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CQME

Chongqing Machinery & Electric Co., Ltd.*

重慶機電股份有限公司

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

(Stock Code: 02722)

**(1) CONTINUING CONNECTED TRANSACTIONS; AND
(2) MAJOR TRANSACTIONS AND CONTINUING CONNECTED
TRANSACTIONS**

INTRODUCTION

References are made to the circulars of the Company dated 8 June 2016 and 7 June 2018, as well as the announcements of the Company dated 8 April 2016 and 13 May 2016 in relation to, among others, the Existing Master Sales Agreement, the Existing Master Supplies Agreement, Existing Master Leasing Agreement, 2017-2019 Group Financial Services Framework Agreement and 2017-2019 Parent Group Financial Services Framework Agreement, which constitute continuing connected transactions of the Company under Chapter 14A of the Listing Rules and will expire on 31 December 2019.

CONTINUING CONNECTED TRANSACTIONS

2020-2022 Master Sales Agreement

On 7 April 2016, the Company entered into the Existing Master Sales Agreement, and entered into the Master Sales Supplemental Agreement on 20 April 2018 with the Parent Company, pursuant to which the Group agreed to sell supplies, parts, components or materials, finished goods and other relevant or similar products, electrical equipment and components (including certain products such as control valves and parts for steering systems, the BV series of electric cables, refrigeration machines, wires and cables, copper plates, gas compressors, and raw materials such as steel products) to the Parent Group.

* *For identification purposes only*

As the Existing Master Sales Agreement and the Master Sales Supplemental Agreement will expire on 31 December 2019, the Company renewed the Existing Master Sales Agreement with the Parent Company under the same or similar terms by entering into the 2020-2022 Master Sales Agreement on 1 April 2019.

2020-2022 Master Supplies Agreement

On 7 April 2016, the Company entered into the Existing Master Supplies Agreement with the Parent Company, pursuant to which the Parent Group agreed to supply the Group with parts and raw materials such as gears, component parts, YB2 series engines, electricity, water, gas and electrolytic copper.

As the Existing Master Supplies Agreement will expire on 31 December 2019, the Company renewed the Existing Master Supplies Agreement with the Parent Company under the same or similar terms by entering into the 2020-2022 Master Supplies Agreement on 1 April 2019.

2020-2022 Master Leasing Agreement

On 7 April 2016, the Company entered into the Existing Master Leasing Agreement with the Parent Company for the leasing of land and buildings from the Parent Group to the Group as offices, production facilities, workshops and staff quarters.

As the Existing Master Leasing Agreement will expire on 31 December 2019, the Company renewed the Existing Master Leasing Agreement with the Parent Company under the same terms by entering into the 2020-2022 Master Leasing Agreement on 1 April 2019.

MAJOR TRANSACTIONS AND CONTINUING CONNECTED TRANSACTIONS

2020-2022 Group Financial Services Framework Agreement

On 1 April 2019, the Company and the Finance Company entered into the 2020-2022 Group Financial Services Framework Agreement, pursuant to which, the Finance Company will provide financial services to the Group, including loan services, guarantee services and other financial services and, subject to the approval of the Independent Shareholders, deposit services. The Group is not under any obligation to obtain any or all of the financial services provided by the Finance Company and may obtain such financial services based on its business needs.

2020-2022 Parent Group Financial Services Framework Agreement

On 1 April 2019, the Parent Company and the Finance Company entered into the 2020-2022 Parent Group Financial Services Framework Agreement, pursuant to which, the Finance Company will provide financial services to the Parent Group, including deposit services, guarantee services

and other financial services and, subject to the approval of the Independent Shareholders, loan services. The Finance Company is not under any obligation to provide any or all of the financial services to the Parent Group and may offer such financial services based on its business needs.

IMPLICATIONS UNDER THE LISTING RULES

2020-2022 Master Sales Agreement

As the Parent Company is the Controlling Shareholder of the Company, holding 52.54% equity interest in the Company, the Parent Group is a connected person of the Group under the Listing Rules. Therefore, the transactions contemplated under the 2020-2022 Master Sales Agreement constitute continuing connected transactions of the Company. As the highest applicable percentage ratios calculated in accordance with Chapter 14A of the Listing Rules in respect of the respective annual caps under the 2020-2022 Master Sales Agreement exceed 5% and such annual caps exceed HK\$10,000,000, the 2020-2022 Master Sales Agreement constitutes a non-exempted continuing connected transaction of the Company under Chapter 14A of the Listing Rules and is subject to the reporting, annual review, announcement and Independent Shareholders' approval requirements under the Listing Rules.

2020-2022 Master Supplies Agreement

As the Parent Company is the Controlling Shareholder of the Company, holding 52.54% equity interest in the Company, the Parent Group is a connected person of the Group under the Listing Rules. Therefore, the transactions contemplated under the 2020-2022 Master Supplies Agreement constitute continuing connected transactions of the Company. Since the highest applicable percentage ratio calculated in accordance with Chapter 14A of the Listing Rules in respect of the annual caps under the 2020-2022 Master Supplies Agreement exceeds 0.1% but is less than 5%, the transactions contemplated thereunder are subject to the reporting, annual review and announcement requirements under Chapter 14A of the Listing Rules, but exempt from the Independent Shareholders' approval requirement under Chapter 14A of the Listing Rules. Should such transactions exceed the exemption threshold in the future, the Company will comply with the applicable connected transaction regulatory requirements under Chapter 14A of the Listing Rules.

2020-2022 Master Leasing Agreement

As the Parent Company is the Controlling Shareholder of the Company, holding 52.54% equity interest in the Company, the Parent Group is a connected person of the Group under the Listing Rules. Therefore, the transactions contemplated under the 2020-2022 Master Leasing Agreement constitute continuing connected transactions of the Company. Since the highest applicable percentage ratio calculated in accordance with Chapter 14A of the Listing Rules in respect of the annual caps under the 2020-2022 Master Leasing Agreement exceeds 0.1% but is less than 5%, the transactions contemplated thereunder are subject to the reporting, annual review and announcement requirements under Chapter 14A of the Listing Rules, but exempt from the

Independent Shareholders' approval requirement under Chapter 14A of the Listing Rules. Should such transactions exceed the exemption threshold in the future, the Company will comply with the applicable connected transaction regulatory requirements under Chapter 14A of the Listing Rules.

2020-2022 Group Financial Services Framework Agreement

As the Parent Company is the Controlling Shareholder of the Company, holding 52.54% equity interest in the Company, the Parent Group is a connected person of the Group under the Listing Rules. The Finance Company, which is owned as to 30% by the Parent Company, is an associate of the Parent Company. Therefore, the transactions contemplated under the 2020-2022 Group Financial Services Framework Agreement constitute continuing connected transactions of the Company.

As the interest rate for deposit services to be provided by the Finance Company to the Group will not be lower than the interest rates for deposits of similar nature and under similar terms provided to Group by other independent commercial banks (at least two) in the PRC, and one or more of the applicable percentage ratios calculated in accordance with the Listing Rules in respect of the maximum daily amount of the deposit services exceed 5% and the annual caps exceed HK\$10,000,000, the deposit services under the 2020-2022 Group Financial Services Framework Agreement are subject to the reporting, annual review, announcement and Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules. Meanwhile, as one or more of the applicable percentage ratios calculated in respect of the maximum daily deposit amount exceed 25%, such transactions also constitute major transactions of the Company under Rule 14.06(3) of the Listing Rules and are subject to the notification, publication and Shareholders' approval requirements for major transactions under Chapter 14 of the Listing Rules.

As the fees charged by the Finance Company for provision of loan services to the Group will not be higher than the interest rates charged by other independent commercial banks (at least two) in the PRC on the Group for loans of similar nature and under similar terms, and such loan services are for the benefit of the Group, and no security over the assets of the Group is granted in respect of such services, pursuant to Rule 14A.90 of the Listing Rules, the loan services under the 2020-2022 Group Financial Services Framework Agreement are exempt from the reporting, annual review, announcement and Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

As the fees charged by the Finance Company for the provision of guarantee services to the Group will not be higher than the fees charged by any independent third party (at least two) on the Group for the similar type of services or the fees charged by the Finance Company on a third party of same credit rating for the similar type of services and such guarantee services are for the benefit of the Group, and no security over the assets of the Group is granted in respect of such services, pursuant to Rule 14A.90 of the Listing Rules, the guarantee services under the 2020-

2022 Group Financial Services Framework Agreement are exempt from the reporting, annual review, announcement and Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

As the fees charged by the Finance Company for the provision of other financial services to the Group will not be higher than the fees charged by any independent third party (at least two) on the Group for the similar type of services, and all the applicable percentage ratios calculated in accordance with the Listing Rules in respect of the fees of other financial services will exceed 0.1% but will be less than 5%, such transactions are subject to the reporting, annual review, and announcement requirements under Chapter 14A of the Listing Rules but exempt from Independent Shareholders' approval requirement under Chapter 14A of the Listing Rules. Should such transactions exceed the exemption threshold in the future, the Company will comply with the applicable connected transaction regulatory requirements under Chapter 14A of the Listing Rules.

2020-2022 Parent Group Financial Services Framework Agreement

As the Parent Company is the Controlling Shareholder of the Company, holding 52.54% equity interest in the Company, the Parent Group is a connected person of the Group under the Listing Rules. The Finance Company, which is owned as to 70% by the Company, is a subsidiary of the Company. Pursuant to the Listing Rules, the Parent Group is a connected person of the Company. Therefore, the transactions contemplated under the 2020-2022 Parent Group Financial Services Framework Agreement constitute continuing connected transactions of the Company.

As the interest rate for deposit services to be provided by the Finance Company to the Parent Group will not be higher than interest rates for deposits of similar nature and under similar terms provided to Parent Group by other independent commercial banks (at least two) in the PRC and such deposit services to be provided are for the benefit of the Group, and no security over the assets of the Group is granted in respect of such services, pursuant to Rule 14A.90 of the Listing Rules, the deposit services under the 2020-2022 Parent Group Financial Services Framework Agreement are exempt from the reporting, annual review, announcement and Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

As the interest rate for loan services to be provided by the Finance Company to the Parent Group will not be lower than the interest rates for loans of similar nature and under similar terms charging the Parent Group by other independent commercial banks (at least two) in the PRC, and one or more of the applicable percentage ratios calculated in accordance with the Listing Rules in respect of the maximum daily amount of the loan services exceed 5% and the annual cap exceeds HK\$10,000,000, the loan services under the 2020-2022 Parent Group Financial Services Framework Agreement are subject to the reporting, annual review, announcement and independent shareholders' approval requirements under Chapter 14A of the Listing Rules. Meanwhile, as one or more of the applicable percentage ratios calculated in respect of the maximum daily loan amount exceed 25%, such transactions also constitute major transactions of

the Company under Rule 14.06(3) of the Listing Rules and are subject to the notification, publication and shareholders' approval requirements for major transactions under Chapter 14 of the Listing Rules.

As the fees charged by the Finance Company for the provision of guarantee services to the Parent Group will not be lower than the fees charged by an independent third party (at least two) on the Parent Group for the similar type of services or the fees charged by the Finance Company on any third party of same credit rating for the same type of services, and one or more of the applicable percentage ratios calculated in accordance with the Listing Rules in respect of the maximum daily amount of the guarantee services exceed 0.1% but will be less than 5%, such transactions are subject to the reporting, annual review and announcement requirements under Chapter 14A of the Listing Rules but exempt from Independent Shareholders' approval requirement under Chapter 14A of the Listing Rules. Should such transactions exceed the exemption threshold in future, the Company will comply with the applicable connected transaction regulatory requirements under Chapter 14A of the Listing Rules.

As the fees charged by the Finance Company for the provision of other financial services to the Parent Group will not be lower than the fees charged by an independent third party (at least two) on the Parent Group for the similar type of services, and all the applicable percentage ratios calculated in accordance with the Listing Rules in respect of the fees of other financial services will exceed 0.1% but will be less than 5%, such transactions are subject to the reporting, annual review and announcement requirements under Chapter 14A of the Listing Rules but exempt from Independent Shareholders' approval requirement under Chapter 14A of the Listing Rules. Should such transactions exceed the exemption threshold in future, the Company will comply with the applicable connected transaction regulatory requirements under Chapter 14A of the Listing Rules.

GENERAL INFORMATION

The Independent Board Committee comprising all independent non-executive Directors has been formed in accordance with the Listing Rules to advise the Independent Shareholders on the 2020-2022 Master Sales Agreement, the terms of deposit services under the 2020-2022 Group Financial Services Framework Agreement, and the terms of loan services under the 2020-2022 Parent Group Financial Services Framework Agreement. The Independent Financial Adviser has been appointed to advise the Independent Board Committee and the Independent Shareholders as to whether the terms and conditions of the agreements for the above non-exempted continuing connected transactions and their respective annual caps are fair and reasonable so far as the Independent Shareholders are concerned and in the interests of the Company and the Shareholders as a whole.

As it takes time to finalize the contents of the circular which contains, among other things, further information on the 2020-2022 Master Sales Agreement, the 2020-2022 Group Financial Services Framework Agreement, the 2020-2022 Parent Group Financial Services Framework Agreement

and the transactions contemplated thereunder, a letter of advice from the Independent Board Committee, a letter of recommendation from the Independent Financial Adviser and a notice of the AGM, the circular is expected to be dispatched to the Shareholders on or before 6 June 2019.

The AGM will be convened by the Company at which resolutions will be proposed to seek approval from the Independent Shareholders for the 2020-2022 Master Sales Agreement, the transactions contemplated under the deposit services under the 2020-2022 Group Financial Services Framework Agreement and the loan services under the 2020-2022 Parent Group Financial Services Framework Agreement and their respective proposed annual caps for the three years ending 31 December 2022. The Parent Company and its associates will abstain from voting on the relevant resolutions to be proposed at the AGM.

Mr. Wang Yuxiang (chairman of the Parent Company), Mr. Huang Yong (general manager of the Parent Company) and Ms. Chen Ping (director of the Parent Company), hold management positions in the Parent Company. Therefore, they are deemed to have material interests in the transactions contemplated under the 2020-2022 Master Sales Agreement, the 2020-2022 Master Supplies Agreement, the 2020-2022 Master Leasing Agreement, the 2020-2022 Group Financial Services Framework Agreement and the 2020-2022 Parent Group Financial Services Framework Agreement and have abstained from voting on the relevant Board resolutions to approve the above agreements.

CONTINUING CONNECTED TRANSACTIONS

2020-2022 Master Sales Agreement and 2020-2022 Master Supplies Agreement

Background

References are made to the circulars of the Company dated 8 June 2016 and 7 June 2018, as well as the announcements of the Company dated 8 April 2016 and 20 April 2018, in relation to, among others, the Existing Master Sales Agreement and the Existing Master Supplies Agreement which constitute continuing connected transactions of the Company under Chapter 14A of the Listing Rules and will expire on 31 December 2019.

2020-2022 Master Sales Agreement

On 7 April 2016, the Company entered into the Existing Master Sales Agreement, and entered into the Master Sales Supplemental Agreement on 20 April 2018 with the Parent Company, pursuant to which the Group agreed to sell supplies, parts, components or materials, finished goods and other relevant or similar products, electrical equipment and components (including certain products such as control valves and parts for steering systems, the BV series of electric cables, refrigeration machines, wires and cables, copper plates, gas compressors, and raw materials such as steel products) to the Parent Group.

As the Existing Master Sales Agreement and the Master Sales Supplemental Agreement will expire on 31 December 2019, the Company renewed the Existing Master Sales Agreement with the Parent Company under the same or similar terms by entering into the 2020-2022 Master Sales Agreement on 1 April 2019, details of which are set out as follows:

Date:

1 April 2019

Parties:

- (i) the Company, as supplier; and
- (ii) the Parent Company, as purchaser

Term:

Subject to the approval being obtained from the Independent Shareholders, commencing from 1 January 2020 and expiring on 31 December 2022.

Nature of transaction:

The Group sells certain materials such as the steering tension rods, track bars, bumpers, the BV series of electric cables, wires and cables, refrigeration machines, copper plates, gas compressors, softwares and raw materials such as steel and gears to the Parent Group.

Payment terms:

The payment terms will be otherwise specified on each separate contract to be entered by both parties on normal commercial terms.

Pricing Basis for the 2020-2022 Master Sales Agreement

The 2020-2022 Master Sales Agreement was entered into in the ordinary and usual course of business of the Group. The terms of agreement were negotiated on an arm's length basis and on normal commercial terms. The pricing or consideration under the 2020-2022 Master Sales Agreement will be determined with reference to:

- (i) the market price obtained through prices quoted on websites for the industry (including website of Alibaba (www.1688.com)) or enquiries for market prices from at least two independent third parties (i.e. the price of the same or similar product provided to independent third parties by suppliers other than the Company and its subsidiaries in the same region during the ordinary course of business on normal commercial terms);

- (ii) if there is no market price determined by an independent third party, the transaction price between the Group and an independent third party;
- (iii) If none of the above is applicable, cost plus a percentage mark-up (tax-inclusive), which is not less than 10% (i.e. price = cost x (1 + percentage mark-up)), whereas the 10% mark-up is determined based on the average gross margin of the Group in the past three years, except that the percentage mark-up for raw materials procured by Shengpu and sold to the Parent Group will be 1%, being the handling fee of the Group.

All the products sold to the Parent Company are fully competitive products that are open to the market. Therefore, the pricing basis (i) and (ii) were and will be generally adopted in the Existing Master Sales Agreement and the 2020-2022 Master Sales Agreement, except that pricing basis (iii) was and will be adopted for the price of gas compressors (since they are produced for military use and market price is not available), software (since they are customized in compliance with the need of different customers) and raw materials purchased by Shengpu and sold to the Parent Group.

After reviewing the relevant basis, the Directors (including the independent non-executive Directors) are of the view that the terms of the 2020-2022 Master Sales Agreement are on normal commercial terms and are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

The historical transaction records and the annual cap amounts under the Existing Master Sales Agreement are set out below:

	For the year ended 31 December 2016 <i>RMB in million</i>	For the year ended 31 December 2017 <i>RMB in million</i>	For the year ended 31 December 2018 <i>RMB in million</i>
Annual cap amount	310.0	180.0	350.0
Historical transaction record	68.6	117.9	307.0
Utilization rate	22.1%	65.5%	87.7%

The proposed annual cap for each of the three years ending 31 December 2022 under the 2020-2022 Master Sales Agreement is set out below:

	For the year ending 31 December 2020	For the year ending 31 December 2021	For the year ending 31 December 2022
	<i>RMB in million</i>	<i>RMB in million</i>	<i>RMB in million</i>
Proposed annual cap amount	344.7	330.0	336.2

The proposed annual cap for the 2020-2022 Master Sales Agreement is determined with reference to:

- (i) the estimated demand for the production and sales of commercial vehicle parts, power equipment, general machinery and CNC machine tools;
- (ii) the estimated sales volume of the Group for each of the three fiscal years ending 31 December 2022;
- (iii) the prospect of the PRC economy and the markets relevant to the Group, in particular, the PRC automobile and power equipment segments;
- (iv) the historical transaction amount of the sales transactions for the financial year ended 31 December 2018;
- (v) Chongqing Shengpu Materials Co., Ltd.* (重慶盛普物資有限公司) serves as the centralized procurement platform of bulk materials for the Group. In order to achieve synergy and reduce costs, the Group will procure and sell raw materials to the Parent Group through this centralized procurement platform in the next three years. It is expected that the demands of purchasers will be slightly improving, the price of raw materials such as copper and steel declined due to de-capacity and intensifying environmental governance of the country since 2018. However, based on the analysis on industry market, in 2019, the investment in domestic infrastructure project is picking up, which will lead to the increase in demands of steels, and the steel price will be early rebound and maintain stable.
- (vi) As of the end of 2018, the third round of Chongqing Rail Transit has been approved by the competent authority of the PRC, and the planning term of the project will be from 2018 to 2023. During the period from 2020 to 2022, the Parent Group is expected to undertake a project with an amount of approximately RMB1,200 million, of which, Pigeon Company will be expected to entered into a contract with an amount of approximately RMB44 million. Additionally, Chongtong Company will undertake the ventilation and air conditioning engineering of the rail transit project, with an amount of approximately RMB18 million, representing that

approximately RMB6 million for each year of 2020-2022. Also, the Parent Group will vigorously push ahead the Mechanic and Electronic Engineering contracting business which may increase the sales volume of cables and wires; and

- (vii) SAIC-IVECO Hongyan Commercial Vehicle Co. Ltd. ("SAIC Hongyan"), the subsidiary of the Parent Group, in actively response to the policy of upgrade and updating of the latest national vehicle pollutant emission standard, developed in a rapid manner in the heavy truck industry, and it is expected that the steady growth trend will be maintained in 2020-2022.

The Directors (including the independent non-executive Directors) are of the opinion that the proposed annual caps are fair and reasonable and that the transactions contemplated under the 2020-2022 Master Sales Agreement are entered into on normal commercial terms and in the ordinary and usual course of business of the Group, and the terms of the 2020-2022 Master Sales Agreement are fair and reasonable and in the interest of the Shareholders as a whole.

2020-2022 Master Supplies Agreement

On 7 April 2016, the Company entered into the Existing Master Supplies Agreement with the Parent Company, pursuant to which the Parent Group agreed to supply the Group with parts and raw materials such as gears, component parts, YB2 series engines, electricity, water, gas and electrolytic copper.

As the Existing Master Supplies Agreement will expire on 31 December 2019, the Company renewed the Existing Master Supplies Agreement with the Parent Company under the same or similar terms by entering into the 2020-2022 Master Supplies Agreement on 1 April 2019, details of which are set out below:

Date:

1 April 2019

Parties:

- (i) the Company, as purchaser; and
- (ii) the Parent Company, as supplier

Term:

Subject to the approval being obtained from the Independent Shareholders, commencing from 1 January 2020 and expiring on 31 December 2022.

Nature of transaction:

The Parent Group supplies the Group with component parts, raw materials and industry services such as gears, component parts, YB2 series engines, electricity, water, gas and electrolytic copper, transport and storage, contract energy management services.

Payment terms:

The payment terms will be otherwise specified on each separate commercial contract to be entered by the parties on normal commercial terms.

Pricing Basis for the 2020-2022 Master Supplies Agreement

The 2020-2022 Master Supplies Agreement was entered into in the ordinary and usual course of business of the Group. The terms of the 2020-2022 Master Supplies Agreement were negotiated on an arm's length basis and on normal commercial terms. The pricing or consideration of the 2020-2022 Master Supplies Agreement will be determined with reference to the following:

- (i) the market price of at least two independent third party obtained through prices quoted on websites for the industry or enquiries in the market (i.e. the price of the same or similar product provided to independent third parties by suppliers other than the Parent Company and its associates in the same region during the ordinary course of business on normal commercial terms);
- (ii) if there is no market price determined by independent third parties, the transaction price between the Company and its subsidiaries and an independent third party;
- (iii) if none of the above is applicable, cost plus a percentage mark-up (tax-inclusive), which will not exceed 10% (i.e. price = cost x (1 + percentage mark-up))

All the products/services sold/provided by the Parent Group to the Group are fully competitive products/services that are open to the market. Therefore, the pricing basis (i) and (ii) were and will be generally adopted in the Existing Master Supplies Agreement and the 2017-2019 Master Supplies Agreement.

After reviewing the relevant basis, the Directors (including the independent non-executive Directors) are of the view that the terms of the 2020-2022 Master Supplies Agreement are on normal commercial terms and are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

The historical transaction records and the annual cap amounts under the Existing Master Supplies Agreement are set out below:

	For the year ended 31 December 2016 <i>RMB in million</i>	For the year ended 31 December 2017 <i>RMB in million</i>	For the year ended 31 December 2018 <i>RMB in million</i>
Annual cap amount	99.0	80.0	80.0
Historical transaction record	53.7	40.3	75.7
Utilization rate	54.2%	50.4%	94.6%

The proposed annual cap for each of the three years ending 31 December 2022 under the 2020-2022 Master Supplies Agreement is set out below:

	As at 31 December		
	2020 <i>RMB in million</i>	2021 <i>RMB in million</i>	2022 <i>RMB in million</i>
Proposed annual cap amount	100.0	100.0	100.0

The proposed annual cap under the 2020-2022 Master Supplies Agreement is determined with reference to:

- (i) the relevant estimated demand for the production and sales in relation to vehicle parts and components, general machinery, CNC machine tools and power equipment;
- (ii) the estimated sales and procurement volume of the Group for each of the three financial years ending 31 December 2022;
- (iii) the prospect of the PRC economy and the markets relevant to the Group, in particular, the PRC automobile and power equipment segments; and
- (iv) the historical transaction amount of the master supplies transactions for the year ended 31 December 2018.

The Directors (including the independent non-executive Directors) are of the opinion that the proposed annual caps are fair and reasonable and that the transactions contemplated under the 2020-2022 Master Supplies Agreement are entered into on normal commercial terms and in the ordinary and usual course of business of the Group, and the terms of the 2020-2022 Master Supplies Agreement are fair and reasonable and in the interest of the Shareholders as a whole.

Reasons for and Benefits of the Transactions Contemplated under the 2020-2022 Master Sales Agreement and 2020-2022 Master Supplies Agreement

The Group has been purchasing from the Parent Group parts and raw materials such as gears, component parts, YB2 series engines, electricity, water, gas and electrolytic copper, transportation and warehouse services from time to time. As a result of the Group's long-term business relationship with the Parent Group, the Parent Group is familiar with the Group's product specifications and has been able to respond quickly and in a cost efficient manner to any new requirements that the Group may request.

Meanwhile, from the perspective of the Group, the sales of the products to the Parent Group would provide a reliable customer base, a stable income and timely payment for the products sold.

2020-2022 Master Leasing Agreement

Background

References are made to the circular of the Company dated 8 June 2016, and the announcement of the Company dated 8 April 2016 in relation to, among others, the Existing Master Leasing Agreement which constitutes a continuing connected transaction of the Company under Chapter 14A of the Listing Rules and will expire on 31 December 2019.

On 7 April 2016, the Company entered into the Existing Master Leasing Agreement with the Parent Company for the leasing of land and buildings from the Parent Group to the Group as offices, production facilities, workshops and staff quarters. As the Existing Master Leasing Agreement will expire on 31 December 2019, the Company renewed the Existing Master Sales Agreement with the Parent Company under the same terms by entering into the 2020-2022 Master Leasing Agreement on 1 April 2019, the major terms of which are set out below:

Date:

1 April 2019

Parties:

- (i) the Company, as tenant; and
- (ii) the Parent Company, as landlord

Term:

Commencing from 1 January 2020 and expiring on 31 December 2022.

Nature of transaction:

The Parent Group leases out land and buildings to the Group to be used as offices, production facilities, workshops and staff quarters.

Payment terms:

The payment terms will be otherwise specified on each separate contract to be entered by both parties on normal commercial terms.

The historical transaction records and the annual cap amounts under the Existing Master Leasing Agreement are set out below:

	For the year ended 31 December 2016 <i>RMB in million</i>	For the year ended 31 December 2017 <i>RMB in million</i>	For the year ended 31 December 2018 <i>RMB in million</i>
Annual cap amount	45.0	45.0	45.0
Historical transaction record	30.8	24.4	24.1
Utilization rate	68.4%	54.2%	53.6%

The proposed annual cap for each of the three years ending 31 December 2022 under the 2020-2022 Master Leasing Agreement is set out below:

	For the year ending 31 December 2020 <i>RMB in million</i>	For the year ending 31 December 2021 <i>RMB in million</i>	For the year ending 31 December 2022 <i>RMB in million</i>
Proposed annual cap amount	45.0	45.0	45.0

The Directors (including the independent non-executive Directors) are of the opinion that the proposed annual caps are fair and reasonable and that the transactions contemplated under the 2020-2022 Master Leasing Agreement are entered into on normal commercial terms and in the ordinary and usual course of business of the Group, and the terms of 2020-2022 Master Leasing Agreement are fair and reasonable and in the interest of the Shareholders as a whole.

The proposed annual caps for the 2020-2022 Master Leasing Agreement are determined with reference to:

- (i) the estimated demand of the Group for land and buildings as offices, production facilities, workshops and staff quarters for each of the three fiscal years ending 31 December 2022; and
- (ii) the historical amounts of leasing transactions for the year ended 31 December 2018.

The 2020-2022 Master Leasing Agreement was entered into in the ordinary and usual course of business of the Group negotiated on an arm's length basis and on normal commercial terms. The rents under the 2020-2022 Master Leasing Agreement will be determined with reference to:

- (i) the appraised value of the buildings;
- (ii) the rental prices of comparable buildings and land in the market;
- (iii) due consideration of the actual situations of the site of the leased buildings and land; and
- (iv) consensus reached and confirmed upon negotiations between the parties on good faith.

Reasons for and Benefits of Transactions Contemplated under the 2020-2022 Master Leasing Agreement

The properties are leased from the Parent Group instead of being transferred to the Group because these properties, being land parcels that have been administratively allocated, are not easily transferable and, even if they are transferable, it is not necessarily commercially sound for the purposes of the Group because of the substantial amount of the land premium required to be paid which may put a strain on the financial resources the Group.

The Directors (including the independent non-executive Directors) are of the view that the terms of the 2020-2022 Master Leasing Agreement are on normal commercial terms and are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

Internal Control of the 2020-2022 Master Sales Agreement, the 2020-2022 Master Supplies Agreement and the 2020-2022 Master Leasing Agreement

The Company has implemented the following measures regarding its internal control system for the connected transactions:

- (i) the Company has established a special office with dedicated personnel in place to monitor and manage the connected transactions;

- (ii) the special department will review the implementation of the caps of the connected transactions and of pricing terms monthly to ensure both annual caps and pricing basis have been fully complied with; and
- (iii) the Audit and Risk Management Committee of the Company will review the implementation of sales and supplies regarding connected transactions monthly.

MAJOR TRANSACTION AND CONTINUING CONNECTED TRANSACTIONS

2020-2022 Group Financial Services Framework Agreement

On 1 April 2019, the Company and the Finance Company entered into the 2020-2022 Group Financial Services Framework Agreement, major terms of which are set out below:

Date:

1 April 2019

Parties:

- (i) the Company; and
- (ii) the Finance Company

Term:

Subject to the approval being obtained from the Independent Shareholders, the terms of deposit services under 2020-2022 Group Financial Services Framework Agreement will become effective from 1 January 2020 and expire on 31 December 2022. The terms of loan services, guarantee services and other financial services under 2020-2022 Group Financial Services Framework Agreement will become effective from 1 January 2020 and expire on 31 December 2022.

Services:

Pursuant to the 2020-2022 Group Financial Services Framework Agreement, the Finance Company has agreed to provide financial services to the Group, including deposit services, loan services, guarantee services and other financial services.

The Finance Company undertakes under the 2020-2022 Group Financial Services Framework Agreement that the terms of any financial services to be provided by the Finance Company to the Group will be no less favorable than those of similar financial services provided by independent third parties to the Group (subject to no violation of relevant laws and regulations).

The Group is not under any obligation to obtain any or all of the financial services provided by the Finance Company and may obtain such financial services based on its business needs.

Payment terms:

The payment terms will be otherwise specified on each separate contract to be entered by both parties on normal commercial terms.

Pricing standards:

The pricing standards of the financial services provided by the Finance Company are as follows:

Deposit services

The interests of deposits provided by the Finance Company will not be lower than the interest rates for deposits of similar nature and under similar terms provided to the Group by other independent commercial banks (at least two) in the PRC.

The Company will obtain the interest rates for deposits of similar nature and under similar terms from at least two banks among the national commercial banks in China or local commercial banks in Chongqing that have business relations with the Company, and compare with the interest rates provided by the Finance Company to the Group for deposits of same nature and under same terms to ensure that the interests the Group will receive on its deposits are in compliance with the above pricing standards for deposit services.

Loan services

The interests of loans provided by the Finance Company to the Group will not be higher than the interest rates for loans of similar nature and under similar terms charged to the Group and its subsidiaries by other independent commercial banks (at least two) in the PRC.

Guarantee services

The fees charged by the Finance Company for the provision of guarantee services to the Group will not be higher than the fees charged by any independent third parties (at least two) on the Group and its subsidiaries for the similar type of services.

Other financial services (including bill discounting services, bill acceptance services, consultancy services, agency services and underwriting services, etc.)

The fees charged by the Finance Company for the provision of other financial services to the Group will not be higher than the fees charged by independent third parties (at least two) on the Group and its subsidiaries for the same types of services.

Proposed Annual Cap Amounts for Each Category of the Financial Services under the 2020-2022 Group Financial Services Framework Agreement

Deposit services

The historical transaction records and the annual cap amounts for the deposit services under the Group Financial Services Framework Agreement are set out below:

	For the year ended 31 December 2016 <i>RMB in million</i>	For the year ended 31 December 2017 <i>RMB in million</i>	For the year ended 31 December 2018 <i>RMB in million</i>
Annual cap amount (including corresponding interest)	2,116.0	2,600.0	3,000.0
Daily balance of deposits (including corresponding interest)	1,491.48	1,504.81	1,796.21
Utilization rate	70.5%	57.9%	59.9%

The proposed annual cap for the deposit services for each of the three years ending 31 December 2022 under the 2020-2022 Group Financial Services Framework Agreement is set out below:

	For the year ending 31 December 2020 <i>RMB in million</i>	For the year ending 31 December 2021 <i>RMB in million</i>	For the year ending 31 December 2022 <i>RMB in million</i>
Proposed annual cap amount (including corresponding interest)	3,155.0	3,313.0	3,479.0

Since the Group strengthened the cash flow management, the product structural adjustment, transformation and upgrading, it is expected that the cash and cash equivalent of the Group in 2019-2022 will be increasing gradually at the growth rate of 5%. Furthermore, the Group is expected to newly raise bank borrowings of approximately RMB800.0 million in 2019 for repayment of the debts of the Company. This fund will be deposited in the Finance Company. Thus, the cash and cash equivalents at the end of 2019 is estimated to approximately RMB3,005.0 million.

The proposed annual caps for the deposit services under the 2020-2022 Group Financial Services Framework Agreement are determined with references to: (a) the data set out above; (b) the expectation of the Group's capital needs for the period from now up to 31 December 2022; (c) the financial ability of the Finance Company; and (d) the historical transaction records of the deposit services under the Group Financial Services Framework Agreement.

Loan services

In view of the fact that the loan services are for the benefit of the Group, and no security over the assets of the Group is granted, the loan services are exempt from Independent Shareholders' approval according to Chapter 14A of the Listing Rules, accordingly, the Directors have decided not to set a cap for the loan services.

Guarantee services

In view of the fact that the guarantee services are for the benefit of the Group, and no security over the assets of the Group is granted, the guarantee services are exempt from Independent Shareholders' approval according to Chapter 14A of the Listing Rules, accordingly, the Directors have decided not to set a cap for the guarantee services.

Other financial services (including bill discounting services, bill acceptance services, consultancy services, agency services and underwriting services, etc.)

The historical transaction records and the annual cap amounts for the fees of other financial services under the Group Financial Services Framework Agreement are set out below:

	For the year ended 31 December 2016 <i>RMB in million</i>	For the year ended 31 December 2017 <i>RMB in million</i>	For the year ended 31 December 2018 <i>RMB in million</i>
Annual cap amount	52.0	29.0	34.0
Historical transaction record	6.9	4.7	1.0
Utilization rate	13.3%	16.2%	2.9%

The proposed annual caps for the fees of other financial services for each of the three years ending 31 December 2022 under the 2020-2022 Group Financial Services Framework Agreement are set out below:

	For the year ending 31 December 2020 <i>RMB in million</i>	For the year ending 31 December 2021 <i>RMB in million</i>	For the year ending 31 December 2022 <i>RMB in million</i>
Proposed annual cap amount	29.0	34.0	39.0

The proposed annual caps for other financial services under the 2020-2022 Group Financial Services Framework Agreement are determined with references to (a) the expectation of the Group's capital needs for the period from now up to 31 December 2022; and (b) the historical transaction records of other financial services.

Directors (including the independent non-executive Directors) are of the opinion that the proposed annual caps and pricing under the 2020-2022 Group Financial Services Framework Agreement are fair and reasonable and that the transactions contemplated thereunder are entered into on normal commercial terms and in the interest of the Company and Shareholders as a whole.

2020-2022 Parent Group Financial Services Framework Agreement

On 1 April 2019, the Parent Company and the Finance Company entered into the 2020-2022 Parent Group Financial Services Framework Agreement, major terms of which are set out below:

Date:

1 April 2019

Parties:

- (i) the Parent Company; and
- (ii) the Finance Company

Term:

Subject to the approval being obtained from the Independent Shareholders, the terms of loan services under 2020-2022 Parent Group Financial Services Framework Agreement will become effective from 1 January 2020 and expire on 31 December 2022. The terms of deposit services, guarantee services and other financial services under 2020-2022 Parent Group Financial Services Framework Agreement will become effective from 1 January 2020 and expire on 31 December 2022.

Services:

Pursuant to the 2020-2022 Parent Group Financial Services Framework Agreement, the Finance Company agreed to provide the financial services to the Parent Group, including deposit services, loan services, guarantee services and other financial services.

The Finance Company is not under any obligation to provide any or all of the financial services to the Parent Group and may provide such financial services based on its business needs.

Payment terms:

The payment terms will be otherwise specified on each separate contract to be entered by both parties on normal commercial terms.

Pricing standards:

The pricing standards of the financial services provided by the Finance Company are as follows:

Deposit services

The interest rates for deposits provided by the Finance Company to the Parent Group will not be higher than the interest rates for deposits of similar nature and under similar terms provided to the Parent Group and its associates by other independent commercial banks (at least two) in the PRC.

Loan services

The interest rates for loans provided to the Parent Group by the Finance Company will not be lower than the interest rates for loans of similar nature and under similar terms being charged on the Parent Group by other independent commercial banks (at least two) in the PRC.

The Company will make inquiries to at least two banks among the national commercial banks in the PRC and the local commercial banks in Chongqing that have business relations with the Company in respect of loan services of similar nature and under similar terms with reference to the credit characteristics of the relevant company with the Parent Group, and submit the results to the Finance Company. The Finance Company will then make the final assessments and determine the final interest rates provided to the Parent Group by reference to the Parent Group's business risks,

comprehensive returns, capital cost of the Finance Company and regulatory indicators and others factors, so as to ensure that the interests of loans provided by the Finance Company to the Parent Group are in compliance with the above pricing standards for loan services.

Guarantee services

The fees charged by the Finance Company for provision of guarantee services to the Parent Group will not be lower than the fees charged by any independent third party (at least two) on the Parent Group for the similar type of services or the fees charged by the Finance Company on any third party of same credit rating for the same type of services.

The Company will make inquiries to at least two banks or guarantee institutions among the national commercial banks in the PRC or the local commercial banks or guarantee institutions in Chongqing, which have business relations with the Company, in respect of guarantee services of similar nature and under similar terms and submit the results to the Finance Company. The Finance Company will then make the final assessments and determine the final price for guarantee services provided to the Parent Group by reference to the Parent Group's business risks, comprehensive returns, capital cost of the Finance Company and regulatory indicators and others factors, so as to ensure that the fees charged by the Finance Company are in compliance with the above pricing standards for guarantee services.

Other financial services (including bill discounting services, bill acceptance services, consultancy services, agency services and underwriting services, etc.)

The fees charged by the Finance Company for provision of other financial services to the Parent Group will not be lower than the fees charged by any independent third party (at least two) on the Parent Group and its associates for the similar types of services.

Proposed Annual Cap Amounts for Financial Services under the 2020-2022 Parent Group Financial Services Framework Agreement

Deposit services

As the deposit services are for the benefit of the Group and no security over the assets of the Group is granted in respect thereof, such services are exempt from the Independent Shareholders' approval requirement under Chapter 14A of the Listing Rules. Accordingly, the Board has determined not to set a cap for the deposit services.

Loan services

The historical transaction records and the annual cap amounts for loan services under the Parent Group Financial Services Framework Agreement are set out below:

	For the year ended 31 December 2016	For the year ended 31 December 2017	For the year ended 31 December 2018
	<i>RMB in million</i>	<i>RMB in million</i>	<i>RMB in million</i>
Annual cap amount (including corresponding interest)	2,500.0	2,500.0	3,000.0
Daily balance of deposits (including corresponding interest)	1,502.8	1,351.9	1,288.2
Utilization rate	60.1%	54.1%	42.9%

The proposed annual caps for the loan services under the 2020-2022 Parent Group Financial Services Framework Agreement for each of the three years ending 31 December 2022 are set out below:

	For the year ending 31 December 2020	For the year ending 31 December 2021	For the year ending 31 December 2022
	<i>RMB in million</i>	<i>RMB in million</i>	<i>RMB in million</i>
Proposed annual cap amount (including corresponding interest)	2,350.0	2,474.0	2,754.0

As of 31 December 2018, the cash and cash equivalents of the Group amounted to approximately RMB2,164.7 million, the cash and cash equivalents of the Parent Group amounted to RMB600.0 million, the interest attributable to the owner of the Finance Company amounted to RMB760.0 million. Thus, the size of existing fund of the Finance Company will be up to RMB3,460.0 million. Also, it is expected that the cash and cash equivalents of the Group and the Parent Group in 2019-2022 will grow gradually at the growth rate of 5%, and the interest attributable to the owners of the Finance Company in 2019-2022 will grow gradually in the amount of RMB60.0 million every year. As a such, it is estimated that maximum size of funds of the Finance Company in 2020-2022 will be approximately RMB4,697.0 million, RMB4,948.0 million and RMB5,209.0 million. Furthermore, the proportion of loans to the Parent Company by the Finance Company to the total loans has been approximately 50% for years.

The proposed annual caps for the loan services under the 2020-2022 Parent Group Financial Services Framework Agreement are determined with references to: (a) the data set out above; (b) the expectation of the Parent Company's capital needs for the period from now up to 31 December 2022; (c) the financial ability of the Finance Company; and (d) the historical transaction records of the loan services.

Guarantee services

The historical transaction records and the annual cap amounts for guarantee services under the Parent Group Financial Services Framework Agreement are set out below:

	For the year ended 31 December 2016 <i>RMB in million</i>	For the year ended 31 December 2017 <i>RMB in million</i>	For the year ended 31 December 2018 <i>RMB in million</i>
Annual cap amount (including corresponding fees)	618.0	100.0	100.0
Historical transaction record (including corresponding fees)	0	0	0
Utilization rate	0%	0%	0%

The proposed annual caps for the guarantee services under the 2020-2022 Parent Group Financial Services Framework Agreement for each of the three years ending 31 December 2022 are set out below:

	For the year ending 31 December 2020 <i>RMB in million</i>	For the year ending 31 December 2021 <i>RMB in million</i>	For the year ending 31 December 2022 <i>RMB in million</i>
Proposed annual cap amount (including corresponding fees)	100.0	100.0	100.0

According to the requirements of the Provisional Measures for Risk Regulation Indicators Assessment of Finance Companies of Enterprise Groups (《企業集團財務公司風險監管指標考核暫行辦法》) issued by the CBRC, the ratio of guarantee exposures against the total assets of the Finance Company shall be not higher than 100%. The registered capital of the Finance Company is RMB600,000,000. As a result, the maximum of the annual cap for the guarantee services from the Finance Company amounted to RMB600,000,000.

As at 31 December 2016, 31 December 2017 and 31 December 2018, guarantees provided by the Parent Company for its subsidiaries amounted to approximately RMB2,485.0 million, RMB2,183.0 million and RMB2,467.0 million, respectively. Based on the existing levels of guarantees used by the Parent Group, the Parent Group could easily utilize the entire annual cap available for guarantee provided by the Finance Company. However, the usage of guarantee is highly subjected to the acceptance by the counterparty of the guarantee by the Finance Company.

The proposed annual caps for the guarantee services under the 2020-2022 Parent Group Financial Services Framework Agreement are determined with reference to (a) the above requirements; (b) the guarantee capacity by the Finance Company; and (c) the historical transaction records for the guarantee services.

Other financial services (including bill discounting services, bill acceptance services, consultancy services, agency services and underwriting services, etc.)

The historical transaction records and the annual cap amounts for the fees of other financial services under the Parent Group Financial Services Framework Agreement are set out below:

	For the year ended 31 December 2016 <i>RMB in million</i>	For the year ended 31 December 2017 <i>RMB in million</i>	For the year ended 31 December 2018 <i>RMB in million</i>
Annual cap amount	46.0	27.5	33.0
Historical transaction record	2.2	1.5	0.32
Utilization rate	4.8%	5.5%	1.0%

The proposed annual caps the fees of other financial services for each of the three years ending 31 December 2022 under the 2020-2022 Parent Group Financial Services Framework Agreement are set out below:

	For the year ending 31 December 2020 <i>RMB in million</i>	For the year ending 31 December 2021 <i>RMB in million</i>	For the year ending 31 December 2022 <i>RMB in million</i>
Proposed annual cap amount	27.5	33.0	38.5

Set out below are reasons for, and benefits of, the 2020-2022 Group Financial Services Framework Agreement between the Company and the Finance Company:

- (a) the Finance Company will gradually become the capital settlement center, capital management center, financing support center, capital operation center and information service center of the Group, which would be able to enhance the financial management and control practices, reduce operational risk and consolidate internal resources of the Group;
- (b) the Finance Company is regulated by the PBOC and the CBRC and is required to provide its services in accordance with the rules and operational requirements of these regulatory authorities. In addition, capital risk could be reduced through the risk management measures;
- (c) the capital deposited by the Group with the Finance Company will receive interest at a rate not lower than the interest rates for deposits of similar nature and under similar terms being charged on the Group by other independent commercial banks in the PRC. Such arrangement will enable the Group to increase its interest income more effectively;
- (d) the Group is able to obtain loans from the Finance Company at an interest rate not higher than the interest rates for loans of similar nature and under similar terms being charged on the Group by other independent commercial banks in the PRC, which could effectively lower its financing costs.

Based on the reasons set out above, the Directors (including members of the Independent non-executive Directors) are of the view that the terms of the 2020-2022 Group Financial Services Framework Agreement are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

Set out below are reasons for, and benefits of, the 2020-2022 Parent Group Financial Services Framework Agreement between the Parent Company and the Finance Company are:

- (a) it will expand the business scale of the Finance Company, thus benefiting the development of the Finance Company;
- (b) it will consolidate cash resources, enhance the capital utilization efficiency and lower the finance cost;
- (c) it will enlarge the operation scale of the Group, thus enhancing the profitability of the Group; and
- (d) the Company through its direct 70% equity interest in the Finance Company will be able to share the profits of the Finance Company obtained from the provision of loan services and guarantee services under the 2020-2022 Parent Group Financial Services Framework Agreement.

Based on the above, the Directors (including the Independent non-executive Directors) are of the view that the terms of the 2020-2022 Parent Group Financial Services Framework Agreement are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

Internal Control and Risk Management of 2020-2022 Group Financial Services Framework Agreement and 2020-2022 Parent Group Financial Services Framework Agreement

In order to safeguard the interests of the Shareholders, the Group and the Finance Company provide for the following risk management measures:

(a) *Capital requirement of the Finance Company*

Pursuant to the relevant regulations set by the CBRC, financial institutions in the PRC have to comply with certain requirements, which include, among other things, the minimum total capital requirement of a capital adequacy ratio of not less than 10% as set out by the CBRC. Based on the registered capital of RMB600,000,000 of the Finance Company and that the Finance Company shall provide the financial services not exceeding the proposed annual caps, the Finance Company sets its capital adequacy ratio for the period of 2017 to 2019 at not less than 10%, which is in compliance with relevant provisions of the CBRC. The minimum registered capital of the Finance Company is RMB300,000,000.

(b) *Internal control of the Finance Company*

The establishment of the Finance Company as a non-bank financial institution was authorized by the CBRC, which carries out on-going stringent supervision over the businesses of the Finance Company. The Finance Company is also required to provide regulatory report to the CBRC on a monthly basis.

The Finance Company has established its own credit policies and credit approval procedures for the loan applications, bills discounting services and bills acceptance services, which are designed in accordance with the relevant PBOC and CBRC regulations. Such measures are able to ensure that the various financial services provided by the Finance Company shall not exceed the proposed annual caps approved.

The Group has adopted the internal control procedures and corporate governance procedures to monitor the status of the financial conditions of the Finance Company (in the case of deposit services, loan services, guarantee services and other financial services). The Audit and Risk Management Committee of the Company will review the finance, operation, risk management system and regulatory compliance of the Company monthly, particularly the implementation of connected transactions.

(c) *Qualifications of the Finance Company*

The management of the Finance Company has extensive experience in the financial industry where the Group operates and/or financial management. The Finance Company has certain key committees and departments in maintaining the internal control environment and the risk management functions, including, the risk management committee, the loan approval committee and the supervisory committee. The risk management committee of the Finance Company has established the risk management and control strategies and policies, and monitors the implementation of the relevant policies of the Finance Company while the supervisory committee of the Finance Company will ensure the Finance Company's compliance with the relevant rules and regulations, and to monitor its operational activities.

(d) The audit and risk management committee of the Company will review the implementation of connected transactions under the 2020-2022 Group Financial Services Framework Agreement and the 2020-2022 Parent Group Financial Services Framework Agreement monthly.

IMPLICATIONS UNDER THE LISTING RULES

2020-2022 Master Sales Agreement

As the Parent Company is the Controlling Shareholder of the Company, holding 52.54% equity interest in the Company, the Parent Group is a connected person of the Group under the Listing Rules. Therefore, the transactions contemplated under the 2020-2022 Master Sales Agreement constitute continuing connected transactions of the Company. As the highest applicable percentage ratios calculated in accordance with Chapter 14A of the Listing Rules in respect of the respective annual caps under the 2020-2022 Master Sales Agreement exceed 5% and such annual caps exceed HK\$10,000,000, each of the 2020-2022 Master Sales Agreement constitutes a non-exempted continuing connected transaction of the Company under Chapter 14A of the Listing Rules and is subject to the reporting, annual review, announcement and Independent Shareholders' approval requirements under the Listing Rules.

2020-2022 Master Supplies Agreement

As the Parent Company is the Controlling Shareholder of the Company, holding 52.54% equity interest in the Company, the Parent Group is a connected person of the Group under the Listing Rules. Therefore, the transactions contemplated under each of the 2020-2022 Master Supplies Agreement constitute continuing connected transactions of the Company. As the highest applicable percentage ratios calculated in accordance with Chapter 14A of the Listing Rules in respect of the respective annual caps under the 2020-2022 Master Supplies Agreement exceeds 0.1% but is less than 5%, the transaction contemplated thereunder are subject to the reporting, annual review and announcement requirements under Chapter 14A of the Listing Rules, but exempt from the Independent Shareholders' approval requirement under Chapter 14A of the Listing Rules. Should such transactions exceed the exemption threshold in the future, the Company will comply with the applicable connected transaction regulatory requirements under Chapter 14A of the Listing Rules.

2020-2022 Master Leasing Agreement

As the Parent Company is the Controlling Shareholder of the Company, holding 52.54% equity interest in the Company, the Parent Group is a connected person of the Group under the Listing Rules. Therefore, the transactions contemplated under the 2020-2022 Master Leasing Agreement constitute continuing connected transactions of the Company. Since the highest applicable percentage ratio calculated in accordance with Chapter 14A of the Listing Rules in respect of the annual caps under the 2020-2022 Master Leasing Agreement exceeds 0.1% but is less than 5%, the transaction contemplated thereunder are subject to the reporting, annual review and announcement requirements under Chapter 14A of the Listing Rules, but exempt from the Independent Shareholders' approval requirement under Chapter 14A of the Listing Rules. Should such transactions exceed the exemption threshold in the future, the Company will comply with the applicable connected transaction regulatory requirements under Chapter 14A of the Listing Rules.

2020-2022 Group Financial Services Framework Agreement

As the Parent Company is the Controlling Shareholder of the Company, holding 52.54% equity interest in the Company, the Parent Group is a connected person of the Group under the Listing Rules. The Finance Company, which is owned as to 30% by the Parent Company, is an associate of the Parent Company. Therefore, the transactions contemplated under the 2020-2022 Group Financial Services Framework Agreement constitute continuing connected transactions of the Company.

As the interest rate for deposit services to be provided by the Finance Company to the Group will not be lower than the interest rates for deposits of similar nature and under similar terms provided to Group by other independent commercial banks (at least two) in the PRC, and one or more of the applicable percentage ratios calculated in accordance with the Listing Rules in respect of the maximum daily amount of the deposit services exceed 5% and the annual caps exceed HK\$10,000,000, the deposit services under the 2020-2022 Group Financial Services Framework Agreement are subject to the reporting, annual review, announcement and Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules. Meanwhile, as one or more of the applicable percentage ratios calculated in respect of the maximum daily deposit amount exceed 25%, such transactions also constitute major transactions of the Company under Rule 14.06(3) of the Listing Rules and are subject to the notification, publication and Shareholders' approval requirements for major transactions under Chapter 14 of the Listing Rules.

As the fees charged by the Finance Company for provision of loan services to the Group will not be higher than the interest rates charged by other independent commercial banks (at least two) in the PRC on the Group for loans of similar nature and under similar terms, and such loan services are for the benefit of the Group, and no security over the assets of the Group is granted in respect of such services, pursuant to Rule 14A.90 of the Listing Rules, the loan services under the 2020-2022 Group Financial Services Framework Agreement are exempt from the reporting, annual review, announcement and Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

As the fees charged by the Finance Company for the provision of guarantee services to the Group will not be higher than the fees charged by an independent third party (at least two) on the Group for the same type of services or the fees charged by the Finance Company on any third party of same credit rating for the same type of services and such guarantee services are for the benefit of the Group, and no security over the assets of the Group is granted in respect of such services, pursuant to Rule 14A.90 of the Listing rules, the guarantee services under the 2020-2022 Group Financial Services Framework Agreement are exempt from the reporting, annual review, announcement and Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

As the fees charged by the Finance Company for the provision of other financial services to the Group will not be higher than the fees charged by an independent third party (at least two) on the Group for the same type of services, and all the applicable percentage ratios calculated in accordance with the Listing Rules in respect of the fees of other financial services will exceed 0.1% but will be less than 5%, such transactions are subject to the reporting, annual review, and announcement requirements under Chapter 14A of the Listing Rules but exempt from Independent Shareholders' approval requirement under Chapter 14A of the Listing Rules. Should such transactions exceed the exemption threshold in the future, the Company will comply with the applicable connected transaction regulatory requirements under Chapter 14A of the Listing Rules.

2020-2022 Parent Group Financial Services Framework Agreement

As the Parent Company is the Controlling Shareholder of the Company, holding 52.54% equity interest in the Company, the Parent Group is a connected person of the Group under the Listing Rules. The Finance Company, which is owned as to 70% by the Company, is a subsidiary of the Company. Pursuant to the Listing Rules, the Parent Group is a connected person of the Company. Therefore, the transactions contemplated under the 2020-2022 Parent Group Financial Services Framework Agreement constitute continuing connected transactions of the Company.

As the interest rate for deposit services to be provided by the Finance Company to the Parent Group will not be higher than interest rates for deposits of similar nature and under similar terms provided to Parent Group by other independent commercial banks (at least two) in the PRC and such deposit services to be provided are for the benefit of the Group, and no security over the assets of the Group is granted in respect of such services, pursuant to Rule 14A.90 of the Listing rules, the deposit services under the 2020-2022 Parent Group Financial Services Framework Agreement are exempt from the reporting, annual review, announcement and Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

As the interest rate for loan services to be provided by the Finance Company to the Parent Group will not be lower than the interest rates for loans of similar nature and under similar terms being charged on the Parent Group by other independent commercial banks (at least two) in the PRC, and one or more of the applicable percentage ratios calculated in accordance with the Listing Rules in respect of the maximum daily amount of the loan services exceed 5% and the annual cap exceeds HK\$10,000,000, the loan services under the 2020-2022 Parent Group Financial Services Framework Agreement are subject to the reporting, annual review, announcement and independent

shareholders' approval requirements under Chapter 14A of the Listing Rules. Meanwhile, as one or more of the applicable percentage ratios calculated in respect of the maximum daily loan amount exceed 25%, such transactions also constitute major transactions of the Company under Rule 14.06(3) of the Listing Rules and are subject to the notification, publication and shareholders' approval requirements for major transactions under Chapter 14 of the Listing Rules.

As the fees charged by the Finance Company for the provision of guarantee services to the Parent Group will not be lower than the fees charged by an independent third party (at least two) on the Parent Group for the same type of services or the fees charged by the Finance Company on any third party of same credit rating for the same type of services, and one or more of the applicable percentage ratios calculated in accordance with the Listing Rules in respect of the maximum daily amount of the guarantee services exceed 0.1% but will be less than 5%, such transactions are subject to the reporting, annual review and announcement requirements under Chapter 14A of the Listing Rules but exempt from Independent Shareholders' approval requirement under Chapter 14A of the Listing Rules. Should such transactions exceed the exemption threshold in future, the Company will comply with the applicable connected transaction regulatory requirements under Chapter 14A of the Listing Rules.

As the fees charged by the Finance Company for the provision of other financial services to the Parent Group will not be lower than the fees charged by an independent third party (at least two) on the Parent Group for the same type of services, and all the applicable percentage ratios calculated in accordance with the Listing Rules in respect of the fees of other financial services will exceed 0.1% but will be less than 5%, such transactions are subject to the reporting, annual review and announcement requirements under Chapter 14A of the Listing Rules but exempt from Independent Shareholders' approval requirement under Chapter 14A of the Listing Rules. Should such transactions exceed the exemption threshold in future, the Company will comply with the applicable connected transaction regulatory requirements under Chapter 14A of the Listing Rules.

GENERAL INFORMATION

Information on the Group

The Group is principally engaged in manufacturing, sales and services of clean energy equipment, high-end smart manufacturing and industrial services.

Information on the Parent Group

The Parent Group is principally engaged in automobiles and ancillary automobile business (including special purpose vehicles, compartments and transmission axles), electronic information business and other business.

Information on the Finance Company

The Finance Company is a non-bank financial institution established in January 2013 under the PRC laws and with the approval of the CBRC. It is subject to the regulation of the PBOC and the CBRC. Its principal business is provision of financial services (including but not limited to deposit services, loan services, and guarantee services and other financial services) to the Group and the Parent Group.

ADDITIONAL INFORMATION

The Independent Board Committee comprising all independent non-executive Directors has been formed in accordance with the Listing Rules to advise the Independent Shareholders on the 2020-2022 Master Sales Agreement, the terms of deposit services under the 2020-2022 Group Financial Services Framework Agreement, and the terms of loan services under the 2020-2022 Parent Group Financial Services Framework Agreement. The Independent Financial Adviser has been appointed to advise the Independent Board Committee and the Independent Shareholders as to whether the terms and conditions of the agreements for the above non-exempted continuing connected transactions, and their respective annual caps are fair and reasonable so far as the Independent Shareholders are concerned and in the interests of the Company and the Shareholders as a whole.

As it takes time to finalize the contents of the circular which contains, among other things, further information on the 2020-2022 Master Sales Agreement, the 2020-2022 Group Financial Services Framework Agreement, the 2020-2022 Parent Group Financial Services Framework Agreement and the transactions contemplated thereunder and, a letter of advice from the Independent Board Committee, a letter of recommendation from the Independent Financial Adviser and a notice of the AGM, the circular is expected to be dispatched to the Shareholders on or before 6 June 2019.

The AGM will be convened by the Company at which resolutions will be proposed to seek approval from the Independent Shareholders for the 2020-2022 Master Sales Agreement, the transactions contemplated under the deposit services under the 2020-2022 Group Financial Services Framework Agreement and the loan services under the 2020-2022 Parent Group Financial Services Framework Agreement and their respective proposed annual caps for the three years ending 31 December 2022. The Parent Company and its associates will abstain from voting on the relevant resolutions to be proposed at the AGM.

Mr. Wang Yuxiang (chairman of the Parent Company), Mr. Huang Yong (general manager of the Parent Company) and Ms. Chen Ping (director of the Parent Company), hold management positions in the Parent Company. Therefore, they are deemed to have material interests in the transactions contemplated under the 2020-2022 Master Sales Agreement, the 2020-2022 Master Supplies Agreement, the 2020-2022 Master Leasing Agreement, the 2020-2022 Group Financial Services Framework Agreement and the 2020-2022 Parent Group Financial Services Framework Agreement and have abstained from voting on the relevant Board resolutions to approve the above agreements.

DEFINITIONS

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

“2020-2022 Master Sales Agreement”	the master sales agreement entered into between the Company and the Parent Company on 1 April 2019, pursuant to which the Group has agreed to sell certain materials such as the steering tension rods, track bars, bumpers, the BV series of electric cables, wires and cables, refrigeration machines, copper plates, gas compressors, softwares and raw materials such as steel and gears to the Parent Group during 2020-2022
“2020-2022 Master Supplies Agreement”	the master supplies agreement entered into between the Company and the Parent Company on 1 April 2019, pursuant to which the Parent Group has agreed to supply component parts and raw materials and industrial services such as gears, component parts, YB2 series engines, electricity, water, gas and electrolytic copper, transportation and warehouse services, contract energy management services to the Group during 2020-2022
“2020-2022 Master Leasing Agreement”	the master leasing agreement entered into between the Company and the Parent company on 1 April 2019, pursuant to which the Parent Group will lease land and buildings to the Group to be used as offices, production facilities, workshops and staff quarters during 2020-2022
“2020-2022 Group Financial Services Framework Agreement”	the financial services framework agreement entered into between the Company and the Finance Company on 1 April 2019, pursuant to which the Finance Company will provide deposits, loans, guarantees and other financial services to the Group during 2020-2022
“2020-2022 Parent Group Financial Services Framework Agreement”	the financial services framework agreement entered into between the Parent Company and the Finance Company on 1 April 2019, pursuant to which the Finance Company will provide deposits, loans, guarantees and other financial services to the Parent Group during 2020-2022
“Existing Master Supplies Agreement”	master supplies agreement entered into between the Company and the Parent Company on 7 April 2016, pursuant to which the Parent Group agreed to supply parts and raw materials such as gears, component parts, YB2 series engines, electricity, water, gas and electrolytic copper to the Group

“Existing Master Sales Agreement”	the master sales agreement and the Master Sales Supplemental Agreement entered into between the Company and the Parent Company on 7 April 2016 and 20 April 2018, respectively, pursuant to which the Group agreed to sell supplies, parts, components or materials, finished goods and other relevant or similar products, electrical equipment and components (including certain products such as control valves and parts for steering systems, the BV series of electric cables, refrigeration machines, wires and cables, copper plates, gas compressors, and raw materials such as steel products) to the Parent Group
“Existing Master Leasing Agreement”	the Master Leasing Agreement entered into between the Company and its Parent Company on 7 April 2016 for the leasing of land and buildings from the Parent Group to the Group as offices, production facilities, workshops and staff quarters
“associates”	has the meaning ascribed to it under the Listing Rules
“Annual General Meeting” or “AGM”	the 2018 annual general meeting of the Company to be held at the Conference Room, 16/F, Jidian Building, No. 60, Middle Section of Huangshan Avenue, New North Zone, Chongqing City, the PRC on Wednesday, 26 June 2019 at 9:00 a.m.
“Board”	the board of Directors of the Company
“CBRC”	China Banking Regulatory Commission (中國銀行業監督管理委員會)
“Company”	Chongqing Machinery & Electric Co., Ltd.* (重慶機電股份有限公司)
“Controlling Shareholder”	has the meaning ascribed to it under the Listing Rules
“Director(s)”	the director(s) of the Company
“Domestic Share(s)”	ordinary share(s) of nominal value of RMB1.00 each in the share capital of the Company which are subscribed for or credited as paid up in RMB
“Finance Company”	Chongqing Machinery and Electric Holding (Group) Finance Co., Ltd.* (重慶機電控股集團財務有限公司), a limited liability company established in the PRC on 16 January 2013 by the Company and the Parent Company, which is owned as to 70% and 30% by the Company and the Parent Company respectively

“Group”	the Company and its associates
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“H Share(s)”	the overseas-listed foreign share(s) of the Company with a nominal value of RMB1.00 each, which are listed on the Stock Exchange
“Independent Board Committee”	an independent committee of the Board composed of independent non-executive Directors of the Company, namely Mr. Lo Wah Wai, Mr. Ren Xiaochang, Mr. Jin Jingyu and Mr. Liu Wei
“Independent Financial Adviser” or “TC Capital”	TC Capital International Limited, a licensed corporation to carry out type 1 (dealing in securities) and type 6 (advising on corporate finance) regulated activities under the SFO (Chapter 571 of the Laws of Hong Kong), being the independent financial adviser to the Independent Board Committee and the Independent Shareholders in relation to the terms and conditions of the non-exempted continuing connected transactions and major transactions of the Group (including their respective annual caps)
“Independent Shareholder(s)”	has the meaning ascribed to it under Rule 14A.10(5) of the Listing Rules, and in relation to the Company means the Shareholders other than Parent Company and its associates
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Parent Company”	Chongqing Machinery and Electronic Holding (Group) Co., Ltd.*(重慶機電控股(集團)公司), a limited liability company established in the PRC on 25 August 2000 and owned by the Chongqing State-owned Assets Supervision and Administration Commission, being one of the promoters of the Company
“Parent Group”	Parent Company and its associates, excluding the Group
“PBOC”	the People’s Bank of China, the central bank of the PRC
“PRC”	the People’s Republic of China, which, for the purpose of this announcement, excludes Hong Kong Special Administrative Region of the PRC, the Macau Special Administrative Region of the PRC and the Taiwan region

“RMB”	Renminbi, the lawful currency of the PRC
“Master Sales Supplemental Agreement”	the master sales supplemental agreement entered into between the Company and the Parent Company on 20 April 2018, pursuant to which the annual caps of 2018 and 2019 will be adjusted to RMB350 million and RMB360 million, respectively on basis of the Existing Master Sales Agreement
“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
“Shares”	the Domestic Shares and/or the H Shares
“Shareholder(s)”	holder(s) of the Shares
“Stock Exchange”	The Stock Exchange of Hong Kong Limited

By Order of the Board
Chongqing Machinery & Electric Co., Ltd.
Wang Yuxiang
Executive Director and Chairman

Chongqing, the PRC
1 April 2019

As at the date of the announcement, the executive Directors are Mr. Wang Yuxiang, Ms. Chen Ping and Mr. Yang Quan; the non-executive Directors are Mr. Huang Yong, Mr. Dou Bo and Mr. Wang Pengcheng; and the independent non-executive Directors are Mr. Lo Wah Wai, Mr. Ren Xiaochang, Mr. Jin Jingyu and Mr. Liu Wei.