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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)

**SUPPLEMENTAL ANNOUNCEMENT – CONNECTED TRANSACTION**

Reference is made to the announcement of the Company dated 27 February 2025 (the “**Announcement**”) in relation to Chongqing Machine Tools Group (a wholly-owned subsidiary of the Company) and the Asset Company (a wholly-owned subsidiary of the Controlling Shareholder of the Company) entering into the Equity Transfer Agreement, pursuant to which Chongqing Machine Tools Group agreed to acquire and the Asset Company agreed to sell 100% equity interest of the Target Company held by it. Unless the context otherwise requires, capitalised terms used in this supplemental announcement shall have the same meanings as those defined in the Announcement.

The Company would like to provide further information to Shareholders and potential investors relating to the Acquisition.

**A. BASIS OF DETERMINING CONSIDERATION**

**Effective date of the valuation**

The Asset Valuation Report is prepared in accordance with the PRC Asset Valuation Standards and is effective from 30 September 2024 (i.e. Valuation Benchmark Date) to 29 September 2025.

## **Scope of work performed by the valuer, any limitation thereon and the reasons for such limitation**

The scope of this valuation covers all assets and liabilities of Target Company as of 30 September 2024, as audited. This includes financial data for the 3 years ended 31 December 2023 and the 9 months ended 30 September 2024. The Independent Valuer determined that there were no special restrictions for the valuation of the Target Company and Target Equity.

## **Valuation approach(es) and method(s) used by the valuer and the reasons for their selection**

Save for the reasons as disclosed in the Announcement, as detailed information regarding the assets and liabilities of the Target Company under valuation as of the Valuation Benchmark Date can be collected, the asset-based approach has been adopted for this valuation. The asset-based approach calculates the value of shareholders' equity by assessing the market value of the subject equity (being the Target Equity)'s assets and liabilities.

Income approach is unsuitable for this valuation and is therefore not adopted, as the Target Company operates in the gear industry – a sector characterized by a large number of market participants, rapid technological advancements, and intense domestic competition – which has significantly impacted the company due to rivalry within the same industry, resulting in profit fluctuations and uncertainty in future earnings.

The market approach has not been adopted for this valuation, given the difficulty in finding publicly traded companies or transaction cases with business content comparable to the Target Company in the open market, as well as the lack of sufficient information for corresponding market approach comparison and adjustments.

## **The nature and source of information relied upon**

The nature and sources of the information relied upon include board minutes of the Asset Company, law and regulations of the PRC such as *Asset Valuation Law of the People's Republic of China* (《中華人民共和國資產評估法》), financial, audit, and operational materials provided by the Target Company; a special audit report issued by Chongqing Diwei Certified Public Accountants (General Partnership)\* (重慶諦威會計師事務所(普通合伙)); on-site inspection records compiled by the Independent Valuer, statistical data, technical standards, and policy documents released by relevant national authorities, etc..

## **The key inputs and assumptions, and how they were determined and translated into the appraised value**

The Asset Valuation Report adopts the asset-based approach as the final valuation conclusion. The main valuation parameters of the asset-based approach include: all assets and liabilities as of the Valuation Benchmark Date, primarily covering current assets, machinery and equipment, vehicles, electronic equipment, construction in progress, other intangible assets, as well as current liabilities and non-current liabilities.

As disclosed in the Announcement, the main assumptions made in the valuation include the following: (i) the Target Equity can be publicly traded in the market; (ii) the Target Equity is already a subject of a transaction; and (iii) the Target Company, as an operating entity, continues to maintain its existing business management model for ongoing operations; and (iv) there is no material change in all other factors and circumstances, etc..

This valuation was conducted under the assumption of a going concern, taking into full consideration factors such as the purpose of the valuation, market conditions, and the specific conditions of the Target Equity, to assess the total equity value of the Target Company's shareholders. As such, the appraised value is determined by the Independent Valuer based on estimated fair market value of the of the Target Equity as of the Valuation Benchmark Date by assessing what the value would be in a normal, fair transaction between willing transferor and willing transferee, each acting rationally and without any coercion.

### **The appraised value ascribed to the Transaction Target and the principal reasons for the conclusions reached**

As of the Valuation Benchmark Date of 30 September 2024, the Target Company reported a book value of assets of RMB59.9820 million, a book value of liabilities of RMB27.1423 million, and a book value of total shareholders' equity of RMB32.8397 million according to the financial data for the 3 years ended 31 December 2023 and the 9 months ended 30 September 2024. After applying the asset-based approach, the assessed value of assets was RMB62.7635 million, the assessed value of liabilities was RMB27.1423 million, and the assessed value of total shareholders' equity was RMB35.6212 million, representing an increase in total shareholders' equity of RMB2.7815 million, or an appreciation rate of 8.47%.

### ***Analysis of the main reasons for value increases and decreases***

- (1) The book value of inventory was RMB19.3982 million, with an assessed value of RMB20.7023 million, representing an increase of RMB1.3041 million, or an appreciation rate of 6.72%. The main reason for the increase is the rise in the purchase price of raw materials and the market selling price of finished products, for the 9 months ended 30 September 2024.
- (2) The book value of fixed assets was RMB1.8686 million, with an assessed value of RMB3.3279 million, representing an increase of RMB1.4593 million, or an appreciation rate of 78.10%. The main reason for the increase is that some equipment, although fully depreciated, is still in use.

As disclosed in section "Asset Consideration" in the Announcement, the Independent Valuer has conducted a valuation on the market value of the entire equity interest of the shareholders of the Target Company as at the Valuation Benchmark Date using the asset-based approach, and the appraised value of the total shareholders' equity interest is RMB35,621,200. Based on such appraised value, the Acquisition Consideration was determined after calculating the corresponding appraised value of the Target Equity.

## **Basis of the determination of the Consideration and its fairness**

The Acquisition Consideration is determined based on the appraised value of the total shareholders' equity of RMB35,621,200 (tax inclusive) as at the Valuation Benchmark Date in the Asset Valuation Report as prepared by the Independent Valuer according to the asset-based approach.

### ***The identity, qualification and independence of the valuer***

In order to assess the fairness and reasonableness of the Acquisition Consideration, the transferor of the Target Equity engaged the Independent Valuer to perform the valuation. To the best of the Directors' knowledge, information and belief, having made all reasonable enquiries, they are not aware of any relationships or interests between the Independent Valuer and the Company, the transferor, the transferee, or any of their respective substantial shareholders, directors or chief executives, or their respective associates that could reasonably be regarded as relevant to the independence of the Independent Valuer.

Apart from general professional fees payable to Independent Valuer in connection with valuation, no arrangement exists whereby the Independent Valuer will receive any fees or benefits from the Company, the transferor, the transferee, or any of their respective substantial shareholders, directors or chief executives, or any of their respective associates, and the Company is not aware of the existence of or change in any circumstances that would affect their independence.

The Independent Valuer, Chongqing Boma Real Estate Land Asset Valuation Co., Ltd.\* (重慶鉑碼房地產土地資產評估有限公司), is a professional company specializing in real estate and land asset valuation. It possesses the qualifications for asset valuation and has been included in the Chongqing State-owned Assets Supervision and Administration Commission's selection pool of asset valuation institutions for state-owned enterprises, with over 30 years of experience in the valuation profession.

The Directors have assessed the qualification, experience and the track record of the Independent Valuer and are of the view that the department manager of the Independent Valuer, who is also the signatory of the Asset Valuation Report, has over 30 years of experience in the valuation and provided valuation services for a wide range of listed companies, is qualified, experienced and competent in performing this valuation.

## B. ASSUMPTION

As disclosed in the Announcement, the Target Equity is a wholly-owned subsidiary of the Asset Company, which in turn is a wholly-owned subsidiary of the Controlling Shareholder. Therefore, the Target Equity constitutes 100% state-owned equity.

The valuation of the Target Equity, being state-owned equity, is required and has been conducted in accordance with the *Asset Valuation Law of the People's Republic of China*\* (《中華人民共和國資產評估法》), the *Company Law of the People's Republic of China*\* (《中華人民共和國公司法》), the *Administrative Measures for the Valuation of State-Owned Assets*\* (《國有資產評估管理辦法》), and other relevant asset valuation standards which require the valuation results to be based on reasonable market assumptions to ensure the fairness and transparency of the valuation. To ensure that state-owned assets are transacted at a fair price and to prevent the loss of state-owned assets, the valuation results in the Asset Valuation Report are therefore derived under a simulated open-market transaction environment, which provides an equitable basis for determining the value of the Target Equity. As such, the related assumptions are fair and reasonable.

As the relevant assumptions are fair and reasonable, and compliant with the PRC Asset Valuation Standards (中國資產評估準則), the Independent Valuer is not required to analyse the condition where the Target Equity cannot be publicly traded and the financial impact according to the relevant requirements of the PRC Asset Valuation Standards (中國資產評估準則), the *Asset Valuation Law of the People's Republic of China*\* (《中華人民共和國資產評估法》), the *Company Law of the People's Republic of China*\* (《中華人民共和國公司法》), the *Administrative Measures for the Valuation of State-Owned Assets*\* (《國有資產評估管理辦法》). As such, quantifying the financial impact on the Valuation is not required.

The assumptions made in this valuation are fair and reasonable. The assumptions in the Asset Valuation Report are designed to, and indeed do, comply with the relevant laws and regulations relating to the state-owned asset transactions and valuation, whereas the Board's assessment is based on the provisions of laws and regulations such as the *Enterprise State-owned Assets Law of the People's Republic of China*\* (《中華人民共和國企業國有資產法》) and the *Interim Regulations on the Supervision and Administration of Enterprise State-owned Assets*\* (《企業國有資產監督管理暫行條例》). For the Acquisition, which constitutes a state-owned asset transaction, an independent third party was engaged to conduct an asset valuation of the Target Equity, ensuring the objectivity and fairness of the valuation process as well as the legality and compliance of the transaction. Therefore, the valuation results serve as basis for the transaction, and any transaction at or above this valuation, being the Acquisition, meets the corresponding laws and regulations for state-owned asset management, is fair and reasonable, and aligns with normal commercial principles.

## **C. FURTHER REASONS FOR AND BENEFITS OF THE ACQUISITION**

The Acquisition can benefit the principal business and/or strategic development of the Company in the following ways:

### **(i) Focus on Core Business and Resource Optimization:**

the Target Company specializes in the research, development, and manufacturing of gear and shaft components, which are critical precision parts for machinery and equipment. By acquiring the Target Company, the Company strengthens its core business in the machinery and electric equipment sector through vertical integration, reducing reliance on external suppliers and improving supply chain control. The integration of the Target Company's technical expertise, advanced manufacturing capabilities, and skilled workforce will not only enhance the Company's operational efficiency and resource utilization but also align with the Chongqing State-owned Assets Supervision and Administration Commission's goal of optimizing state-owned assets and focusing on core competencies.

### **(ii) Strategic Development and Industrial Upgrading:**

the Company's wholly-owned subsidiary, the transferee, is a well-known domestic gear machine tool enterprise. The Target Company can provide product development validation for the transferee, and both parties can establish a new product testing base. The Target Company can also leverage the transferee's technology, platform, and talent resources to enhance its production technology level and efficiency, as well as expand its influence in the gear market. This strategic adjustment is conducive to fully leveraging the synergies between the Transferee and the Target Company. The Acquisition enhanced the competitiveness of the transferee in the machinery industry by expanding its product portfolio and incorporating high-precision gears and shaft components into the transferee's business. Additionally, the integration of the Target Company's R&D capabilities drives technological innovation, enabling the transferee to develop more advanced products. This aligns with the government's vision of fostering innovation and industrial upgrading in state-owned enterprises, which will enable both the transferee and the Company to maintain at the forefront of the manufacturing sector while creating long-term value for shareholders of the transferee and the Company.

The Acquisition can promote the optimization and upgrading of the industrial chain in the following ways:

**(i) Optimization of the Industrial Chain:**

the Acquisition of the Target Company, which specializes in gear and shaft components, enables vertical integration within the Company's supply chain. By producing these critical precision parts in-house, the Company reduces dependency on external suppliers, lowers costs, and improves supply chain efficiency. This integration streamlines operations, enhances resource utilization, and strengthens the Company's control over production processes, aligning with the goal of optimizing the industrial chain.

**(ii) Upgrading of the Industrial Chain:**

the Target Company, as a downstream enterprise of the Chongqing Machine Tools Group, operates independently in the market, which is conducive to extending the Chongqing Machine Tools Group's industrial chain. Additionally, it can serve as a testing base for the Chongqing Machine Tools Group's product development and application validation. If the Chongqing Machine Tools Group was to establish such a base independently, it would require significant investment and a longer timeframe. By integrating the Target Company, the Chongqing Machine Tools Group can enhance its market competitiveness, achieve industrial chain upgrading, and promote innovation-driven development.

Considering

- (i) the information as disclosed above;
- (ii) the Acquisition is based on fair market value and independent valuation; and
- (iii) the Board has carefully reviewed the relevant basis, assumptions and methods of this valuation,

the Board considered that this valuation is a reasonable estimation of the Target Equity as of the Valuation Benchmark Date, and that the Acquisition is appropriate, fair and reasonable, and is in the interests of the Company and Shareholders as a whole.

By Order of the Board  
Chongqing Machinery & Electric Co., Ltd.\*  
**Yue Xiangjun**  
*Executive Director and General Manager*  
(performing duties and powers as chairman of the Board)

Chongqing, the PRC  
18 March 2025

*As at the date of the announcement, the executive Directors are Mr. Yue Xiangjun and Mr. Qin Shaobo; the non-executive Directors are Mr. Fu Yihong, Ms. Zhu Ying, Mr. Dou Bo and Mr. Cai Zhibin; and the independent non-executive Directors are Mr. Lo Wah Wai, Mr. Ren Xiaochang, Mr. Liu Wei and Mr. Ke Rui.*

\* *For identification purposes only*