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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)

## **CONTINUING CONNECTED TRANSACTIONS REVISION OF ANNUAL CAPS**

### **REVISION OF ANNUAL CAPS**

References are made to the announcement of the Company dated 7 April 2016 and the circular of the Company dated 8 June 2016 in relation to, among others, the continuing connected transactions under the Existing Master Sales Agreement entered into between the Group and the Parent Group. Pursuant to the Existing Master Sales Agreement entered into by the Company on 7 April 2016, 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, gears and clutch assemblies and the BV series of electric cables) to the Parent Group from 2017 to 2019.

Affected by the rapid growth of heavy truck business in 2017 and the commencement of construction of railway transit in Chongqing in 2018 as well as the increase in continuing connected transactions due to the equity transfer with the Parent Group in November 2017, the annual cap under the Existing Master Sales Agreement would not satisfy the expected need. The Company and the Parent Company entered into the Master Sales Supplemental Agreement, proposing to increase the annual caps of 2018 and 2019 by RMB170 million and RMB180 million from RMB180 million and RMB190 million, respectively. The annual caps of 2018 and 2019 after adjustment will be RMB350 million and RMB360 million, respectively. All existing principal terms and conditions under the Existing Master Sales Agreement will remain unchanged.

The Company confirmed that, as of the date of this announcement, the amount of transactions under the Existing Master Sales Agreement has not exceeded the existing annual caps.

\* *For identification purposes only*

## **IMPLICATIONS UNDER THE LISTING RULES**

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 Master Sales Supplemental 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 agreement exceed 5% and such annual caps exceed HK\$10,000,000, the 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.

## **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 Master Sales Supplemental 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 agreement for the above non-exempted continuing connected transactions, the transactions contemplated thereunder 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 Master Sales Supplemental Agreement, 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 14 May 2018.

The AGM will be convened by the Company at which resolution will be proposed to seek approval from the Independent Shareholders for the Master Sales Supplemental Agreement. 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 (president 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 Master Sales Supplemental Agreement, and have abstained from voting on the relevant Board resolutions to approve the above agreement.

## **Master Sales Supplemental Agreement**

References are made to the announcement of the Company dated 7 April 2016 and the circular of the Company dated 8 June 2016 in relation to, among others, the continuing connected transactions under the Existing Master Sales Agreement entered into between the Group and the Parent Group. Pursuant to the Existing Master Sales Agreement entered into by the Company on 7 April 2016, 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, gears and clutch assemblies and the BV series of electric cables) to the Parent Group from 2017 to 2019.

Affected by the rapid growth of heavy truck business in 2017 and the commencement of construction of railway transit in Chongqing in 2018 as well as the increase in continuing connected transactions due to the equity transfer with the Parent Group in November 2017, the annual cap under the Existing Master Sales Agreement would not satisfy the expected need. The Company and the Parent Company entered into the Master Sales Supplemental Agreement, proposing to increase the annual caps of 2018 and 2019 by RMB170 million and RMB180 million from RMB180 million and RMB190 million, respectively. The annual caps of 2018 and 2019 after adjustment will be RMB350 million and RMB360 million, respectively. All existing principal terms and conditions under the Existing Master Sales Agreement will remain unchanged.

The Company confirmed that, as of the date of this announcement, the amount of transactions under the Existing Master Sales Agreement has not exceeded the existing annual caps.

The principal terms of the Master Sales Supplemental Agreement are set out as follows:

***Date:***

20 April 2018

***Parties:***

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

***Term:***

Subject to the approval to be obtained from the Independent Shareholders, commencing from 20 April 2018 and expiring on 31 December 2019.

***Nature of transaction:***

The Group sells 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, gears and clutch assemblies and the BV series of electric cables) 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 Master Sales Supplemental Agreement***

The Master Sales Supplemental 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 Master Sales Supplemental Agreement will be determined with reference to:

- (i) the market price obtained through prices quoted on websites for the industry 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.

All the products sold by the Group 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 Master Sales Supplemental Agreement.

After reviewing the relevant basis, the Directors (including the independent non-executive Directors) are of the view that the terms of the Master Sales Supplemental 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:

	<b>For the year ended 31 December 2017</b> <i>RMB in million</i>	<b>For the period from 1 January to 31 March 2018</b> <i>RMB in million</i> (Unaudited)
Annual cap amount	180.0	N/A
Historical transaction record	117.9	54.8
Utilization rate	65.5%	N/A

The annual caps for the year ending 31 December 2018 and for the year ending 31 December 2019 under the Existing Master Sales Agreement, as well as the new proposed annual caps for the year ending 31 December 2018 and for the year ending 31 December 2019 under the Master Sales Supplemental Agreement are set out below:

	<b>For the year ended 31 December 2018</b> <i>RMB in million</i>	<b>For the year ended 31 December 2019</b> <i>RMB in million</i>
Annual cap amount under the Existing Master Sales Agreement	180.0	190.0
New proposed annual cap amount	350.0	360.0

The proposed annual cap for the Master Sales Supplemental Agreement is determined with reference to:

- (i) the estimated demand for production and sales of vehicle parts, power equipment, general machinery and CNC machine tools;
- (ii) the estimated sales volume of the Group for each of the two fiscal years ending 31 December 2019;
- (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 2017;

- (v) Chongqing Shengpu Materials Co., Ltd.\* (重慶盛普物資有限公司), a wholly-owned subsidiary of the Company, 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 and is expected to see noticeable increase in the coming two years.
- (vi) the Group will significantly increase the sales of rail wire and cable, expecting that the Parent Group will strongly develop the construction of rail transit project in the next two years; and
- (vii) the Group will provide more accessories for heavy-duty vehicles to the Parent Group, expecting a rebound of the market of heavy-duty vehicles in the next two years in the PRC.

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

### **Reasons for and Benefits of the Transactions Contemplated under the Master Sales Supplemental Agreement**

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

### **IMPLICATIONS UNDER THE LISTING RULES**

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 Master Sales Supplemental 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 Master Sales Supplemental Agreement exceed 5% and such annual caps exceed HK\$10,000,000, the Master Sales Supplemental 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.

### **GENERAL INFORMATION**

#### **Information on the Group**

The Group is principally engaged in manufacturing and sales of vehicle parts and components, general machinery, CNC machine tools and power equipment.

## **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.

## **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 terms of Master Sales Supplemental 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 agreement for the above non-exempted continuing connected transactions, the transactions contemplated thereunder 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 Master Sales Supplemental Agreement, 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 14 May 2018.

The AGM will be convened by the Company at which resolutions will be proposed to seek approval from the Independent Shareholders for the Master Sales Supplemental Agreement. 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 (president 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 Master Sales Supplemental Agreement, and have abstained from voting on the relevant Board resolutions to approve the above agreement.

## **DEFINITIONS**

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

“associates”	has the meaning ascribed to it under the Listing Rules
“AGM”	the upcoming annual general meeting of the Company to be held in 2018
“Board”	the board of Directors of the Company

“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
“Group”	the Company and its associates
“Existing Master Sales Agreement”	the master sales agreement entered into between the Company and the Parent Company on 7 April 2016, pursuant to which the Group has 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, gears and clutch assemblies and the BV series of electric cables) to the Parent Group from 2017 to 2019
“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 Hong Kong 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 non-exempted continuing connected transactions and their respective annual caps
“Independent Shareholder(s)”	has the meaning ascribed to it under Chapter 14A 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
“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
“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
“PRC”	the People’s Republic of China, which, for the purpose of this circular, excludes Hong Kong Special Administrative Region of the PRC, the Macau Special Administrative Region of the PRC and the Taiwan region of the PRC
“RMB”	Renminbi, the lawful currency of the PRC
“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) as amended, supplemented or revised otherwise from time to time
“Shares”	the Domestic Shares and foreign shares 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  
20 April 2018

*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. Deng Yong, Mr. Dou Bo and Ms. He Xiaoyan; and the independent non-executive Directors are Mr. Lo Wah Wai, Mr. Ren Xiaochang, Mr. Jin Jingyu and Mr. Liu Wei.*

*\* For identification purposes only*