to approximately RMB280 million as at June 30, 2015, representing an increase of 31% as compared to the last financial year.

3. Reasons for and benefits of the Acquisition

We understand from the management of the Company that as disclosed in the Prospectus dated December 11, 2012, SINOMACH Group (including CNCEC) retains certain operation of business which is, or is likely, in competition, directly or indirectly, with the Group such as the international engineering contracting business and trading business. In order to safeguard the interests of the Company and its Shareholders against such the potential competition from SINOMACH Group, the Company has entered into the Non-Competition Agreement, dated July 12, 2011 and as amended on December 10, 2012, with SINOMACH. Pursuant to the Non-Competition Agreement, including among other things, SINOMACH undertakes to transfer its equity interests held in CNCEC to the Company within three years upon the listing of the Company in order to eliminate any potential competition between SINOMACH Group and the Group. In addition, to facilitate a smooth transfer of SINOMACH's equity interest in CNCEC pursuant to the undertaking made by SINOMACH as set out in the Non-Competition Agreement, the Company and SINOMACH entered into the Equity Custodian Agreement, pursuant to which SINOMACH entrusts the Company to manage CNCEC on its behalf. Therefore, the Directors believe that the Acquisition is a key and timely step for SINOMACH to honor its non-competition undertakings, which would enable the Company to better utilize such business integration to strengthen its competitiveness of its core business.

We further note that both the Group and CNCEC are leading international engineering contractor and service provider with a primary focus on EPC projects and particular expertise in the power sector, capable of providing one-stop customized and integrated engineering contracting solutions and services. Through the Acquisition, favourable synergies can be achieved with optimized resource allocation: (i) the Company will be able to increase its assets, revenue and profits, expand its business scale, avoid repeated and inefficient investments and reduce development costs, thus achieving economies of scale; (ii) upon completion of the Acquisition, the Company will be able to further develop its similar business in the existing markets and expand the business scale and efficiency by leveraging CNCEC's experience and professional teams in its own business and industries (such as agriculture); and (iii) upon completion of the Acquisition, CNCEC will be able to further develop its business and expand the business scale and efficiency within the existing fields by taking advantage of the Company's well-known brand, strong and proven track records and reputation, extensive financial resources and financing capability as well as commercial operation capability. As such, the Directors are of the view that the Acquisition is in line with the Group's long term business strategy and synergies will be generated from the Acquisition in terms of enhanced engineering contracting project management capabilities and expansion of business scale.

As mentioned in the section headed "Information on CNCEC", under the long term Framework Agreement between CNCEC and Ukraine government, CNCEC would import corn, soybeans and other crops from Ukraine and Ukrainian side would purchase goods from CNCEC including fuel, mineral fertilizers, pesticides, seeds and agricultural machinery. The Framework Agreement aims to promoting cooperation in the field of Ukrainian agriculture and development of bilateral long-term friendly relations between China and Ukraine. The Directors have always been proactive in seeking opportunities for diversifying of the scope of business of the Group and are optimistic to the bilateral relations between China and Ukraine. We note that the food trade business has already represented one of core businesses of CNCEC and generated large portion of revenue and profit of CNCEC in recent years. The Directors considered that the food trade business would provide stable income for the Group while at the same time the Group would have the benefits from diversification in agriculture related business.

Furthermore, we note that the Company is undertaking international engineering contracting projects in more than 48 countries and regions, mainly in Asia, Africa, Europe and South America. Over more than ten years of overseas development, CNCEC has secured and completed a number of major contracting projects in Zambia, Angola, Ukraine and Russia, etc. and has built up favourable industrial and channel resources and established its experienced project team which is familiar with the local practices and situation. Those are the key areas in which the Company places great interest and intends for in-depth development. Through the Acquisition, the Company will be able to leverage the existing resources of CNCEC in the above-mentioned areas to develop and explore the local engineering contracting business and expand its business frontier.

In light of the above, we concur with the management of the Company that (i) the Acquisition intents to avoid the potential competition between SINOMACH Group and the Group and materialize the acquisition intention stated in the Prospectus; (ii) the Acquisition is in line with the Group's long term business strategy and aims to strengthen the leading position of the Group through creating synergy effects; (iii) the Acquisition will enrich the business scope of the Group and enhance the revenue stream of the Group with the income generated by CNCEC; and (iv) the Acquisition will help the Company to expand its business presence by consolidating position in existing geographic markets and effectively entering new regions. As such, we are of the view that the Acquisition is in the interests of the Company and the Independent Shareholders as a whole.

4. Principal terms of the Acquisition

The Acquisition Agreement

Date	February 5, 2016
Parties	(1) The Company (as Purchaser); and (2) SINOMACH (as Seller).
Interests to be acquired	The entire equity interest in CNCEC held by SINOMACH.

Consideration

The aggregate consideration for the transfer of the entire equity interest in CNCEC by SINOMACH to the Company is RMB532,678,100 (equivalent to approximately HK$634,299,170). The consideration was determined after arm's length negotiations between the parties to the Acquisition Agreement, taking into account the total equity interest of CNCEC as at June 30, 2015 (the "Benchmark Date"), based on the Valuation Report produced by Beijing Zhuoxindahua Appraisal Co., Ltd. (北京卓信大華資產評估有限公司), an independent appraiser, adopting the income approach. The Company shall be entitled to the profits generated or assume the losses incurred by CNCEC as applicable for the period from the Benchmark Date to the Completion Date.

Profit Forecast in relation to the Valuation Report

Given that the appraisal of CNCEC has adopted the use of the income approach, which involves the discounted cash flow method, such valuation is regarded as a profit forecast under Rule 14.61 of the Listing Rules.

Pursuant to Rule 14.62(1) of the Listing Rules, the principal assumptions upon which the Valuation Report has been prepared are set out below:

(1) Assuming the appraised enterprise will continue as a going concern after the Benchmark Date.

(2) Assuming that both parties, whose assets are in trading or proposed to be traded on the market, have equal status, chance and time to obtain enough market information, so as to make rational judgment on the transaction value of the appraised enterprise.

(3) There is no significant change in the current applicable laws, regulations and policies of the country and the national macroeconomic situation; there is no significant change to the political, economic and social environment of the areas at which the parties of this transaction are located.

(4) Assuming the operator is responsible for the appraised enterprise and the appraised enterprise's management is competent for its job.

(5) Assuming the appraised enterprise maintains the existing management style and level, business scope and mode.

(6) Assuming the appraised enterprise complies with all relevant laws and regulations, unless otherwise stated.

(7) Assuming that the accounting policies that the appraised enterprises will adopt are the same as the accounting policies adopted when preparing this Report in material aspects.

(8) There are no significant change in interest rates, exchange rates, tax base, tax rates and policy-based collection costs.

(9) There are no force majeure events or unforeseeable factors that may have material adverse impact on the appraised enterprise.

Payment Terms

The consideration for the Acquisition Agreement will be settled by cash on the Completion Date.

Conditions Precedent

The Company's payment obligation shall be conditional on, among other things, the following conditions having been fulfilled or waived partially or entirely by the Company:

(1) SINOMACH and CNCEC have obtained their respective internal corporate approvals and authorizations;

(2) The Company has obtained its internal corporate approvals and authorizations, including the Independent Shareholders' approval and authorization;

(3) SINOMACH has approved the Acquisition and completed the registration of the valuation results of CNCEC;

(4) CNCEC has completed the change of registration in relation to the Acquisition with relevant industrial and commercial administration;

(5) There has been no material adverse change to CNCEC as at or up to the Completion Date;

(6) The representations and warranties made by SINOMACH remain true, accurate, complete and not misleading and have been fulfilled by SINOMACH as at or up to the Completion Date; and

(7) The business, financial and legal due diligence on CNCEC conducted by the Company have been completed, the results of which are satisfactory to the Company.

Indemnity	SINOMACH agrees to fully indemnify the Company against all actions, claims, proceedings, losses, liabilities, damages and whatsoever the Company may suffer after the Completion Date which arise out of or are in connection with any act or omission of CNCEC incurred prior to the Completion Date.
Completion	Completion shall take place on the 5th Business Day from the date on which all the conditions precedent set out in the Acquisition Agreement have been fulfilled or waived by the Company in writing, or any other date agreed by SINOMACH and the Company (the "Completion Date"). Upon completion, the Company will hold 100% equity interest in CNCEC, and SINOMACH will cease to hold any equity interest in CNCEC.

5. Basis of determining the consideration

As stated in the Circular, the consideration for the Acquisition was arrived on an arm's length basis negotiations between the parties to the Acquisition Agreement, taking into account the total equity interest of CNCEC as at Benchmark Date, based on the Valuation Report by Beijing Zhuoxindahua Appraisal Co., Ltd ("the Valuer"), adopting the income approach.

(i) Valuation Report

In order to assess the basis in determining the consideration of the Acquisition, we have reviewed the Valuation Report produced by the Valuer and discussed with the Valuer and the management of the Company. For our due diligence purpose, we have reviewed and enquired the Valuer's qualification and experience in relation to the performance of the valuation. The Valuer is a qualified asset appraisal firm authorised by the Ministry of Finance of the PRC to perform valuation works in the PRC. We have discussed with the Valuer in relation to their experiences and understood that Mr. Liu Haoyu ("Mr. Liu"), the chief appraiser of the Valuer, is a registered professional surveyor who has many years of experience in valuing business in the PRC. Given that Mr. Liu has plenty of practical experience in the valuating business in the PRC as stated above, we are of the view that he is qualified to provide a reliable valuation of the total equity interest of CNCEC. We believe that the Valuer has sufficient qualifications and experience in valuing similar assets and transactions for a number of listed companies in the PRC and Hong Kong over the years.

We further understand that the Valuer is independent from the Company and the other parties involved in the Acquisition. In addition, we have also reviewed the terms of the engagement of the valuation and noted that the scope of work is appropriate to the opinion required to be given and we are not aware of any limitation on the scope of work which might have an adverse impact on the degree of assurance given by the Valuer. Based on the above, we are of the view that the scope of work of the Valuer is appropriate and the Valuer is qualified for valuing the total equity interest of CNCEC.

(i) Valuation methodologies

We understand from the Valuer that they have adopted the income approach in valuation of the total equity interest of CNCEC.

We understand that the Valuer has considered three valuation approaches, including the asset-based approach (an approach to evaluate the value of various assets and liabilities on and off the balance sheet of target company in a reasonable manner and determine the value of valuation subject on the basis of the balance sheet as at Benchmark Date), income approach (essentially an approach to estimate the future economic benefits and discount these benefits to its present value using a discount rate) and market approach (an approach by comparison of the prices at which other similar business nature companies or equity interest in companies that were recently sold). Income approach is adopted by the Valuer, given the relatively reliable predictability and viability of future economic inflows as CNCEC is principally engaged in urban infrastructure and trading of agricultural products since 1985 and currently generating stable profits. Asset-based approach is also adopted by the Valuer, but the appraisal result of income approach is taken as the final appraisal value of total equity interest of CNCEC, as the asset-based approach does not take into account the future economic benefits. The market approach is not applied by the Valuer due to the difficulty in identifying sufficient market transactions as comparables.

Under the income approach, the appraisal value of total equity interest of CNCEC depends on the present worth of future economic benefits expected to be generated from CNCEC. The Valuer applied the discounted cash flow method ("DCF") to discount the future free cash flow ("FCFF") of CNCEC at a discount rate (i.e. weighted average cost of capital ("WACC")) to reflect all business risks including intrinsic and extrinsic uncertainties in relation to CNCEC.

(ii) Discount rate

WACC is a commonly used discount rate by multiplying the cost of each capital component by its proportional weight and then summing. In estimating the required rate of return on equity ("Ke") of CNCEC, the Valuer has adopted the capital assets pricing model, which is generally accepted model in estimating Ke. We understand from the Valuer that the equation of Ke is "$Ke = Rf + \beta*ERP + Rc$", where

– “Rf” refers to risk free rate which is based on 10-year China government bond yield;

– “β”, beta, represents the sensitivity of the expected excess asset returns to the expected excess market returns, which is calculated from the unlevered beta of comparable publicly listed companies in similar industry in the PRC selected by the Valuer as at Benchmark Date and taking into account the capital structure of CNCEC;

– “ERP” stands for market risk premium which is the rate of return required by equity investors beyond the risk free rate; and

– “Rc” refers to the individual risk premium of the valued company, which, according to the Valuer, usually ranges from 1% to 5%. Given that CNCEC is a private company and relatively small in terms of the business size compared with comparable publicly listed companies, the Valuer has applied 3% as individual risk premium to reflect the other specific risks in valuation of CNCEC.

In determining the required rate of return on debt (“Kd”) of CNCEC, the Valuer has applied the 5-year loan rate as per PBOC and used 25% as corporate tax rate. WACC is then arrived by summing the proportional weight of Ke and after-tax Kd.

We have discussed with the Valuer and reviewed the detailed analysis in determining the discount rate. We understand that the discount rate is determined with reference to the publicly available data adjusted by company’s capital structure and specific risk and based on the professional judgement and internal research of the Valuer. We are of the view that the discount rate adopted in the valuation of CNCEC is fair and reasonable.

(iii) Cash flow forecast

In applying the DCF method, the FCFF for each year is determined by the management of CNCEC. FCFF is the cash available to all investors, including both equity holders and debt holders. The future economic benefits (including terminal value) are mainly represented by a year-by-year projection of CNCEC’s FCFF for a period starting from June 2015 to the end of 2019. Thereafter, the Valuer has assumed that CNCEC’s FCFF would be constant at the level of 2019. In assessing the fairness and reasonableness of the FCFF, the Valuer has examined the historical financial results of CNCEC and conducted its own industry research to cross check the reasonableness of the projected FCFF given by the management of CNCEC.

After review of the Valuation Report and discussion with the Valuer, we understand that FCFF is calculated by deducting non-cash income, investment in capital expenditure and working capital changes from the net profit, and then adding back the non-cash expenses including depreciation and amortization and after-tax interest expense. We consider that the calculation of FCFF applied by the Valuer is appropriate.

In accordance with Rule 14.62 of the Listing Rules, the Company has engaged Ernst & Young who have reported to the Directors regarding the calculations of the discounted future cash flows forecast used in the valuation. In their opinion, the discounted future cash flows forecast, so far as the arithmetical accuracy of the calculations of the discounted future cash flows forecast is concerned, have been properly complied on the basis of the assumptions made by the Directors. The financial adviser of the Company has also confirmed that they are satisfied that the discounted cash flow forecast underlying the Valuation Report has been made by the Valuer and the Directors after due and careful enquiry. The Directors have confirmed that the forecasts upon which the valuation has been made, for which they are solely responsible, have been made after due and careful enquiry. The letters from Ernst & Young and ICBCI are set out in appendix I and II to the Circular respectively.

(iv) Other assumptions

In conducting the valuation of the total equity interest of CNCEC, the Valuer has made the following key assumptions: (i) the valuation is based on the assumption of continuous operation of CNCEC; (ii) the assets to be appraised can be transacted in the open market to realize its market value, and the willing buyers and sellers who are equal to have the opportunities and time to gain sufficient market information, whereby the transaction is conducted on a willing and rational basis; (iii) there will be no material change in the existing political, legal, technological, fiscal or economic conditions, which might adversely affect the business of the Company; (iv) the key management are all competent and responsible; (v) the management style, strategic planning and principal activities of CNCEC will be maintained; (vi) CNCEC will comply with the laws and regulations and there will not be non-compliance issues which would materially impact the development and earnings of CNCEC; (vii) there will be no material changes in accounting standards in compilation of financial statements of CNCEC; (viii) there will be no material changes in government policies regarding interest rate, exchange rate, tax basis and tax rate; and (ix) there will be no force majeure factors or unexpected conditions associated with the assets valued that might adversely affect the reported values.

We believe that these key assumptions are generally adopted in similar valuation activities and are necessary for the Valuer to arrive at a reasonable estimated valuation of the total equity interest of CNCEC. We are therefore satisfied that the abovementioned major assumptions are fair and reasonable in relation to the Valuation Report.

Having considered (i) the independence, qualification and experience of the Valuer; and (ii) the relevant application of the valuation methodology, we are of the view that valuation was carried out on a fair and reasonable basis by the Valuer and we concur with the Valuer's opinion. As such, we consider the valuation is a fair reference for Independent Shareholders to assess the fairness and reasonableness of the market value of the total equity interest of CNCEC.

(ii) Comparable Companies

In order to assess the fairness and reasonableness of the consideration of the Acquisition, we have attempted to identify comparable companies (the "Comparable Companies") that (i) are currently listed on the Main Board of the Stock Exchange; and (ii) are primarily engaged in engineering contracting business.

The Comparable Companies have been selected exhaustively based on the above criteria, which have been identified, to the best of our endeavours, in our research through public information.

In our assessment, we have considered the Price-to-earnings Ratio (the "P/E") and the Price-to-book Ratio (the "P/B"), which are commonly used to assess the financial valuation of a company engaged in engineering and contracting businesses. The P/E and P/B analysis of the Comparable Companies is shown in Table 3 below.

Table 3 – Comparable Companies analysis on P/B and P/E

Company name	**Ticker**	**Market capitalisation** *(HK$ million) (Note 1)*	**P/B** *(times) (Note 2)*	**P/E** *(times) (Note 3)*
CRCC High Tech Equipment Corporation Limited	1786 HK	1,861.65	1.03	8.21
Beijing Urban Construction Group Co., Ltd	1599 HK	1,567.27	1.67	10.34
China Aluminum International Engineering Corporation Limited	2068 HK	659.14	0.55	5.16
Hsin Chong Construction Group Ltd	404 HK	3,778.91	0.43	5.15
Chevalier International Holdings Limited	25 HK	3,441.98	0.43	2.19
Wison Engineering Services Co. Ltd	2236 HK	3,089.11	1.57	16.05
Grand Ming Group Holdings Limited	1271 HK	2,768.69	1.31	8.44
Tysan Holdings Limited	687 HK	2,580.26	0.94	6.46
Far East Global Limited	830 HK	2,198.66	1.90	38.06
		Average	1.09	11.12
		Maximum	1.90	38.06
		Minimum	0.43	2.19
CNCEC *(Note 4)*			1.88	5.53

Source: Stock Exchange, latest financial reports of the Comparable Companies and Bloomberg

Notes:

1. The market capitalisations of the Comparable Companies are calculated by multiplying the share price and number of issued shares of the respective companies as at the Latest Practicable Date.

2. The P/Bs of the Comparable Companies are calculated by dividing their market capitalisation by the net asset value ("NAV") attributable to the owners of the respective companies according to their latest financial reports.

3. The P/Es of the Comparable Companies were calculated by dividing their market capitalisation by the net profit attributable to the owners of the respective companies recorded in the trailing twelve-month period.

4. The implied P/B of CNCEC is calculated by dividing the consideration of the Acquisition by the NAV attributable to the owners of CNCEC as at June 30, 2015. The implied P/E of CNCEC is calculated by dividing the consideration of the Acquisition by the net profit attributable to the owners of CNCEC for the year ended December 31, 2014.

As illustrated above, the P/Bs of the Comparable Companies range from approximately 0.43 times to approximately 1.90 times (the "Comparable Companies P/B Range"), with an average of approximately 1.09 times (the "Average Comparable Companies P/B").

Further, the P/Es of the Comparable Companies range from approximately 2.19 times to approximately 38.06 times (the "Comparable Companies P/E Range"), with an average of approximately 11.12 times (the "Average Comparable Companies P/E").

We note that the implied P/B and P/E of CNCEC are 1.88 and 5.53 times, respectively, which the implied P/B of CNCEC is higher than the Average Comparable Companies P/B but within the Comparable Companies P/B Range. The implied P/E of CNCEC is lower than the Average Comparable Companies P/E and within the Comparable Companies P/E Range.

Furthermore, it was previously discussed in the section headed "Information on CNCEC" that the trading business has continued to have greater contribution to the overall revenue and net profit. As such, we have also carried out a separate comparable companies analysis which focus on companies that are primarily engaged in food trading business to reflect the most recent revenue driver of CNCEC. However, we would like to reiterate to the Independent Shareholders that the divergent of core business segment to food trading business is likely to be temporary according to our discussion with the management of the Company. It is understood that CNCEC has continued to secured more engineering contracting businesses but the underlying projects has yet to be materialised as the relevant projects schedules have been delayed. Therefore, the contribution from engineering contracting business is expected to pick up and revert to the normal level.

In order to further assess the fairness and reasonableness of the consideration of the Acquisition, we have attempted to identify second set of comparable companies (the "Comparable Food Trading Companies") that (i) are currently listed on the Main Board of the Stock Exchange; and (ii) are primarily engaged in food trading business.

The Comparable Food Trading Companies have been selected exhaustively based on the above criteria, which have been identified, to the best of our endeavours, in our research through public information.

Table 4 – Comparable Food Trading Companies analysis on P/B and P/E

Company name	**Ticker**	**Market capitalisation** *(HK$ million)* *(Note 1)*	**P/B** *(times)* *(Note 2)*	**P/E** *(times)* *(Note 3)*
Tenwow International Holdings Limited	1219 HK	4,375.32	1.43	10.48
China Beidahuang Industry Group Holdings Limited	39 HK	2,336.64	5.54	N/M (Note 5)
Golden Resources Development International Limited	677 HK	728.59	0.55	5.06
		Average	2.51	7.77
		Maximum	5.54	10.48
		Minimum	0.55	5.06
CNCEC *(Note 4)*			1.88	5.53

Source: Stock Exchange, latest financial reports of the Comparable Food Trading Companies and Bloomberg

Notes:

1. The market capitalisations of the Comparable Food Trading Companies are calculated by multiplying the share price and number of issued shares of the respective companies as at the Latest Practicable Date.

2. The P/Bs of the Comparable Food Trading Companies are calculated by dividing their market capitalisation by the NAV attributable to the owners of the respective companies according to their latest financial reports.

3. The P/Es of the Comparable Food Trading Companies were calculated by dividing their market capitalisation by the net profit attributable to the owners of the respective companies recorded in the trailing twelve-month period.

4. The implied P/B of CNCEC is calculated by dividing the consideration of the Acquisition by the NAV attributable to the owners of CNCEC as at June 30, 2015. The implied P/E of CNCEC is calculated by dividing the consideration of the Acquisition by the net profit attributable to the owners of CNCEC for the year ended December 31, 2014.

5. N/M refers to not meaningful.

As illustrated above, the P/Bs of the Comparable Food Trading Companies range from approximately 0.55 times to approximately 5.54 times (the "Comparable Food Trading Companies P/B Range"), with an average of approximately 2.51 times (the "Comparable Food Trading Companies P/B").

Further, the P/Es of the Comparable Food Trading Companies range from approximately 5.06 times to approximately 10.48 times (the "Comparable Food Trading Companies P/E Range"), with an average of approximately 7.77 times (the "Average Comparable Food Trading Companies P/E").

We note that the implied P/B and P/E of CNCEC are 1.88 and 5.53 times, respectively, which are lower than both the Average Comparable Food Trading Companies P/B and Average Comparable Food Trading Companies P/E and are within the Comparable Food Trading Companies P/B Range and Comparable Food Trading Companies P/E Range.

In light of the comparable companies above, we are of the view that the consideration of the Acquisition is fair and reasonable in this regard.

(iii) Comparable Transactions

In order to assess the fairness and reasonableness of the aggregate consideration, to the best of our endeavours, we have further reviewed transactions announced by companies listed on the Main Board of the Stock Exchange over the past two years which (i) were subject to shareholders' approval under the Listing Rules; and (ii) involved acquisition or disposal of company(ies) which are primarily engaged in engineering contracting business (the "Comparable Transactions"). We consider that two years is a reasonable period as the transactions announced over two years were out-of-date and were performed in a different market environment and hence might had a different pricing basis.

The Comparable Transactions were selected exhaustively based on the above criteria, which have been identified, to our best endeavour, in our research through public information.

In our assessment, we have considered P/B and P/E as our benchmarks as set out in Table 5 below.

Table 5 – Comparable Transactions analysis

Announcement date	Acquirer	Target company	Transaction size *(million)*	P/B *(times)* *(Note 1)*	P/E *(times)* *(Note 2)*
Dec 6, 2015	Huazhang Technology Holding Limited	Wuhan Wukong Control System Engineering Co., Limited	RMB7.42	1.01 *(Note 3)*	8.15 *(Note 3)*
Dec 4, 2015	AMCO United Holding Limited	ACE Engineering Limited	HK$20.5	5.77	14.36
			Average	3.39	11.26
			Maximum	5.77	14.36
			Minimum	1.01	8.15
CNCEC *(Note 4)*				1.88	5.53

Source: Stock Exchange, Bloomberg and respective announcements or circulars

Notes: 1. The P/Bs of the Comparable Transactions are calculated by dividing the consideration of the respective transaction by the latest NAV figure as disclosed in the respective announcements.

2. The P/Es of the Comparable Transactions are calculated by dividing the consideration of the respective transaction by the latest net profit attributable to the owners of the respective companies recorded in the trailing twelve-month period.

3. The acquirer acquired only 70% of the equity interest of the target company. As such, only 70% of the NAV and the net profit attributable to the owners of the company had been adopted to reflect a more accurate valuation of the transaction.

4. The implied P/B of CNCEC is calculated by dividing the consideration of the Acquisition by the NAV attributable to the owners of CNCEC as at June 30, 2015. The implied P/E of CNCEC is calculated by dividing the consideration of the Acquisition by the net profit attributable to the owners of CNCEC for the year ended December 31, 2014.

As illustrated above, the P/Bs of the Comparable Transactions range from approximately 1.01 times to approximately 5.77 times (the "Comparable Transactions P/B Range"), with an average of approximately 3.39 times (the "Average Comparable Transactions P/B"). Further, the P/Es of the Comparable Companies Transactions ranges from approximately 8.15 times to approximately 14.36 times (the "Comparable Transactions P/E range") with an average of approximately 11.26 times (the "Average Comparable Transactions P/E").

We note that the implied P/B and P/E of CNCEC of 1.88 times and 5.53 times, respectively, are both lower than the Average Transactions P/B and the Average Comparable Transactions P/E. In addition, both implied P/B and P/E of CNCEC are within the Comparable Transactions P/B range and the Comparable Transactions P/E range. As such, we are of the view that the consideration of the Acquisition is fair and reasonable is this regard.

Lastly, we would like to highlight to the Independent Shareholders that, to the best of our endeavour, no comparable transactions which involved acquisition or disposal of food trading company(ies) were found, and hence, it is unable to perform analysis similar to the approach adopted in the Comparable Companies analysis above. However, we consider that the sole reliance on the above data set is fair as we have taken into account the business nature of CNCEC going forward and the high contribution of income generated from food trading business to be temporary.

Therefore, having taken into account that (i) we have considered the current and future business prospect and nature, industry and financial condition of CNCEC; (ii) we have discussed with the Valuer and reviewed the Valuation Report; (iii) the major assumptions made in connection with the income approach are reasonable; (iv) the Valuer is a qualified independent third party to conduct valuation; and (v) the consideration of CNCEC is fair reasonable as compared to the Comparable Companies and Comparable Transactions, we are of the view that the basis in determining the consideration of CNCEC are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

6. Financial Impacts of the Acquisition

6.1 Effect on earnings

As disclosed in the 2015 Interim Report of the Company, the net profit attributable to the owners of the parent for the six months ended June 30, 2015 was approximately RMB820 million.

Upon completion of the Acquisition, CNCEC will become a subsidiary of the Company and the result of CNCEC (net profit attributable to owners of CNCEC of approximately RMB97 million and approximately RMB109 million for the year ended December 31, 2014 and the six months ended June 30, 2015 respectively) will be consolidated into the consolidated financial statements of the Group. As such, the Acquisition is expected to have a positive financial impact on the Group's recurring earnings but the precise financial impact cannot be estimated at this moment.

As such, we consider that the Acquisition will have a potential positive impact on earnings of the Group.

6.2 Effect on net asset value

As disclosed in the 2015 Interim Report of the Company, the unaudited net asset value attributable to owners of the parent as at June 30, 2015 was approximately RMB13,019 million.

Although the consideration of the Acquisition is at a premium to the net asset value of CNCEC, we consider such premium could be allocated as goodwill and therefore no direct impact to the net asset value of the Group after the Acquisition. As discussed in the "Effect on earnings", CNCEC recorded profits in recent years, therefore we consider the Acquisition will potentially improve its net asset value of the Group in future. Although the exact effect of the Acquisition to net asset value of the Group cannot be quantified at the moment, the management of the Company is of positive view in future economic benefits from CNCEC.

Therefore, we consider that the Acquisitions will have a potential positive impact on net asset value of the Group.

6.3 Effect on cash/working capital

As disclosed in the 2015 Interim Report of the Company, the Group had current assets of approximately RMB32,085 million including cash and cash equivalents of approximately RMB18,447 million and current liabilities of RMB24,145 million. Considered the relatively small amount of consideration of the Acquisition of approximately RMB533 million, we believed that the effect on cash/working capital will be limited.

As such, we are of the view that the Acquisition will not have a material adverse impact on the cash position and the working capital of the Group.

In light of:

(i) the potential positive effect on the earnings of the Group;

(ii) the potential positive impact on the net asset value of the Group; and

(iii) no material adverse impact on the cash position and the working capital of the Group, we are of the view that the Acquisition will have an overall potential positive financial effect on the Group and is in the interests of the Company and the Shareholders as a whole.

RECOMMENDATION

In relation to the Acquisition, we have considered the above principal factors and reasons, in particular, having taken into account the following in arriving at our opinion:

(i) the entering into of the Acquisition Agreement is directly in line with the Company's overall business strategy and in the interests of the Company and the Shareholders as a whole;

(ii) the reasons for and benefits of the Acquisition are in the interests of the Company and the Shareholder as a whole;

(iii) the consideration of the Acquisition is fair and reasonable so far as the Shareholders are concerned; and

(iv) the Acquisition will have a potential positive financial impact on the Group and is in the interests of the Company and the Shareholders as a whole.

Having considered the above, we are of the view that the Acquisition is in the ordinary and usual course of business of the Company, on normal commercial terms, and the terms of the Acquisition Agreement are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

Accordingly, we advise the Independent Board Committee to recommend, and we ourselves recommend the Independent Shareholders to vote in favour of the resolutions in relation to the Transactions to be proposed at the first EGM.

Yours faithfully,
For and on behalf of
Platinum Securities Company Limited

Li Lan
Director and Co-head of Corporate Finance

Mr. Li Lan is a licensed person registered with the Securities and Futures Commission and as responsible officers of Platinum Securities Company Limited to carry out Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities under the SFO. Mr. Li Lan has over ten years of experience in corporate finance industry.

February 5, 2016

The Directors

China Machinery Engineering Corporation
No. 178, Guang'anmenwai Street
Xicheng District
Beijing, China

Dear Sirs,

We have performed the work described below, in respect of the arithmetical accuracy of the calculations of the discounted future cash flows forecast (hereinafter referred to as the "Underlying Forecast") underlying the valuation dated December 31, 2015 prepared by Beijing Zhuoxindahua Appraisal Co., Ltd. (北京卓信大華資產評估有限公司) in respect of China National Complete Engineering Corporation (中國成套工程有限公司) (the "Target Company") as at June 30, 2015. The Underlying Forecast is regarded as a profit forecast under paragraph 14.61 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules").

RESPECTIVE RESPONSIBILITIES OF DIRECTORS OF THE COMPANY AND REPORTING ACCOUNTANTS

It is the responsibility solely of the directors (the "Directors") of China Machinery Engineering Corporation (the "Company") to prepare the Underlying Forecast. The Underlying Forecast has been prepared using a set of assumptions (the "Assumptions"), the completeness, reasonableness and validity of which are the sole responsibility of the Directors.

It is our responsibility to draw a conclusion, based on our work on the arithmetical accuracy of the calculation of the Underlying Forecast and to present our conclusion sorely to you, as a body, for the purpose of reporting under paragraph 14.62(2) of the Listing Rules and for no other purpose. We are not reporting on the appropriateness and validity of the bases and Assumptions on which the Underlying Forecast are based and our work does not constitute any valuation of Target Company. The Underlying Forecast does not involve the adoption of accounting policies. The Assumptions used in the preparation of the Underlying Forecast include hypothetical assumptions about future events and management actions that may or may not occur. Even if the events and actions anticipated do occur, actual results are still likely to be different from the Underlying Forecast and the variation may be material. We have not reviewed, considered or conducted any work on the completeness, reasonableness and the validity of the Assumptions and thus express no opinion whatsoever thereon. Our work is more limited than that for a reasonable assurance engagement, and therefore less assurance is obtained than in a reasonable assurance engagement. We also accept no responsibility to any other person in respect of, arising out of, or in connection with our work.

BASIS OF CONCLUSION

We conducted our work in accordance with International Standards on Assurance Engagements 3000 "Assurance Engagements Other Than Audits or Reviews of Historical Financial Information" issued by the International Accounting Standards Board. Our work consisted primarily of checking the arithmetical accuracy of the calculations, of the Underlying Forecast prepared based on the Assumptions made by the Directors. Our work has been undertaken solely to assist the Directors in evaluating whether the Underlying Forecast, so far as the arithmetical accuracy of the calculations is concerned, has been properly complied in accordance with the Assumptions made by the Directors. Our work does not constitute any valuation of Target Company as at June 30, 2015.

CONCLUSION

Based on our work described above, nothing has come to our attention that causes us to believe that the Underlying Forecast, so far as the arithmetical accuracy of the calculations of the Underlying Forecast is concerned, has not been properly complied on the basis of the Assumptions made by the Directors.

Yours faithfully,
Ernst & Young
Certified Public Accountants
Hong Kong

February 6, 2016

The Board of Directors
China Machinery Engineering Corporation
No. 178 Guang'anmenwai Street
Beijing, PRC

Dear Sirs,

We refer to the valuation prepared by Beijing Zhuoxindahua Appraisal Co., Ltd (the "**Valuer**") in relation to 100% equity interest in China National Complete Engineering Corporation (the "**Valuation**"), which is set out in the valuation report, dated December 31, 2015, referred to in the circular of China Machinery Engineering Corporation (the "**Company**") dated February 6, 2016 relating to the Acquisition (the "**Circular**"). Capitalized terms used in this letter have the same meanings as those defined in the Circular, unless the context otherwise requires.

The Valuation has been arrived at using the discounted cash flow method and is regarded as a profit forecast (the "**Forecast**") under Rule 14.61 of the Listing Rules. We, as financial advisers to the Company in relation to the Acquisition, have reviewed the Forecast upon which the Valuation has been made, for which you as the Directors are solely responsible, and have discussed with the management of the Company and the Valuer the bases and assumptions upon which the Forecast has been prepared. We have also considered the letter from Ernst & Young ("**EY**") dated February 5, 2016 addressed to yourselves as set out in Appendix I to the Circular regarding the calculations of the discounted future estimated cash flows. We noted that in the opinion of EY that the discounted future cash flows, so far as the calculations are concerned, have been properly compiled in all material respects in accordance with the bases and assumptions adopted by the Directors.

On the basis of the foregoing and without giving any opinion on the reasonableness of the valuation methods, bases and assumptions adopted by the Valuer and the Company for which the Valuer and the Company are solely responsible, we are of the opinion that the Forecast, for which you as the Directors are solely responsible, have been made by you after due and careful enquiry.

The work undertaken by us in giving the above opinion has been undertaken for the purpose of reporting solely to you under Rule 14.62(3) of the Listing Rules and for no other purpose. We accept no responsibility to any other person in respect of, arising out of or in connection with our work.

Yours faithfully
For and on behalf of
ICBC International Capital Limited
Danny Lee
Managing Director

ICBC International Capital Limited
Anny Lian
Managing Director

1. RESPONSIBILITY STATEMENT

This circular, for which the Directors collectively and individually accept full responsibility, includes particulars given in the compliance with the Listing Rules for the purpose of giving information with regard to the Group. 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 therein or in this circular misleading.

2. DISCLOSURE OF INTERESTS

Interests of the Directors, Supervisors and Chief Executives

As at the Latest Practicable Date, none of the Directors, the Supervisors or the chief executives of the Company had an interest or short position in any Shares, underlying Shares or debentures of the Company or any associated corporation (within the meaning of Part XV of the SFO) which would have 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 short positions which he/she was taken or deemed to have under such provisions of the SFO) or which was required, pursuant to section 352 of the SFO, to be entered in the register referred to therein, or pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules to be notified to the Company and the Stock Exchange.

As at the Latest Practicable Date, none of the Directors was a director or employee of a company that had an interest or short position in the Shares and underlying Shares that would need to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO.

Interests of Substantial Shareholders

As at the Latest Practicable Date, so far as known to the Directors, the Supervisors or the chief executives of the Company, the following persons (not being a Director, Supervisor or chief executive of the Company) and entities had interests or short positions in the shares or underlying shares of the Company that would need to be disclosed to the Company pursuant to Divisions 2 and 3 of Part XV of the SFO:

Name of Shareholders	Class of Shares	Capacity/Nature of Interest	Number of Issued Shares/ Underlying Shares Held *(Share)*	Approximate Percentage of Shareholding in the Relevant Class of Shares *(Note 1)* *(%)*	Approximate Percentage of Shareholding in the Total Shares *(Note 1)* *(%)*
SINOMACH	Domestic Shares	Interests of beneficial owner and controlled corporation	3,217,430,000 *(Note 2)* (Long position)	100%	77.99%
NSSF	H Shares	Interests of beneficial owner	81,352,000 (Long position)	8.96%	1.97%

Name of Shareholders	Class of Shares	Capacity/Nature of Interest	Number of Issued Shares/ Underlying Shares Held *(Share)*	Approximate Percentage of Shareholding in the Relevant Class of Shares *(Note 1)* *(%)*	Approximate Percentage of Shareholding in the Total Shares *(Note 1)* *(%)*
BNP Paribas Jersey Nominee Company Limited	H Shares	Nominee for another person	54,064,000 *(Note 3)* (Long position)	5.95%	1.31%
BNP Paribas Jersey Trust Corporation Limited	H Shares	Trustee	54,064,000 *(Note 3)* (Long position)	5.95%	1.31%
Cheah Capital Management Limited	H Shares	Interests of controlled corporation	54,064,000 *(Note 3)* (Long position)	5.95%	1.31%
Cheah Company Limited	H Shares	Interests of controlled corporation	54,064,000 *(Note 3)* (Long position)	5.95%	1.31%
Value Partners Group Limited	H Shares	Interests of controlled corporation	54,064,000 *(Note 3)* (Long position)	5.95%	1.31%
Cheah Cheng Hye	H Shares	Founder of a discretionary trust	54,064,000 *(Note 3)* (Long position)	5.95%	1.31%
To Hau Yin	H Shares	Interests of spouse	54,064,000 *(Note 3)* (Long position)	5.95%	1.31%
Matthews International Capital Management, LLC	H Shares	Investment manager	73,672,000 (Long position)	8.11%	1.79%
JPMorgan Chase & Co.	H Shares	Interests of controlled corporation	99,769,096 *(Note 4)* (Long position)	10.98%	2.42%
			1,344,000 *(Note 5)* (Short position)	0.14%	0.03%
		Custodian	11,480,096 *(Note 6)* (interest in a lending pool)	1.26%	0.28%

Name of Shareholders	Class of Shares	Capacity/Nature of Interest	Number of Issued Shares/ Underlying Shares Held *(Share)*	Approximate Percentage of Shareholding in the Relevant Class of Shares *(Note 1)* *(%)*	Approximate Percentage of Shareholding in the Total Shares *(Note 1)* *(%)*
Morgan Stanley	H Shares	Interests of controlled corporation	55,124,406 *(Note 7)* (Long position)	6.06%	1.34%
			11,389,000 *(Note 8)* (Short position)	1.25%	0.28%
GIC Private Limited	H Shares	Investment manager	45,454,000 (Long position)	5.00%	1.10%

Notes:

(1) This percentage is calculated on the basis of the number of underlying Shares/total Shares that had been issued by the Company as of January 29, 2016.

(2) SINOMACH was beneficially interested in 3,185,260,000 Domestic Shares, representing approximately 77.21% of our total share capital. China United Engineering Corporation ("**China United**") was beneficially interested in 32,170,000 Domestic Shares, representing approximately 0.78% of our total share capital. Since China United is a wholly-owned subsidiary of SINOMACH, SINOMACH is, therefore, deemed to be interested in the Domestic Shares held by China United.

The following shares which are referred to in the notes above represent the same block of shares in which all the relevant parties are deemed under the SFO to be interested.

(3) The 54,064,000 Shares as referred to in note 3 above.

BNP Paribas Jersey Trust Corporation Limited, as trustee of The C H Cheah Family Trust, has 100% interest over BNP Paribas Jersey Nominee Company Limited. BNP Paribas Jersey Nominee Company Limited has 100% interest over Cheah Company Limited which in turn has 100% interest over Cheah Capital Management Limited. Cheah Capital Management Limited has 21.87% interest over Value Partners Group Limited which in turn has 100% interest over Value Partners Hong Kong Limited. Value Partners Hong Kong Limited has 100% interest over Value Partners Limited.

The C H Cheah Family Trust was set up by Mr. Cheah Cheng Hye. Madam To Hau Yin is the spouse of Mr. Cheah Cheng Hye and accordingly is deemed to be interested in the 54,064,000 Shares.

(4) The 99,769,096 Shares as referred to in note 4 above.

Among these 99,769,096 Shares, 11,480,096 Shares were held by JPMorgan Chase Bank, N.A., a wholly-owned subsidiary of JPMorgan Chase & Co., 141,000 Shares were held by J.P. Morgan Clearing Corp, an indirect wholly-owned subsidiary of JPMorgan Chase & Co., 8,902,000 Shares were held by China International Fund Management Co Ltd, an indirect non-wholly-owned subsidiary of JPMorgan Chase & Co., 531,000 Shares were held by JF International Management Inc., an indirect wholly-owned subsidiary of JPMorgan Chase & Co., 38,158,000 Shares were held by JF Asset Management Limited, an indirect wholly-owned subsidiary of JPMorgan Chase & Co., 2,893,000 Shares were held by JPMorgan Asset Management (Taiwan) Limited, an indirect wholly-owned subsidiary of JPMorgan Chase & Co., 3,813,000 Shares were held by J.P. Morgan Investment Management Inc., an indirect wholly-owned subsidiary of JPMorgan Chase & Co. and 33,851,000 Shares were held by J.P. Morgan Whitefriars Inc., an indirect wholly-owned subsidiary of JPMorgan Chase & Co. Accordingly, JPMorgan Chase & Co. is deemed to be interested in the 99,769,096 Shares.

(5) The 1,344,000 Shares as referred to in note 5 above.

1,344,000 Shares were held by J.P. Morgan Whitefriars Inc., an indirect wholly-owned subsidiary of JPMorgan Chase & Co. Accordingly, JPMorgan Chase & Co. is deemed to be interested in the 1,344,000 Shares.

(6) These 11,480,096 Shares in lending pool were held by JPMorgan Chase Bank, N.A., a wholly-owned subsidiary of JPMorgan Chase & Co. Accordingly, JPMorgan Chase & Co. is deemed as the holder of Shares in lending pool owned by its aforesaid subsidiary.

(7) The 55,124,406 Shares as referred to in note 7 above.

Among these 55,124,406 Shares, 43,325,231 Shares were held by Morgan Stanley Investment Management Company, an indirect non-wholly-owned subsidiary of Morgan Stanley, 11,123,175 Shares were held by Morgan Stanley & Co. International plc, an indirect non-wholly-owned subsidiary of Morgan Stanley, 613,000 Shares were held by Morgan Stanley Capital Services LLC, an indirect wholly-owned subsidiary of Morgan Stanley, 13,000 Shares were held by Morgan Stanley & Co. LLC, an indirect wholly-owned subsidiary of Morgan Stanley, 50,000 Shares were held by Morgan Stanley Smith Barney LLC, an indirect non-wholly-owned subsidiary of Morgan Stanley. Accordingly, Morgan Stanley is deemed to be interested in 55,124,406 Shares.

(8) These 11,389,000 Shares as referred to in note 8 above.

Among these 11,389,000 Shares, 9,461,800 Shares were held by Morgan Stanley & Co. International plc, an indirect non-wholly-owned subsidiary of Morgan Stanley, 1,927,200 Shares were held by Morgan Stanley Capital Services LLC, an indirect wholly-owned subsidiary of Morgan Stanley. Accordingly, Morgan Stanley is deemed to be interested in 11,389,000 Shares.

Service contracts

None of the Directors entered into any service contract (excluding agreements expiring or determinable by employers within one year without payment of compensation other than statutory compensation) with the Company or any member of the Group.

Interests in other competing business

As at the Latest Practicable Date, none of the Directors and their respective associates (as defined in the Listing Rules) had any competing interests in any business that competed or was likely to compete, either directly or indirectly, with the business of the Group.

Interests in assets

As at the Latest Practicable Date, none of the Directors, the Supervisors or the chief executives of the Company had any direct or indirect interests in any assets which have been, since December 31, 2014, being the date to which the latest published audited consolidated financial statements of the Group 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.

Interests in contract or arrangement

As at the Latest Practicable Date, none of the Directors, the Supervisors, or the chief executives of the Company was materially interested, either directly or indirectly, in any subsisting contract or arrangement that was significant in relation to the business of the Group.

3. EXPERTS AND CONSENT

The following are the qualification of the experts (in alphabetical order) who have given opinion or advice contained in this circular:

Name	Qualification
Ernst & Young	Certified public accountants
ICBCI	Licensed to carry out type 1 (dealing in securities) and type 6 (advising on corporate finance) regulated activities under the SFO, which is the financial adviser to the Company
Zhuoxindahua	Independent professional appraiser
Platinum Securities Company Limited	Licensed to carry out type 1 (dealing in securities) and type 6 (advising on corporate finance) regulated activities under the SFO, which is the independent financial adviser to the Independent Board Committee and the Independent Shareholders

Each of the above experts has given and has not withdrawn its written consent to the issue of this circular with a copy of its letter and/or the reference to its name and its advice included in this circular in the form and context in which it respectively appears. A letter from the Independent Financial Advisor and a letter from ICBCI dated the date of this circular, respectively, and a letter from Ernst & Young dated February 5, 2016 have been issued for the purpose of incorporation herein.

As at the Latest Practicable Date, none of the above experts had any shareholding or was beneficially interested in, directly or indirectly, in any member of the Group or the right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group.

As at the Latest Practicable Date, none of the above experts had direct or indirect interests in any assets which had since December 31, 2014 (being the date to which the latest published audited financial statements of the Group were made up) been acquired or disposed of by or leased to any member of the Group, or which are proposed to be acquired or disposed of by or leased to any member of the Group.

4. NO MATERIAL ADVERSE CHANGE

As at the Latest Practicable Date, the Directors confirmed that they were not aware of any material adverse change in the financial or trading position of the Group since December 31, 2014, being the date to which the latest published audited consolidated financial statements of the Group were made up.

5. MATERIAL LITIGATION

As at the Latest Practicable Date, to the best knowledge and information of the Directors, none of the members of the Group was engaged in any litigation or claims of material importance, and no litigation or claims of material importance were known to the Directors to be pending or threatened against any member of the Group.

6. GENERAL

(a) The joint company secretaries of the Company are Mr. ZHOU Yamin and Ms. TSANG Fung Chu. Mr. ZHOU Yamin is a member of Chinese Institute of Certified Public Accountants (non-practicing). Ms. TSANG Fung Chu is a member of the Association of Chartered Certified Accountants in the United Kingdom and a fellow member of the Hong Kong Institute of Public Accountants.

(b) The registered office and head office of the Company is situated at No. 178 Guang'anmenwai Street, Beijing, PRC.

(c) The Company's principal place of business in Hong Kong is Room 804, 8/F, Tower 1, South Sea Centre, 75 Mody Road, Tsimshatsui East, Kowloon, Hong Kong.

(d) The Hong Kong H share registrar and transfer office of the Company is Computershare Hong Kong Investor Services Limited at Shops 1712-1716, 17/F, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong.

(e) The English text of this circular shall prevail over the Chinese text in the event of inconsistency.

7. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection on any weekday (Saturdays and public holidays excepted) from 9:30 a.m. to 5:00 p.m. (unless typhoon signal No. 8 or above is hoisted or a black rainstorm notice is issued) at the Company's principal place of business in Hong Kong at Room 804, 8/F, Tower 1, South Sea Centre, 75 Mody Road, Tsimshatsui East, Kowloon, Hong Kong from the date of this circular up to and including the date of the First EGM.

(a) the Acquisition Agreement;

(b) the letter from the Independent Board Committee dated February 6, 2016, the text of which is set out on pages 17 and 18 of this circular;

(c) the letter from the Independent Financial Adviser dated February 6, 2016, the text of which is set out on pages 19 to 40 of this circular;

(d) the letter from E&Y dated February 5, 2016, the text of which is set out in Appendix I;

(e) the letter from ICBCI dated February 6, 2016, the text of which is set out in Appendix II;

(f) the annual reports of the Company for each of the three years ended December 31, 2012, 2013 and 2014 and the interim reports of the Company of each of the six months ended June 30, 2013, 2014 and 2015;

(g) the Valuation Report;

(h) the written consents from the experts referred to in the paragraph headed "Experts and Consents" in this Appendix III;

(i) the Articles of Association; and

(j) a copy of this circular.

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

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

NOTICE OF 2016 FIRST EXTRAORDINARY GENERAL MEETING

NOTICE IS HEREBY GIVEN THAT the 2016 first extraordinary general meeting (the "**First EGM**") of China Machinery Engineering Corporation* (the "**Company**") will be held at the Meeting Room, 3/F, DoubleTree by HILTON, No. 168 Guang'anmenwai Street, Beijing, the People's Republic of China, (the "**PRC**") on Tuesday, March 29, 2016 at 9:00 a.m. for the purposes of considering and, if thought fit, passing, with or without modification or supplementation, the following resolutions:

AS ORDINARY RESOLUTIONS

"**THAT**:

1. the acquisition agreement (the "**Acquisition Agreement**"), dated February 5, 2016 entered into by and between the Company, as purchaser, and China National Machinery Industry Corporation, as the seller, in relation to the acquisition of the entire equity interest in China National Complete Engineering Corporation for an aggregate consideration of RMB532,678,100 (the "**Acquisition**"), subject to the terms and conditions contained therein, as set out in the circular of the Company dated February 6, 2016, the terms and conditions thereof and the transaction contemplated thereunder be and are hereby approved, confirmed and ratified;

AND

* *For identification purposes only*

2. the directors of the Company ("**Directors**") be and are hereby authorised to do all such acts and things, to sign and execute all other relevant documents and to take such steps which, in the opinion of the Directors, are necessary, appropriate, desirable or expedient to give effect to or implement the Acquisition and the terms of the Acquisition Agreement and to agree to such variation, amendments or waiver or matters relating thereto as are, in the opinion of the Directors, in the interest of the Company and its shareholders as a whole."

By order of the Board
China Machinery Engineering Corporation*
ZHANG Chun
President

Beijing, the PRC, February 6, 2016

* *For identification purposes only*

Notes:

a. A member of the Company (the "**Member**") entitled to attend and vote at the First EGM or its adjournment (as the case may be) is entitled to appoint one (or, if he/she/it holds two or more issued shares of RMB1.00 each in the Company (the "**Shares**") more than one) proxy to attend and on a poll vote in his stead in accordance with the Articles of Association. A proxy needs not be a Member.

b. A form of proxy for use at the First EGM is enclosed. If you do not intend to attend the First EGM in person, you are urged to complete and return the form of proxy in accordance with the instructions printed thereon as soon as possible. Completion and return of the form of proxy will not preclude you from subsequently attending and voting in person at the First EGM or any adjourned meeting thereof if you so wish. In the event that you attend the First EGM after having returned the completed form of proxy, your form of proxy will be deemed to have been revoked.

c. In the case of holders of H Shares (the "**H Shareholders**") and to be valid, a form of proxy together with any power of attorney or other authority (if any) under which it is signed or a notarially certified copy of that power of attorney or authority must be deposited with the Company's H share registrar, Computershare Hong Kong Investor Services Limited at 17M, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, and in case of holders of Domestic Shares (the "**Domestic Shareholders**"), to the Company's registered office address at The Office of the Board of Directors, No. 178 Guang'anmenwai Street, Beijing, the PRC, not later than 24 hours before the time appointed for holding the First EGM or any adjournment thereof. Delivery of the form of proxy shall not preclude a Member from subsequently attending and voting in person at the First EGM and, in such event, the instrument appointing a proxy shall be deemed to be revoked.

d. The register of Members will be closed from Saturday, February 27, 2016 to Tuesday, March 29, 2016, both days inclusive, during which period no transfer of the H Shares will be effected. In order to determine the list of Members who are qualified to attend and vote at the First EGM, all transfer documents accompanied by the relevant share certificates must be lodged with the Company's H share registrar, Computershare Hong Kong Investor Services Limited at Shops 1712-1716, 17/F, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong no later than 4:30 p.m. on Friday, February 26, 2016.

e. In the case of joint registered holders of any Shares, any one of such joint registered holders may vote at the First EGM, either in person or by proxy, in respect of such Shares as if he/she/it were solely entitled thereto; but should more than one of such joint registered holders be present at the First EGM, either in person or by proxy, the vote of that one of them so present, whose name stands first on the register of Members in respect of such Shares shall be accepted to the exclusion of the votes of the other joint registered holder(s).

f. If the H Shareholders intend to attend the First EGM in person or by proxy, they shall complete the enclosed reply slip for the First EGM and return it, by hand or by post, to the Company's H share registrar, Computershare Hong Kong Investor Services Limited at 17M, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, or by fax (+852-2865-0990) on or before Wednesday, March 9, 2016.

g. If the Domestic Shareholders intend to attend the First EGM in person or by proxy, they shall complete the enclosed reply slip for the First EGM and return it, by hand or by post, to the Company's registered office address at The Office of the Board of Directors, No. 178 Guang'anmenwai Street, Beijing, the PRC or by fax (+86-10-6332-1086) on or before Wednesday, March 9, 2016.

h. Unless otherwise specified herein, capitalized terms used shall have the same respective meanings as those defined in the circular of the Company dated February 6, 2016.

As at the date of this notice, the executive Directors are Mr. SUN Bai and Mr. ZHANG Chun; the non-executive Directors are Mr. WANG Zhian, Mr. YU Benli and Mr. ZHANG Fusheng; and the independent non-executive Directors are Mr. LIU Li, Ms. LIU Hongyu, Mr. FANG Yongzhong and Mr. WU Tak Lung.