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**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) PROPOSED AMENDMENTS TO THE ARTICLES;**  
**(2) PROVISION OF GUARANTEE BY THE COMPANY FOR A LOAN**  
**OF GBP4.2 MILLION OF HOLROYD;**  
**(3) CONNECTED AND DISCLOSEABLE TRANSACTION -**  
**ESTABLISHMENT OF THE FINANCE COMPANY; AND**  
**(4) CHANGE OF A SUPERVISOR**

**PROPOSED AMENDMENTS TO ARTICLES**

On 28 June 2011, the Board received a notice from Chongqing Yufu Assets Management Co. Ltd.\* (重慶渝富資產經營管理有限公司), a shareholder of the Company, advising the Company that it had changed its name to “Chongqing Yufu Assets Management (Group) Co. Ltd.\* (重慶渝富資產經營管理集團有限公司) ”.

Therefore, the amendment to the Articles is proposed to change “Chongqing Yufu Assets Management Co. Ltd.” (重慶渝富資產經營管理有限公司) to “Chongqing Yufu Assets Management (Group) Co. Ltd.” (重慶渝富資產經營管理集團有限公司).

In addition, according to the actual conditions of the Company, it is proposed to delete such descriptions in Article 105(4) of the Articles as: “The Chairman of the Board determines the monthly and quarterly financial budget scheme and final financial plan of the Company for the year.” Details relating to the proposed amendments are set out in the circular to be dispatched to the Shareholders on or before 20 October 2011.

Pursuant to the Articles and relevant laws and regulations, the proposed amendments to the Articles are subject to the approval by the Shareholders by way of special resolution at the EGM.

### **PROVISION OF GUARANTEE BY THE COMPANY FOR A LOAN OF GBP4.2 MILLION OF HOLROYD**

Holroyd requested the Company to guarantee its GBP4.2 million loan by way of Domestic Guarantee for Overseas Loan for a term of 2 years and 1 month.

### **ESTABLISHMENT OF THE FINANCE COMPANY**

The Company intends to establish the Finance Company in Chongqing and execute a capital contribution agreement (the “**Capital Contribution Agreement**”) with the Parent Company and Industrial Trust.

### **CHANGE OF A SUPERVISOR**

Ms. Liao Rong will resign as a Supervisor of the Company subject to the approval by the Shareholders at EGM. Mr. Zhang Xinzhi is proposed to be appointed as a Supervisor of the Company in replacement subject to approval by the Shareholders at the EGM.

## **1. PROPOSED AMENDMENTS TO THE ARTICLES**

On 28 June 2011, the Board received a notice from Chongqing Yufu Assets Management Co. Ltd.\* (重慶渝富資產經營管理有限公司), a shareholder of the Company, advising the Company that it had changed its name to “Chongqing Yufu Assets Management (Group) Co. Ltd.\* (重慶渝富資產經營管理集團有限公司) ”.

Therefore, the amendment to the Articles is proposed to change “Chongqing Yufu Assets Management Co. Ltd.” (重慶渝富資產經營管理有限公司) to “Chongqing Yufu Assets Management (Group) Co. Ltd.” (重慶渝富資產經營管理集團有限公司).

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Pursuant to the Articles and relevant laws and regulations, the proposed amendments to the Articles are subject to the approval by the Shareholders by way of special resolution at the EGM.

## **2. PROVISION OF GUARANTEE BY THE COMPANY FOR A LOAN OF GBP4.2 MILLION OF HOLROYD**

### **Background**

Holroyd requested the Company to guarantee its GBP4.2 million loan by way of Domestic Guarantee for Overseas Loan for a term of 2 years and 1 month.

### **Basic information of PTG Company and Holroyd**

In 2010, PTG Company achieved an operating income of approximately RMB112.54 million and a profit of approximately RMB2.46 million, to which Holroyd contributed an operating income of approximately RMB51.71 million and a profit of approximately RMB7.61 million. The total assets and total liabilities of Holroyd amounted to approximately RMB124.94 million and RMB112.1 million respectively. The Company guaranteed its GBP5.3 million loan when acquiring PTG Company in 2010.

In 2011, PTG Company (together with Holroyd) is expected to record an operating income of approximately RMB215 million and a profit of approximately RMB12.5 million. As at 30 June 2011, its operating income amounted to approximately RMB119.81 million, to which Holroyd, leveraging on its rapidly increasing orders, contributed approximately RMB49.96 million.

### **Procedure involved in Domestic Guarantee for Overseas Loan**

- (i) The Company applies to ICBC Yuzhong Sub-branch for the issuance of a Standby Letter of Credit and provides a counter guarantee, whereby, ICBC Yuzhong Sub-branch issues the GBP4.2 million Standby Letter of Credit (“L/C”) for a tenor of 2 years and 1 month in favour of ICBC (London) Limited. ICBC (London) Limited may provide Holroyd with a working capital loan not exceeding GBP4.2 million and maturing no later than 1 month prior to the expiry of the L/C.
- (ii) Before ICBC Yuzhong Sub-branch issues the L/C, the Company is required to pay a guarantee fee at the rate of 6.05% (per annum) of the guarantee balance and the guarantee fee is payable on a quarterly basis thereafter.
- (iii) The interest rate of the loan in foreign currency floats on a quarterly basis. The interest rate per annum for the first interest period is 250BP over 3-month LIBOR in the 2 working days prior to the first drawdown date.

### **Reasons for and benefits of providing Holroyd with a guarantee**

The Company is optimistic about the business prospect of Holroyd, and Holroyd’s continuous and stable development is also helpful for the Company’s expansion into the overseas market.

Holroyd is not a connected person of the Group and the guarantee to be provided for Holroyd does not exceed the applicable percentage ratio specified in the Listing Rules. Therefore, such transaction is not subject to the requirements under Chapter 14 and 14A of the Listing Rules. However, as the gearing ratio of Holroyd is 89.7%, the Company’s provision of guarantee for Holroyd is subject to consideration and approval at the general meeting according to requirements of the Articles.

Pursuant to the Articles, the Company’s provision of guarantee for Holroyd is subject to approval by the Shareholders at the EGM.

### 3. ESTABLISHMENT OF THE FINANCE COMPANY

#### **Background**

The Company intends to establish the Finance Company in Chongqing and execute a capital contribution agreement (the “**Capital Contribution Agreement**”) with the Parent Company and Industrial Trust.

Principal terms of the Capital Contribution Agreement:

#### **Parties:**

- (1) The Company
- (2) Parent Company
- (3) Industrial Trust

#### **Business scope**

- (1) financial and funding advisory services, credit worthiness verification and related consultancy and agency services to members;
- (2) assisting members in collection and payment;
- (3) approved insurance agency services;
- (4) guarantee services to members;
- (5) entrusted loan and entrusted investment among members;
- (6) providing bills acceptance and discount services to members;
- (7) settlement services for inter-member transfer and design of settlement and clearing solutions;
- (8) accepting deposits from members;
- (9) providing loans and financing leasing to members;
- (10) inter-bank lending; and
- (11) other services approved by CBRC.

The business scope of the Finance Company is subject to approval by CBRC and the information registered with the authority for industry and commerce of the PRC.

## Registered capital and capital contribution

*Unit: RMB*

Name of shareholder	Contribution amount (RMB00'000,000)	Form of contribution	Percentage of contribution
The Company	3.06	In cash	51%
Parent Company	1.8	In cash	30%
Industrial Trust	1.14	In cash	19%
Total	<u>6</u>	<u>—</u>	<u>100%</u>

The Company will finance the contribution with its internal resources.

## Corporate governance structure

Board of Directors: consists of 5 persons, among whom: two are nominated by the Company, one by each of the Parent Company and Industrial Trust and one represents the employees.

Supervisory Committee: consists of 3 persons, among whom: one is nominated by each of the Company and the Parent Company and one represents the employees.

## Reasons for establishing the Finance Company

The Finance Company is established to create an efficient, safe and low-cost environment for capital flow and operation, so as to ensure the sustainable development of the business by providing extensive and flexible financing facilities. By establishing the Finance Company, the Company aims to build a scientific and efficient capital management platform so as to strengthen the centralized management of internal funds, optimize resources allocation, improve capital flow, control capital risks, reduce financial costs, enhance efficiency in fund usage and provide capital management services, which, in turn, will help improve the Group's overall competitiveness.

## Authorisation

In order for the work in connection with the establishment of the Finance Company to be carried out in an orderly and efficient manner, the Board proposes the Shareholders to authorise the Board at the EGM to delegate two Directors, namely Mr. Yu Gang and Mr. Chen Xianzheng to jointly deal with, at their full discretion, all matters relating to the establishment of the Finance Company within the framework and principle as approved at the general meeting, including but not limited to:

1. To approve and execute legal documents related to the establishment of the Finance Company, including but not limited to the Agreement for Capital Contribution to Chongqing Machinery & Electric Group Finance Co., Ltd., Articles of Association of Chongqing Machinery & Electric Group Finance Co., Ltd. (Draft), Articles of Association of Chongqing Machinery & Electric Group Finance Co., Ltd., Resolution of the First General Meeting of the Finance Company, etc., and make appropriate disclosure;
2. To provide all the documents necessary for and handle matters related to the establishment of the Finance Company in accordance with the provisions under relevant PRC laws and requirements of relevant PRC regulatory authorities;
3. To execute written documents regarding capital increase by the Company based on the practical needs of the Finance Company in the event that it experiences any financial or liquidity difficulties (if required by the relevant PRC regulatory authorities);
4. To assist the Parent Company in dealing with the reporting issues in relation to the preparation and opening of the Finance Company, and to make appropriate adjustments to the specific plan for the establishment of the Finance Company in accordance with feedbacks (if any) from the relevant PRC regulatory authorities;

5. To take all necessary actions to determine or deal with all other matters relating to the establishment of the Finance Company, including exercising discretion to delay or temporarily suspend the establishment of the Finance Company in case of force majeure or other circumstances that could make the establishment of the Finance Company difficult or unavailing to the Company even if it could be implemented, and to make corresponding adjustments to related matters such as the specific plan for the establishment of the Finance Company in accordance with the opinion of the regulatory authorities;
6. The authorisation to the Board to handle the above matters concerning the establishment of the Finance Company will take effect from the date when the relevant resolution is passed at the EGM up to the date when all the matters concerning the establishment of the Finance Company for which the authorisation is granted are properly dealt with; and
7. Other matters in connection with the establishment of the Finance Company.

### **Listing Rules Implications**

As the Parent Company is one of the Promoters of the Company, holding 52.22% equity interest in the Company, the Parent Group is a connected person of the Group under the Listing Rules. The transaction in relation to joint establishment of the Finance Company by the Company and the Parent Company constitutes a connected transaction of the Company under the Listing Rules and is subject to the reporting, announcement and independent shareholders' approval requirements under Rules 14A.45 to 14A.48 and the annual review requirements under Rules 14A.37 and 14A.38.

Since each of the applicable percentage ratios under Rule 14.07 of the Listing Rules is less than 25%, the transaction contemplated under the Capital Contribution Agreement is only subject to the reporting, announcement and independent shareholders' approval requirements under Rule 14A.45 and Rule 14A.47 of the Listing Rules.

In addition, since the transaction contemplated under the Capital Contribution Agreement constitutes a discloseable transaction for the purpose of Rule 14.04(f) of the Listing Rules, and each of the applicable percentage ratios is more than 5% but less than 25%, such transaction is only subject to the announcement requirement under Rule 14.33 of the Listing Rules.



The Group has not conducted such other transactions before with the Parent Company and its associates as are required to be aggregated with the Capital Contribution Agreement under Rule 14A.25 of the Listing Rules.

The Directors (including independent non-executive Directors) of the Company consider that the Capital Contribution Agreement is entered into on normal commercial terms after arm's length negotiation between the parties and is in the interest of the Company and its shareholders as a whole. The Directors (including independent non-executive Directors) are also of the view that the terms of the transaction contemplated under the Capital Contribution Agreement are fair and reasonable. Other than Mr. Xie Hua Jun, Mr. Yu Gang, Mr. Huang Yong and Mr. Wang Jiyu, being Directors of the Company, who, due to holding positions in the Parent Company, are required to abstain from voting on resolutions in respect of such transactions, no Director has any material interest in the transactions under the Capital Contribution Agreement, nor is any Director required to abstain from voting at the Board meeting to approve such resolutions.

The Independent Board Committee (comprising all the independent non-executive Directors of the Company) will be established to advise Independent Shareholders with respect to the connected transaction, i.e. the setting up the Financial Company.

The Company will appoint an Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in respect of with respect to the connected transaction, i.e. the setting up the Financial Company.

## **GENERAL INFORMATION OF THE COMPANY**

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

## **GENERAL INFORMATION OF THE PARENT COMPANY**

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

#### 4. CHANGE OF A SUPERVISOR

The Board announces that Ms. Liao Rong (“Ms. Liao”) will resign as a Supervisor of the Company, with effect from the appointment of Mr. Zhang Xinzhi (“Mr. Zhang”) as a Supervisor. Ms. Liao has confirmed that she has no disagreement with the Company and that there are no matters relating to her resignation that need to be brought to the attention of the Shareholders. The Board would like to express its sincere gratitude for the contribution of Ms. Liao toward the Company during her tenure of office.

In place of Ms. Liao after her resignation, the Company proposes to appoint Mr. Zhang as a Supervisor. The appointment of Mr. Zhang shall be subject to the approval of the Shareholders at the EGM. The biographical details of Mr. Zhang are as follows:

Mr. Zhang, aged 40, is an economist and chartered financial analyst with about 20 years of experience in finance. Mr. Zhang served as a member of the Party Committee, secretary of the Disciplinary Inspection Committee and deputy general manager of the Chongqing Office of China Huarong Asset Management Corporation in April 2011. He graduated from Jiangxi Bank School in July 1993. From July 1993 to September 1997, he served as the director of the sub-office at the Jiujiang Branch of Agricultural Bank of China. From September 1997 to April 2000, he served as the director of the sub-branch credit department and deputy director of the accounting center of the Jiujiang Branch of Industrial and Commercial Bank of China. From April 2000 to April 2011, he served as manager, senior assistant to manager, senior deputy manager, senior manager, member of the Party Committee, and assistant to general manager at the Nanchang Office of China Huarong Asset Management Corporation, and graduated from the University of International Business and Economics as a finance major in September 2005.

Mr. Zhang did not hold any directorship in any other listed public companies in the last three years, or any other position in the Company or other members of the Group. Mr. Zhang does not have any relationship with any other Directors, senior management, substantial Shareholders or controlling Shareholders of the Company, or have any interest in the shares of the Company within the meaning of Part XV of the Securities and Futures Ordinance. If Mr. Zhang is appointed as a Supervisor at the EGM, the Company will enter into a service contract with him in connection with his appointment, for a term commencing from the date of the EGM till the expiration of the current session of the Supervisory Committee.

Mr. Zhang is entitled to a Supervisor's emolument and his remuneration will be determined by the Board with reference to remuneration standards for Supervisors as approved at the 2009 annual general meeting, which is subject to the approval at the EGM of Ms. Liao's resignation.

Save as disclosed above, the Board is not aware of any matters relating to the proposed appointment of Mr. Zhang that need to be brought to the attention of the Shareholders, nor is there any information required to be disclosed under Rule 13.51(2)(h) to (v) of the Listing Rules.

## **DESPATCH OF CIRCULAR**

A circular containing, inter alia, further details of (i) proposed amendments to the Articles; (ii) provision of guarantee by the Company for a loan of GBP4.2 million of Holroyd; (iii) connected and discloseable transaction - establishment of Finance Company; (iv) change of a Supervisor; and (v) a notice convening the EGM and a proxy form, will be dispatched to the Shareholders on or around 20 October 2011.

## **DEFINITIONS**

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

“Articles”	means the articles of association of the Company
“associates”	has the meaning ascribed to it under the Listing Rules
“Board”	means the board of Directors of the Company
“CBRC”	means China Banking Regulatory Commission
“Company”	means Chongqing Machinery & Electric Co., Ltd. * (重慶機電股份有限公司)
“Director(s)”	means the Director(s) of the Company

“Domestic Share(s)”	means 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
“Extraordinary General Meeting” or “EGM”	means the first extraordinary general meeting of the Company for 2011 to be held to consider and, if thought fit, approve, the following matters: (i) proposed amendments to the Articles; (ii) provision of guarantee by the Company for a loan of GBP4.2 million of Holroyd; (iii) connected and discloseable transaction - establishment of Finance Company; and (iv) change of a Supervisor.
“Finance Company”	means Chongqing Machinery & Electric Group Finance Co., Ltd.* (temporary name, subject to approval by CBRC and registration with the industry and commerce administration authorities of the PRC) to be established in Chongqing by the Company and the Parent Company and Industrial Trust
“Group”	means the Company and its associates
“HK\$”	means Hong Kong dollars, the lawful currency of Hong Kong
“H Shares”	means overseas-listed foreign shares of the Company with a nominal value of RMB1.00 each, which are listed on The Stock Exchange of Hong Kong Limited
“Holroyd”	means Holroyd Precision Limited, a wholly-owned subsidiary of PTG Company, which, in turn, is a wholly-owned subsidiary of the Company
“Hong Kong”	means the Hong Kong Special Administrative Region of the PRC

“ICBC Yuzhong Sub-branch”	means Chongqing Yuzhong Sub-branch of Industrial and Commercial Bank of China Limited
“Independent Board Committee”	means an independent committee of the Board composed of all independent non-executive Directors, namely Mr. Lo Wah Wai, Mr. Ren Xiaochang and Mr. Kong Weiliang to advice on the establishment of the Finance Company
“Independent Financial Adviser”	means the independent financial adviser to the Independent Board Committee and the Independent Shareholders in relation to the establishment of the Finance Company to be appointed by the Company
“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
“Industrial Trust”	means China Industrial International Trust Limited (興業國際信託有限公司)
“Listing Rules”	means the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited
“Parent Company”	means 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”	means Parent Company and its associates, excluding the Group

“PRC”	means the People’s Republic of China, which, for the purpose of this circular, excludes the Hong Kong Special Administrative Region, the Macau Special Administrative Region and the Taiwan region
“PTG Company”	means Precision Technologies Group Limited, a wholly-owned subsidiary of the Company
“Promoter”	has the meaning ascribed to it under the Listing Rules
“Prospectus”	means the prospectus of the Company dated 30 May 2008
“RMB”	means Renminbi, the lawful currency of the PRC
“Shares”	means the Domestic Shares and/or the H Shares
“Shareholders”	means holder(s) of the Shares
“Supervisor(s)”	means the Supervisor(s) of the Company

By Order of the Board  
**Chongqing Machinery & Electric Co., Ltd.\***  
**Chen Xianzheng**  
*Executive Director*

Chongqing, the PRC  
30 September 2011

*As at the date of this announcement, the executive Directors are Mr. Xie Hua Jun, Mr. Yu Gang, Mr. Liao Shaohua and Mr. Chen Xianzheng; the non-executive Directors are Mr. Huang Yong, Mr. Wang Jiyu, Mr. Yang Jingpu and Mr. Liu Liangcai; and the independent non-executive Directors are Mr. Lo Wah Wai, Mr. Ren Xiaochang and Mr. Kong Weiliang.*

\* *for identification purposes only*