

**CHONGQING MACHINERY AND ELECTRIC COMPANY LTD:
FOR THE INTERMEDIATE TO LONG-TERM PERIOD,
THIS COMPANY COULD BE A REAL WINNER**

It seems somewhat surprising to this medium that the flotation of Chongqing Machinery and Electric Company Ltd () (Code: 2722, Main Board, The Stock Exchange of Hongkong Ltd) was not as big a success as some of the other entries to the Main Board of The Stock Exchange of Hongkong Ltd, those other corporate entities that are controlled by the Government of the People's Republic of China (PRC), that is, because, on paper, at least, Chongqing Machinery and Electric Company Ltd is just as good, if not better than, some of the others of its ilk that went before it.

Chongqing Machinery and Electric Company Ltd went public on the Main Board of The Stock Exchange of Hongkong Ltd when it made a Global Offering of 1,004,900,000, one renminbi Shares, at an Offer Price of not less than \$HK1.30 per Share and not higher than \$HK1.70 per Share.

The Offer Price was, eventually, struck at the lowest acceptable price: \$HK1.30 per Share.

The Company obtained about \$HK1,116,000,000 from its cash-raising exercise in the HKSAR, with the Hongkong Public Offer tranche, having been about 5.24 times over-subscribed (100,492,000 Shares) while the International Offer Shares were said to have been '*moderately over-subscribed*'.

The Global Offering Prospectus, dated May 30, 2008, stated, at Pages 252 and 253, that the Company was raising money for the following purposes:

1. Approximately 21.50 percent of the net proceeds of the **Initial Public Offering (IPO)** to be utilised '*for our commercial vehicle parts and components segment*';
2. Approximately 17 percent of the net proceeds of the IPO to be utilised '*for our power equipment segment*';
3. Approximately 15.20 percent of the net proceeds of the IPO to be utilised '*for our general machinery segment*';
4. Approximately 12.80 percent of the net proceeds of the IPO to be utilised '*for our CNC^I machine tools segment*';
5. Approximately 25 percent of the net proceeds of the IPO to be utilised '*for the acquisition of companies or products relevant to our businesses*'; and,
6. Approximately 8.50 percent of the net proceeds of the IPO to be utilised for General Working Capital purposes.

^ICNC: Computer Numerical Control

The business of Chongqing Machinery and Electric Company Ltd is explained at Page 89 of the Global

Offering Prospectus as follows:

‘We are the largest industrial conglomerate in Western China, based on total revenue in 2006, according to the China Industrial Enterprise Yearbook. We design, manufacture and sell our products primarily in the PRC. Our businesses include commercial vehicle parts and components, power equipment, general machinery and computer numerical control, or CNC, machine tools. Our operations are located in Chongqing; according to the National Bureau of Statistics of China in 2006, Chongqing City is a major manufacturing center in Western China and a city with substantial natural resources and a cost-competitive skilled labor force. Our market status in Western China positions us to take advantage of the growth fueled by the PRC Government’s “go-West” policies and provides a platform for us to develop our market presence throughout China. We trace our origins to three branches of the Chongqing Government: the Machinery Industrial Administrative Bureau, the Electric Industrial Bureau and the Metallurgical Industrial Bureau in the early 1950s.

‘The table below summarizes our four business segments and their key product categories:

<u><i>Business segments</i></u>	<u><i>Key product categories</i></u>
<i>Commercial vehicle parts and components</i>	<ul style="list-style-type: none">• <i>Diesel engines</i>• <i>Braking and steering systems</i>• <i>Gear transmission systems</i>• <i>Vehicle suspension systems</i>• <i>Clutches</i>
<i>Power equipment</i>	<ul style="list-style-type: none">• <i>Hydroelectric generation equipment</i>• <i>High-voltage transformers</i>• <i>Electrical wires, cables and materials</i>• <i>Non-ferrous metal materials</i>
<i>General machinery</i>	<ul style="list-style-type: none">• <i>Industrial pumps</i>• <i>Gas compressors</i>• <i>Separation machines</i>• <i>Refrigeration machines</i>• <i>Industrial fans</i>
<i>CNC machine tools</i>	<ul style="list-style-type: none">• <i>Gear-producing machines</i>• <i>Complex precision metal-cutting tools</i>• <i>CNC lathes and machine centers’</i>

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