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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)

CONNECTED TRANSACTION
ACQUISITION OF TARGET EQUITY

EQUITY TRANSFER AGREEMENT

On 27 February 2025, 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) entered into the Equity Transfer Agreement, pursuant to which Chongqing Machine Tools Group agreed to acquire and the Asset Company agreed to sell the Target Equity held by it at a consideration of RMB35,621,200.

LISTING RULES IMPLICATIONS

As of the date of this announcement, the Asset Company directly holds 100% equity interest in the Target Company and is the sole shareholder of the Target Company, whereas Chongqing Machine Tools Group is a direct wholly-owned subsidiary of the Company, and the Asset Company is a wholly-owned subsidiary of the Controlling Shareholder of the Company. All parties under the Equity Transfer Agreement are therefore connected persons of the Company. Accordingly, the Acquisition constitutes a connected transaction of the Company under Chapter 14A of the Listing Rules.

As all of the applicable percentage ratios calculated in accordance with Chapter 14 of the Listing Rules exceed 0.1% but each of the applicable percentage ratio is less than 5%, the Acquisition under the Equity Transfer Agreement is only subject to requirements in relation to the annual review, reporting and announcement, but is exempt from the circular (including independent financial advice) and independent shareholders' approval requirements pursuant to Rule 14A.76(2) of the Listing Rules.

None of the Directors has a material interest in the Acquisition and none of the Directors is required to abstain from voting on resolution in relation to the Board approving the Acquisition.

EQUITY TRANSFER AGREEMENT

On 27 February 2025, 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) entered 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 at a consideration of RMB35,621,200.

The principal terms of the Equity Transfer Agreement are summarised as follows:

DATE OF ENTERING INTO EQUITY TRANSFER AGREEMENT

27 February 2025

PARTIES OF EQUITY TRANSFER AGREEMENT

1. Chongqing Machine Tools Group (as the transferee); and
2. Asset Company (as the transferor)

THE ACQUISITION

Pursuant to the Equity Transfer Agreement, the Asset Company (as the transferor) agreed to sell and Chongqing Machine Tools Group (as the transferee) agreed to acquire the 100% equity interest in the Target Company held by the Asset Company. Upon completion of the Acquisition, Chongqing Machine Tools Group will hold 100% equity interest in the Target Company.

ACQUISITION CONSIDERATION

Pursuant to the Equity Transfer Agreement, the Acquisition Consideration for the Target Equity is RMB35,621,200, which was determined after arm's length negotiation between both parties to the agreement with reference to the Asset Valuation Report issued by the Independent Valuer as at the Valuation Benchmark Date, and the shareholding percentage of the Asset Company in the Target Company. The final Acquisition Consideration is subject to the filing record of the state-owned assets management authority.

In accordance with the Asset Valuation Report, the asset-based approach is mainly used for enterprise valuation:

The asset-based approach determines the value of the Target Company by reasonably evaluating its value of various assets and liabilities based on its balance sheet as at the Valuation Benchmark Date. As the various assets and liabilities on the balance sheet of the Target Company on the Valuation Benchmark Date can be identified and assessed separately by using appropriate assessment methods, and the Target Company does not have any assets and liabilities which have a significant impact on the valuation conclusion and are difficult to be identified and assessed, the asset-based approach is therefore used for this valuation.

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 and the appraised net asset value are both RMB35,621,200. Based on such appraised value, the consideration of the Acquisition was determined after calculating the corresponding appraised value of the Target Equity.

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..

Having reviewed the relevant pricing basis, the Directors (including the independent non-executive Directors) are of the view that Acquisition Consideration is fair and reasonable, and in the interests of the Company and the Shareholders as a whole.

AGREEMENT EFFECTIVE DATE

The Equity Transfer Agreement has been approved by the Board on 27 February 2025, and was entered into and took effect by Chongqing Machine Tools Group and the Asset Company on 27 February 2025.

COMPLETION AND PAYMENT OF THE ACQUISITION CONSIDERATION

Completion of the Acquisition will take place by 31 December 2025. Chongqing Machine Tools Group shall pay the Acquisition Consideration for the Target Equity to the Asset Company by 31 December 2025.

Upon completion of the Acquisition, the Target Company will become an indirect wholly-owned subsidiary of the Company, and its financial results will be consolidated into the financial statements of the Company. Chongqing Machine Tools Group is entitled to and assumes the assets, claims, and liabilities of the Target Company, whereas the Asset Company will no longer hold any equity interest in the Target Company.

INFORMATION ABOUT THE TARGET COMPANY

Target Company is a joint stock limited company incorporated in the PRC in October 2016. As at the date of this announcement, its registered capital is RMB7,000,000, and it is primarily engaged in the research and development, and manufacturing of gear and shaft components.

The audited financial information of the Target Company for the three financial years ended 31 December 2023 prepared in accordance with the PRC Accounting Standards for Business Enterprises is set out below:

Unit: RMB'0,000

Item	2021	2022	2023
Total assets	7,977	5,809	6,427
Net assets	3,337	3,256	3,248
Gearing ratio	58%	44%	49%
Total operating revenue	8,612	5,825	5,943
Total profit (loss expressed with “-”)	-22	-93	-18
Net profit (net loss expressed with “-”)	-301	-36	19

Net profit

As of 30 September 2024, the total assets of the Target Company amounted to RMB59,982,000, the owner’s equity amounted to RMB32,839,000, and the gearing ratio was 45%. From January to September 2024, the operating revenue was RMB42,096,000, the total profit was RMB438,000, and the net profit was RMB418,000.

REASONS FOR AND BENEFITS OF THE ACQUISITION

To implement the strategic adjustment of the Chongqing Municipal Government and the Chongqing State-owned Assets Supervision and Administration Commission regarding the state-owned enterprises focusing on the main businesses, enhancing strategic and business synergy, and optimizing integration (including the number of enterprises), and in accordance with the Group’s strategic development plan to further promote the optimization and upgrading of the industrial chain, upon negotiation between the parties, Chongqing Machine Tools Group agreed to acquire and the Asset Company agreed to sell 100% equity interest of the Target Company held by it at a consideration of RMB35,621,200.

FINANCIAL IMPACT OF THE ACQUISITION

The Group does not expect to record any gains or losses from the Acquisition.

INFORMATION ABOUT CHONGQING MACHINE TOOLS GROUP AND THE ASSET COMPANY

Chongqing Machine Tools Group was established in 1989 and is a wholly-owned subsidiary of the Company, with a registered capital of RMB594,241,000. It is primarily engaged in the production of gear-producing machines, with products covering lathes, machining centers, complex cutting tools, and vehicle parts and components.

The Asset Company was established in 2008 and is a wholly-owned subsidiary of the Controlling Shareholder of the Company, with a registered capital of RMB50,000,000. It is primarily engaged in investment business (excluding financial business) and related asset operation, asset management, self-owned property leasing, and general machinery equipment leasing.

LISTING RULES IMPLICATIONS

As of the date of this announcement, the Asset Company directly holds 100% equity interest in the Target Company and is the sole shareholder of the Target Company, whereas Chongqing Machine Tools Group is a direct wholly-owned subsidiary of the Company, and the Asset Company is a wholly-owned subsidiary of the Controlling Shareholder of the Company. All parties under the Equity Transfer Agreement are therefore connected persons of the Company. Accordingly, the Acquisition constitutes a connected transaction of the Company under Chapter 14A of the Listing Rules.

As all of the applicable percentage ratios calculated in accordance with Chapter 14 of the Listing Rules exceed 0.1% but each of the applicable percentage ratio is less than 5%, the Acquisition under the Equity Transfer Agreement is only subject to requirements in relation to the annual review, reporting and announcement, but is exempt from the circular (including independent financial advice) and independent shareholders' approval requirements pursuant to Rule 14A.76(2) of the Listing Rules.

In view of good corporate governance practices, Mr. Fu Yihong, the Director who is of the deputy minister of the strategy and technology department of the Controlling Shareholder, is deemed to have a material interest in the Acquisition and has abstained from voting on resolution in relation to the Board approving the Acquisition. Saved as disclosed above, none of the other Directors has a material interest in the Acquisition and none of the other Directors is required to abstain from voting on resolution in relation to the Board approving the Acquisition.

BOARD'S APPROVAL AND OPINIONS

The Equity Transfer Agreement and the Acquisition thereunder have been unanimously approved by all Directors. None of any Directors has a material interest in the Equity Transfer Agreement and the Acquisition thereunder or is required to abstain from voting on the above resolution. The Board (including the independent non-executive Directors) is of the view that:

- (1) The terms set out in the Equity Transfer Agreement and the Acquisition thereunder are fair and reasonable. The Acquisition is conducted in the ordinary and usual course of business of the Group and on normal commercial terms, and is in the interests of the Company and its Shareholders as a whole;
- (2) The decision and approval procedures of the Equity Transfer Agreement and the Acquisition thereunder are in compliance with the Company Law of the PRC, the Listing Rules and the Articles of Association of the Company; and

- (3) The terms and conditions set out in the Equity Transfer Agreement and the Acquisition thereunder are entered into by the parties on the basis of equality and mutual benefit, and based on the principle of equal value and compensation.

DEFINITIONS

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

“Acquisition”	pursuant to the Equity Transfer Agreement, Chongqing Machine Tools Group agrees to acquire and the Asset Company agrees to transfer 100% equity interest in the Target Company held by it
“Acquisition Consideration”	the consideration in the amount of RMB35,621,200 (tax inclusive) payable by Chongqing Machine Tools Group to the Asset Company in respect of the Acquisition
“Asset Company”	CQMEHG Asset Management Co., Ltd.* (重慶機電控股集團資產管理有限公司), a company established in the PRC with limited liability, which is a wholly-owned subsidiary of the Controlling Shareholder of the Company
“Asset Valuation Report”	the valuation report dated 20 January 2025 issued by the Independent Valuer, contents of which are in relation to the valuation of the Target Equity as at the Valuation Benchmark Date in accordance with relevant PRC laws, regulations and valuation standards
“associates”	has the meaning ascribed to it under the Listing Rules
“Board”	the board of Directors of the Company
“Company”	Chongqing Machinery & Electric Co., Ltd.* (重慶機電股份有限公司), a company incorporated in the PRC with limited liability, the shares of which are listed on the Main Board of the Stock Exchange (Stock Code: 02722)
“connected person”	has the meaning ascribed to it under the Listing Rules

“Controlling Shareholder”	Chongqing Machinery & Electronics Holding (Group) Co., Ltd.* (重慶機電控股(集團)公司), a company established in the PRC with limited liability, which is the direct Controlling Shareholder of 54.74% of the issued share capital of the Company, and has the meaning ascribed to it under the Listing Rules
“Chongqing Machine Tools Group”	Chongqing Machine Tools (Group) Co., Ltd.* (重慶機床(集團)有限責任公司), a company established in the PRC with limited liability, which is a wholly-owned subsidiary of the Company
“Director(s)”	the director(s) of the Company
“Group”	the Company and its subsidiaries
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“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)
“Listing Rules”	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited
“Equity Transfer Agreement”	the equity transfer agreement dated 27 February 2025 entered into between Chongqing Machine Tools Group (as the transferee) and the Asset Company (as the transferor) in respect of the Acquisition
“PRC”	the People’s Republic of China, which, for the purpose of this announcement, excludes the Hong Kong, the Macau Special Administrative Region of the PRC and the Taiwan region
“RMB”	the lawful currency of the PRC
“Share(s)”	the domestic Shares and foreign Shares or H Shares of the Company
“Shareholder(s)”	holder(s) of the Shares of the Company
“Stock Exchange”	The Stock Exchange of Hong Kong Limited

“subsidiary(ies)”	has the meaning ascribed to it under the Listing Rules, and subsidiary means any one of them
“Target Company”	Chongqing Panlian Transmission Technology Co., Ltd.* (重慶磐聯傳動科技有限公司), a company established in the PRC with limited liability, which is a wholly-owned subsidiary of the Asset Company
“Target Equity”	100% equity interest in the Target Company to be acquired by Chongqing Machine Tools Group under the Equity Transfer Agreement
“Valuation Benchmark Date”	30 September 2024, being the benchmark date for the valuation of the market value of the entire equity interest of the shareholders of the Target Company
“%”	per cent

By Order of the Board
Chongqing Machinery & Electric Co., Ltd.*

Yue Xiangjun
Executive Director and General Manager
(performing duties and powers of the chairman of the Board)

Chongqing, the PRC
27 February 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*