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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)*

**INSIDE INFORMATION  
BUSINESS ADJUSTMENT OF SHENGPU COMPANY**

This announcement is made by Chongqing Machinery & Electric Co., Ltd. (the “**Company**”) pursuant to Rule 13.09(2) of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (the “**Listing Rules**”) and the Inside Information Provisions (as defined in the Listing Rules) under Part XIVA of the Securities and Futures Ordinance.

Chongqing Shengpu Materials Co., Ltd. (重慶盛普物資有限公司) (“**Shengpu Company**”) is a wholly-owned subsidiary of the Company. Its principal business comprises of internal centralized purchase of raw materials and external trading business, among which, large volume of transaction was recorded for external trading business (according to the 2016 final report, trading revenue from Shengpu Company attributed to approximately RMB3.7 billion), but the profit margin maintained at a relatively low level. Since China’s economy has transformed from high growth to high quality development after the convening of the 19th National Congress of the Communist Party of China and the Central Economic Work Conference, the Company will further optimize the layout of state-owned economic capital and further expand the structural adjustment and strategic reorganization in the industry, so as to increase the overall gross profit margin and enhance development quality of the Company. Therefore, the Company decides to terminate the trading business of Shengpu Company with low gross profit since 2018.

\* *For identification purposes only*

The Company expects that the aforesaid adjustment will result in a significant decrease of the Company's operating income in 2018 at consolidation level but will not significantly affect the profitability of the Company. The impact of the aforesaid adjustment on the Company's performance in 2018 will be subject to the audited results to be disclosed in the 2018 Annual Report.

By Order of the Board  
**Chongqing Machinery & Electric Co., Ltd.\***  
**Wang Yuxiang**  
*Executive Director and Chairman*

Chongqing, the PRC  
18 January 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.*