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If you are in any doubt as to any aspect of this circular or as to the action to be taken, you should consult your stockbroker or other registered dealer in securities, bank manager, solicitor, professional accountant or other professional advisers.

If you have sold or transferred all your shares in **Shanghai Prime Machinery Company Limited**, you should hand this circular together with the accompanying revised proxy form at once to the purchaser(s) or transferee(s) or to the bank, stockbroker or other agent through whom the sale or transfer was effected for transmission to the purchaser(s) or transferee(s).

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上海集優機械股份有限公司

Shanghai Prime Machinery Company Limited

(A joint stock limited company incorporated in the People's Republic of China with limited liability)

(Stock Code: 02345)

**(I) CONTINUING CONNECTED TRANSACTIONS AND
MAJOR TRANSACTION;
AND
(II) NOTICE OF EXTRAORDINARY GENERAL MEETING**

**Independent Financial Adviser to the Independent Board Committee
and the Independent Shareholders**



A notice of the extraordinary general meeting to be held at Meeting Center, North 6th Floor, 2747 Songhuajiang Road, Hongkou District, Shanghai, PRC, on Friday, 8 December 2017 at 1:00 p.m. is set out on pages 51 to 53 of this circular.

A reply slip and a form of proxy for use at the EGM are enclosed herewith and also published on both the websites of the Hong Kong Stock Exchange (<http://www.hkexnews.hk>) and the Company (<http://www.pmesh.com>). If you intend to appoint a proxy to attend the EGM, you are requested to complete, sign and return the enclosed form of proxy in accordance with the instructions printed thereon not less than 24 hours before the time fixed for holding the EGM or any adjournment thereof (as the case may be). Completion and return of the form of proxy will not preclude you from attending and voting in person at the EGM. Shareholders who intend to attend the meeting in person or by proxy should complete, sign and return the reply slip in accordance with the instructions printed thereon on or before Saturday, 18 November 2017.

23 October 2017

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DEFINITIONS

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

“Amended Framework Agreements”	the Amended Framework Sales Agreement and the Amended Framework Purchase Agreement;
“Amended Framework Purchase Agreement”	the SEG framework purchase agreement (2017 revised) entered into between the Company and SEG on 26 September 2017;
“Amended Framework Sales Agreement”	the SEG framework sales agreement (2017 revised) entered into between the Company and SEG on 26 September 2017;
“associate(s)”	has the meaning ascribed thereto under the Listing Rules;
“Board”	the board of directors of the Company;
“CBRC”	China Banking Regulatory Commission;
“Company”	Shanghai Prime Machinery Company Limited, a joint stock company incorporated in the PRC with limited liability and whose H shares are listed on the main board of the Stock Exchange under the stock code 02345;
“connected person(s)”	has the meaning ascribed thereto under the Listing Rules;
“controlling shareholder”	has the meaning ascribed thereto under the Listing Rules;
“Director(s)”	the director(s) of the Company;
“EGM”	the extraordinary general meeting of the Company to be convened for the purposes of, among other matters, considering and, if appropriate, approving the Non-exempt CCT Agreements, and the transactions contemplated thereunder and their respective proposed annual cap amounts;
“Electric HK”	Shanghai Electric HONGKONG Co., Ltd., a company incorporated in Hong Kong with limited liability and a wholly-owned subsidiary of SEC;
“Framework Financial Services Agreement”	the framework financial service agreement entered into between the Company and SE Finance on 26 September 2017 in relation to the provision of certain financial services by SE Finance;
“Group”	the Company and its subsidiaries;

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“Independent Board Committee”	an independent board committee of the Company comprising the independent non-executive Directors, to advise the independent Shareholders on the terms of the Non-exempt CCT Agreements, the transactions contemplated thereunder and the respective proposed annual cap amounts;
“Independent Financial Adviser” or “Gram Capital”	Gram Capital Limited, a licensed corporation to carry out Type 6 (advising on corporate finance) regulated activity under the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong), being the independent financial adviser appointed to advise the Independent Board Committee and the independent Shareholders in relation to the Non-exempt CCT Agreements, the transactions contemplated thereunder and the respective proposed annual cap amounts;
“Latest Practicable Date”	18 October 2017, being the latest practicable date prior to the printing of this circular for ascertaining information contained herein;
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange (as amended from time to time);
“Nedschroef”	Nedfast Investment B.V., a wholly-owned subsidiary of the Company, and its subsidiaries;
“Non-exempt CCT Agreements”	the Amended Framework Sales Agreement, the Amended Framework Purchase Agreement and the Framework Financial Services Agreement (Deposit Services), which are not exempt from independent shareholders’ approval requirement under the Listing Rules;
“PBOC”	People’s Bank of China, the central bank of the PRC;
“percentage ratio(s)”	has the same meaning ascribed thereto under the Listing Rules, as application to a transaction;
“PRC” or “China”	the People’s Republic of China which, for the purpose of this circular only, does not include the Hong Kong Special Administrative Region, the Macau Special Administrative Region and Taiwan;
“Relevant Framework Agreements”	the SEG Framework Sales Agreement and the SEG Framework Purchase Agreement;
“RMB”	Renminbi, the lawful currency of the PRC;

DEFINITIONS

“SE Finance”	Shanghai Electric Group Finance Co., Ltd., a 73.375% owned subsidiary of SEC and a company incorporated in the PRC with limited liability;
“SEC”	Shanghai Electric Group Company Limited (上海電氣集團股份有限公司), a controlling shareholder of the Company whose controlling shareholder is SEG, and whose A and H shares are listed on the Shanghai Stock Exchange and the Stock Exchange, respectively;
“SEC Framework Purchase Agreement”	the framework purchase agreement dated 14 November 2016 entered into between the Company and SEC;
“SEC Framework Sales Agreement”	the framework sales agreement dated 14 November 2016 entered into between the Company and SEC;
“SEC Group”	SEC and its subsidiaries (excluding the Group);
“SEG”	Shanghai Electric (Group) Corporation (上海電氣(集團)總公司), the indirect controlling shareholder (as defined in the Listing Rules) of the Company holding 60.48% interests in the total issued share capital of SEC as at the date of Latest Practicable Date;
“SEG Framework Purchase Agreement”	the framework purchase agreement dated 14 November 2016 entered into between the Company and SEG;
“SEG Framework Sales Agreement”	the framework sales agreement dated 14 November 2016 entered into between the Company and SEG;
“SEG Group”	SEG and its subsidiaries (excluding the Group but including SEC Group);
“Shareholder(s)”	registered holder(s) of the share(s) of the Company;
“Stock Exchange”	The Stock Exchange of Hong Kong Limited;
“%”	per cent.

DEFINITIONS

Certain figures set out in this circular have been subject to rounding adjustments. Accordingly, figures shown as the currency conversion or percentage equivalents may not be an arithmetic sum of such figures.

Any discrepancy in any table between totals and sums of amounts listed in this circular is due to rounding.

The English names of the Chinese nationals, companies, entities, departments, facilities, certificates, titles and the like are translation of their Chinese names and are included in this circular for identification purpose only and should not be regarded as their official English translation. In the event of any inconsistency, the Chinese name prevails.

** For identification purposes only*

LETTER FROM THE BOARD



上海集優機械股份有限公司

Shanghai Prime Machinery Company Limited

(A joint stock limited company incorporated in the People's Republic of China with limited liability)

(Stock Code: 02345)

Executive Directors:

Mr. Zhou Zhiyan (*Chairman*)
Mr. Mao Yizhong
Mr. Xiao Yuman
Mr. Zhang Jie
Mr. Chen Hui

Non-executive Director:

Mr. Dong Yeshun

Independent Non-executive Directors:

Mr. Ling Hong
Mr. Chan Oi Fat
Mr. Sun Zechang

Registered office:

Room 1501, Jidian Edifice
600 Heng Feng Road
Shanghai
The PRC

Principal Place of

Business in Hong Kong:

Room 901-903,
Tower Two, Lippo Centre
89 Queensway Road
Hong Kong

23 October 2017

To the Shareholders

Dear Sir or Madam,

**CONTINUING CONNECTED TRANSACTIONS AND
MAJOR TRANSACTION**

INTRODUCTION

Reference is made to the announcement of the Company dated 26 September 2017 in relation to the continuing connected transactions of the Company contemplated under the Amended Framework Agreements and the major transactions contemplated under the Framework Financial Services Agreement.

An Independent Board Committee has been established to consider and advise the Independent Shareholders in respect of the transactions contemplated under the Non-exempt CCT Agreements. Gram Capital has been appointed as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders as to whether or not the terms and conditions of the Non-exempt CCT Agreements and the transactions contemplated thereunder are fair and reasonable so far as the Independent Shareholders are concerned and are in the interests of the Company and the Shareholders as a whole.

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The purpose of this circular is to provide the Shareholders with further information, among other matters, (i) the details of Non-exempt CCT Agreements and the transactions contemplated thereunder; (ii) the advice from the Independent Board Committee to the independent Shareholders in respect of the Non-exempt CCT Agreements; (iii) the letter of advice from Gram Capital to the Independent Board Committee and independent Shareholders in respect of the Non-exempt CCT Agreements and the transactions contemplated thereunder; and (iv) a notice of the EGM to be convened for the Shareholders, to approve the transactions contemplated under the Non-exempt CCT Agreements.

BACKGROUND TO THE CONTINUING CONNECTED TRANSACTIONS

References are made to the announcement of the Company dated 14 November 2016 and the supplemental circular of the Company dated 30 November 2016 in relation to the existing continuing connected transactions under the existing Relevant Framework Agreements, SEC Framework Sales Agreement, and SEC Framework Purchase Agreement.

The Board announces that on 26 September 2017 (after trading hours), the Company and SEG entered into the Amended Framework Agreements for a term commencing from 1 January 2018 and expiring on 31 December 2019 to amend the Relevant Framework Agreements. In addition, on the same day, the Company and SE Finance entered into the Framework Financial Services Agreement for a term commencing from the date of its approval at the EGM of the Company and expiring on 31 December 2019. Pursuant to the Amended Framework Agreements and Framework Financial Services Agreement, the Company will conduct the following transactions with SEG Group (including SEC Group) on an on-going basis: (i) the sales and purchases of goods and services between the Group and SEG Group; (ii) the acceptance of deposit services and comprehensive banking services provided by SE Finance.

The Amended Framework Agreements are to revise the existing Relevant Framework Agreements and their respective annual cap amounts for the two years ending 31 December 2019, and reflect the terms of the continuing connected transactions with SEG Group (including SEC Group) after relevant restructuring. Other terms and conditions of the existing Relevant Framework Agreements remain unchanged. Details of the Amended Framework Agreements and the Framework Financial Services Agreement and the corresponding annual cap amounts are set out in this circular.

Prior to 1 January 2018, the Relevant Framework Agreements, the SEC Framework Sales Agreement and the SEC Framework Purchase Agreement will remain valid. The SEC Framework Sales Agreement and the SEC Framework Purchase Agreement will be terminated with immediate effect upon the Amended Framework Agreements becoming effective.

LETTER FROM THE BOARD

Details of the Amended Framework Agreements and the Framework Financial Services Agreement (Deposit Services) are set out below:

CONTINUING CONNECTED TRANSACTIONS

(A) Amended Framework Sales Agreement

Summary

Date: 26 September 2017

Parties:

- the Company, as supplier; and
- SEG, as purchaser.

Amendments:

- SEG and its associates (including SEC Group), as purchaser;
- Increase the annual cap amounts under the agreement after taking into account of the addition of the relevant transactions with SEC Group; and
- Expand the types of equipment sold under the agreement.

Other terms under the SEG Framework Sales Agreement remain unchanged.

Historical Figures, the Revised Annual Cap Amounts and the Corresponding Basis for the Transactions under the Amended Framework Sales Agreement

The existing annual cap amounts under the SEG Framework Sales Agreement for the two years ending 31 December 2018 and 2019 are RMB46 million and RMB56 million, respectively. The existing annual cap amounts under the SEC Framework Sales Agreement for the two years ending 31 December 2018 and 2019 are both RMB450 million.

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The following table sets out the historical transaction amounts of the transactions under the Amended Framework Sales Agreement for the years ended 31 December 2015 and 2016, and for the six months ended 30 June 2017. The table also sets out the proposed annual cap amounts under the Amended Framework Sales Agreement for each of the two years ending 31 December 2018 and 2019:

	Historical transaction amounts			Revised annual cap amounts	
	For the year ended		For the six months ended	For the year ending	
	31 December	2016	30 June	31 December	2019
	2015	2016	2017	2018	2019
	<i>(RMB million)</i>				
Aggregate sales to SEG and its associates (including SEC Group)	378.4	355.6	176.3	496	506

In revising the above proposed annual caps for 2018 and 2019, the Directors have taken into account the following factors:

- (i) the historical transaction amounts of the products sold to SEG and its associates (including SEC Group) and the existing annual cap amounts;
- (ii) the future business development plans of SEG Group;
- (iii) the changes in the market conditions, the anticipated demand and supply of the products of SEG Group and its associates, which specifically included:
 - (a) the transactions in respect of the sale of products to SEG Group has been carried out for years, and the quality of such products sold by the Group has been recognised by SEG Group. It is expected that the range of products sold by the Group to SEG Group will be further expanded under the Amended Framework Sales Agreement. For example, the range of equipment sales is expected to expand from the power generation equipment to other machinery and equipment;
 - (b) the Group is committed to the research and development (R&D) of high-end technology with good market prospect. For example, the Group has introduced and improved new coating technology which can be widely used in various areas including wind power, railway, power generation equipment and infrastructure. As such, the Group expects that the order amount made by SEG Group will be increased accordingly; and
 - (c) As the Group completed the acquisition of Nedschroef in August 2014 and the acquisition of 70% equity interest in Shanghai Tianhong Miniature Bearing CO., Ltd. (上海天虹微型軸承有限公司) in 2015, the Group's scale of operation as well as the production capacity and R&D

LETTER FROM THE BOARD

competitiveness in relevant areas would be significantly enhanced. The Group expects that the transaction volume of sales to SEG Group will be increased accordingly.

Pricing basis

The pricing basis of the products under the Amended Framework Sales Agreement remains unchanged. For details, please refer to the announcement of the Company dated 14 November 2016.

The Directors believe that the terms under the Amended Framework Sales Agreement shall be no more favourable than those offered to other independent third parties for the same products and are in the interests of the Company and the Shareholders as a whole.

(B) Amended Framework Purchase Agreement

Summary

Date: 26 September 2017

Parties:

- the Company, as purchaser; and
- SEG, as supplier.

Amendments:

- SEG and its associates (including SEC Group), as supplier; and
- Increase the annual cap for the transactions under the agreement.

Other terms under the SEG Framework Purchase Agreement remain unchanged.

Historical Figures and the Revised Annual Cap Amounts and the Corresponding Basis for the Transactions under the Amended Framework Purchase Agreement

The existing annual cap amounts under the SEG Framework Purchase Agreement for the two years ending 31 December 2018 and 2019 are RMB51 million and RMB61 million, respectively. The existing annual cap amounts under the SEC Framework Purchase Agreement for the two years ending 31 December 2018 and 2019 are RMB8 million and RMB11 million, respectively.

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The following table sets out the historical transaction amounts of the transactions under the Amended Framework Purchase Agreement for the years ended 31 December 2015 and 2016 and for the six months ended 30 June 2017. The table also sets out the proposed annual cap amounts of the transactions under the Amended Framework Purchase Agreement for each of the two years ending 31 December 2018 and 2019:

	Historical transaction amounts			Revised annual cap amounts	
	For the year ended		For the six months	For the year ending	
	31 December		ended	31 December	
	2015	2016	30 June 2017	2018	2019
	<i>(RMB million)</i>				
Aggregate purchases from SEG and its associates (including SEC Group)	0.2	0.1	0	655	725

In arriving at the above proposed annual caps, the Directors have taken into account the following factors:

- (i) the historical transaction amounts of the products supplied by SEG and its associates (including SEC Group) to the Group and the existing annual cap amounts;
- (ii) the latest development plan of the Group;
- (iii) the changes in market conditions and the expected demand and supply of products by each division of the Group;
- (iv) Nedschroef, a wholly-owned subsidiary of the Company, intends to purchase the relevant raw materials, components and equipment through Electric HK. Such purchase of raw materials, components and equipment from Electric HK with extended payment term will significantly enhance the cash flow of the Group. The transaction amounts of such raw materials and components directly purchased by Nedschroef for the year 2015, 2016 and the first half of 2017 were EUR62.4 million, EUR68.0 million and EUR32.5 million, respectively (equivalent to approximately RMB442.7 million, RMB496.9 million and RMB251.9 million, respectively). The prices payable by Nedschroef for the purchase of relevant raw materials, components and equipment through Electric HK is determined by reference to the original consideration paid by Electric HK for purchasing the same raw materials, components and equipment and the relevant administrative expenses and it is no less favorable than the purchase price of similar raw materials, components and equipment in the open market under the same conditions;

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- (v) In addition to the procurements by Nedschroef, other subsidiaries of the Company will also commence the procurements of the relevant raw materials, components and equipment under the Amended Framework Purchase Agreement, of which the historical transaction amounts of purchasing key relevant equipment for the years ended 2015 and 2016 and the six months ended 30 June 2017 were RMB11 million, nil (please refer to the announcement of the Company dated 19 August 2016 in relation to the agreement entered into on the even date with the contract value of CHF 1,469,541.80, equivalent to approximately HK\$11,934,886.19 (pending completion)) and nil, respectively;
- (vi) The turnover and net profit derived from each segments of the Group will continue to grow, leading to an increasing demand for purchasing the raw materials, components and relevant equipment accordingly. The turnover of the Group and the profit attributable to the owners of the Company for the financial year 2015 both recorded a substantial growth of approximately 53% and 130%, respectively, as compared to last year. For the financial year 2016, the Group recorded a subsisting increase of approximately 7% and 9% in turnover and the profit attributable to the owners of the Company respectively as compared to last year. In the first half of 2017, the Group recorded a year-on-year increase of 12% in turnover, while the profit attributable to the owners of the Company attained a significant growth of 41%. The expected demand for the two years ended 31 December 2019 as mentioned above are in line with the development trend of the Group.

Pricing basis

The pricing basis of the other products under the Amended Framework Purchase Agreement remains unchanged. For details, please refer to the announcement of the Company dated 14 November 2016.

The Directors believe that the terms under the Amended Framework Purchase Agreement will be no less favourable than those offered to other independent parties for the same products, and are in the interests of the Company and the Shareholders as a whole.

(C) Framework Financial Services Agreement (Deposit Services)

Summary

Date:	26 September 2017
Parties:	<ul style="list-style-type: none">• the Company, as recipient of services; and• SE Finance, as provider of services.
Subject matter:	The provision of financial services which will include deposit services to the Company and its associates by SE Finance.

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- Terms:
- From the date of approval at the EGM of the Company to 31 December 2019, renewable upon expiry, subject to conditions precedent, including but not limited to compliance with the Listing Rules; and
 - Subject to termination in part or in whole by either party to the agreement by giving not less than one months' notice; and
 - The Company and SE Finance may, from time to time, enter into separate financial service agreements with each other for the provision of specific financial services, provided that the principles as agreed in the Framework Financial Services Agreement shall be followed.

Payment terms: The payment terms are dependent on the types of financial services to be provided and are determined at the time when such financial services are entered into. The Group expects such terms of payment to be consistent with market terms for the relevant types of financial services.

Historical Figures, the Proposed Annual Cap Amounts and the Corresponding Basis for the Transactions under the Framework Financial Services Agreement

During the two years ended 31 December 2015 and 2016 and 2017 year-to-date, no deposit service has been provided to the Group by SE Finance. The following table sets out the proposed annual cap amounts under the Framework Financial Services Agreement for each of the three years ending 31 December 2017, 2018 and 2019:

	Proposed annual cap amounts		
	For the year ending 31 December		
	2017	2018	2019
	<i>(RMB million)</i>		
Maximum daily balance of deposits with SE Finance (including corresponding interests)	1,000	1,350	1,450

In arriving at the above annual cap amounts, the Directors have taken into account the following factors:

- (i) the Group's (a) bank deposit balance and cash of approximately RMB1,102 million; and (b) trade receivables and bill receivables of approximately RMB2,070 million (which will turn into cash upon collection) as at 30 June 2017;
- (ii) the estimation of business development and corresponding future cash position of the Group;

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- (iii) according to the abovementioned cash position and the projection on future cash, the annual caps for 2018 and 2019 are determined to be RMB1,350 million and RMB1,450 million, respectively, with steady growth of approximately 7.4%. Taking into consideration of the logistical process of making relevant arrangements in relation to the current deposits in independent commercial banks as well as the collection of trade receivables, the annual cap for 2017 is RMB1,000 million; and
- (iv) working capital requirement in various divisions of the Group for the period from now up to 31 December 2019.

Pricing basis

Deposit rates to be received by the Company from SE Finance under the Framework Finance Services Agreement are determined on the following basis:

The interest rates set by SE Finance for the Company's deposits shall be determined in accordance with the relevant interest rates published by the PBOC from time to time, and shall not be less than the interest rates offered to the Group from other independent commercial banks in the PRC for the same period.

The Directors believe that the interest rates offered by SE Finance in respect of placing deposit will be no less favourable than those offered or provided by other independent parties and are in the interests of the Company and the Shareholders as a whole.

Internal control and risk management

The Company has established a special department with adequate dedicated and experienced staff to monitor and manage its connected transactions. Staff of the special department periodically reviews and evaluates the utilization of the annual cap amounts and implements internal assessments to ensure the adoption of the relevant pricing principles according to the terms of the existing agreements. The external auditor of the Company reviews the connected transactions on a semi-annual basis and will report the findings to the management of the Company.

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In particular, the specific arrangements of the internal control and risk management under the Amended Framework Sales Agreement, Amended Framework Purchase Agreement and Framework Financial Services Agreement (Deposit Services) are as follows:

(A) Amended Framework Sales Agreement and Amended Framework Purchase Agreement

The Group has conducted the following internal assessments to monitor the pricing basis of the transactions and to ensure the transactions are entered into and the actual transaction prices are determined according to the pricing basis of the relevant connected transactions:

- (i) The Company will compare the transaction price of SEG Group with the transaction price of other customers of the Group;
- (ii) The Company will comply with the relevant internal control policies for the connected transactions of the Group to ensure that the relevant department of the Group will monitor the transaction price of the SEG Group is no less favorable than those available to independent third parties (subject to the same conditions);
- (iii) If the market price mechanism is applied and the Group notices that, subject to the same conditions, the transaction price of SEG Group is less favorable than those available to independent third parties, the Group will renegotiate the transaction price with SEG Group to ensure that the transaction price of SEG Group is no less favorable than those available to independent third parties;
- (iv) If no market price for the relevant new product is available and the Group notices that, subject to the same conditions, the profit generated from the provision of products to SEG Group is less than those generated from the provision of similar products to independent third parties, the Group will renegotiate the sales price with SEC to ensure that the profit generated from the provision of products to SEC is no less than those generated from the provision of similar products to independent third parties;
- (v) The Board is responsible for approving all continuing connected transactions of the Group, including the continuing connected transactions under the Amended Framework Sales Agreement and the Amended Framework Purchase Agreement of SEG;
- (vi) The finance department and the auditor of the Company will periodically review the transactions under the Amended Framework Sales Agreement and the Amended Framework Purchase Agreement; and
- (vii) The finance department of the Company will follow up and collect the data of the transactions under the Amended Framework Sales Agreement and the Amended Framework Purchase Agreement on a monthly basis to ensure that the relevant amounts will not exceed the proposed annual caps.

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(B) Deposit services under the Framework Financial Services Agreement

- (i) The finance department of the Company monitors the daily balance of deposits placed at SE Finance on a daily basis to ensure that the deposit amounts will not exceed the proposed annual caps;
- (ii) Before the Group places any fixed deposit with SE Finance, the finance department of the Company negotiates the deposit rate with SE Finance to ensure that:
 - (1) such interest rate is determined by reference to and is not less than the benchmark interest rate of similar deposits announced by the PBOC in the same period, and will negotiate with SE Finance to determine such interest rate in case of any change to the benchmark interest rate;
 - (2) such interest rate is determined by reference to the interest rates of similar deposits services provided by at least 2 other independent commercial banks in the PRC for the same period on normal commercial terms and is no less than those interest rates;
- (iii) In the event that the finance department of the Group notes that the interest rate provided by SE Finance is less favorable than those provided by the independent commercial banks in the PRC for the same period, the Group will not place deposits with SE Finance; and/or transfer cash balance in the auto-transfer account to a non-auto-transfer account at independent commercial bank(s) in the PRC before proceeding with the auto-transfer; or negotiate with SE Finance to re-determine such interest rate; and
- (iv) The finance department of the Company updates the deposit arrangement with SE Finance on a monthly basis and reports the irregularities to the management, if any.

REASONS FOR AND BENEFITS OF THE CONTINUING CONNECTED TRANSACTIONS CONTEMPLATED UNDER THE AMENDED FRAMEWORK AGREEMENTS AND THE FRAMEWORK FINANCIAL SERVICES AGREEMENT

After relevant restructuring, SEG holds approximately 60.48% interests in the total issued share capital of SEC. SEC has become the controlling shareholder of the Company, directly holding 47.18% interests in the total issued share capital of the Company.

The Group has been carrying out the transactions with SEG Group since the initial listing of the Company's shares on the Stock Exchange in 2006. In view of such long-term and solid business relationships between the Group and SEG Group, the familiarity of each other's product and demand specifications which avails quick and cost-effective response to any new requirements upon request and the reliable supply of products, materials and services, the Group's operations would be adversely affected if the cross-supply of products, materials and services are terminated.

LETTER FROM THE BOARD

In considering the reasons for and benefits of entering into the Framework Financial Services Agreement, (i) the Company and SE Finance would communicate more efficiently, as they are both under SEG Group, which helps to reduce execution costs and increase operating flexibility; (ii) as the Company and SE Finance are under SEG Group, SE Finance would satisfy our demand of services and the relevant services would not be interrupted easily under fair conditions; (iii) placing deposit with SE Finance would facilitate the procurement of comprehensive financial services and products from SE Finance; and (iv) more options for financial services enables the Company to choose a more favorable solution.

Accordingly, the Directors (including the independent non-executive Directors) are of the view that (i) the continuing connected transactions contemplated under the Amended Framework Agreements and the Framework Financial Services Agreement (Deposit Services) will be carried out in the ordinary and usual course of business and in the interest of the Company and its Shareholders as a whole; (ii) the terms of the Amended Framework Agreements and the Framework Financial Services Agreement (Deposit Services) are on normal commercial terms or on terms not less favorable than those of similar transactions with independent third parties, and are fair and reasonable to the Company and its Shareholders; and (iii) the proposed annual cap amounts of the transactions contemplated under the Amended Framework Agreements and the Framework Financial Services Agreement (Deposit Services) are fair and reasonable so far as the Shareholders are concerned.

INFORMATION ON THE GROUP, SEG, SEC AND SE FINANCE

The Group

The Group is principally engaged in design, manufacture and sales of fasteners, turbine blades, bearings and cutting tools.

SEG

SEG is principally engaged in management of state-owned assets and investment activities. The ultimate beneficial owner of SEG is the Shanghai Municipal State-owned Assets Supervision and Administration Commission.

SEC

SEC is principally engaged in designing, manufacturing, selling and servicing of a wide range of products and services in the power equipment, electromechanical equipment, transportation equipment and environmental systems industries.

SE Finance

SE Finance was established in accordance with the “Regulation on the Administration of a Group of Financial Companies (《企業集團財務公司監理辦法》)” with the approval of the PBOC and the CBRC in 1995. SE Finance has obtained all necessary approvals, permits and licenses for its operation and is principally engaged in provision of financial services, including but not limited to loans and bill discounting services, deposit services and other financial services, to SEG Group.

LETTER FROM THE BOARD

LISTING RULES IMPLICATIONS

Connected Persons

As at the Latest Practicable Date, SEC is the controlling shareholder of the Company and holds approximately 47.18% interests in the total issued share capital of the Company. SEG holds approximately 60.48% interests in the total issued share capital of SEC. As SEG and its subsidiaries (including SEC Group) are connected persons of the Company under Chapter 14A of the Listing Rules, the transactions contemplated under the Amended Framework Agreements and Framework Financial Services Agreement (Deposit Services) constitute continuing connected transactions for the Company under Chapter 14A of the Listing Rules.

As Mr. Zhang Jie, an Executive Director of the Company, is a director of Electric HK and SE Finance, he has abstained from voting on the relevant board resolutions approving the Amended Framework Agreements and the Framework Financial Services Agreement and the transactions contemplated thereunder in accordance with the requirements under the Listing Rules. Save as disclosed above, none of the Directors has any material interest in the Amended Framework Agreements and Framework Financial Services Agreement and therefore none of them is required to abstain from voting.

SEG, SEC and their respective associates are required under the Listing Rules to abstain from voting on the resolutions to be proposed to approve the Non-exempt CCT Agreements, and their respective annual cap amounts at the EGM to be convened.

Listing Rules Implications

As one or more of the applicable percentage ratios of the transactions contemplated under the above framework agreements, on an annual basis, are expected to exceed 5%, the transactions contemplated under those agreements are subject to reporting, announcement, annual review and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

In addition, as one or more of the percentage ratios of the proposed deposit balance daily caps of the deposit services under the Framework Financial Services Agreement exceed 25% but less than 100%, the transaction constitutes a major transaction and is subject to the reporting, announcement and shareholders' approval requirements under Chapter 14 of the Listing Rules.

The Directors are of the view that the Amended Framework Agreements and Framework Financial Services Agreement (Deposit Services) have been entered into on normal commercial terms and in the ordinary and usual course of business of the Company, and that the terms of each of such agreements, together with the respective annual cap amounts, are fair and reasonable and in the interests of the Company and its Shareholders as a whole.

LETTER FROM THE BOARD

GENERAL INFORMATION

An EGM will be convened at which, among other things, ordinary resolutions will be proposed to seek independent Shareholders' approval for the Non-exempt CCT Agreements, the transactions contemplated thereunder and their respective proposed annual cap amounts in accordance with the requirements of the Listing Rules.

Pursuant to the Listing Rules, the Independent Board Committee (comprising all the independent non-executive Directors) has been formed by the Company to consider the Non-exempt CCT Agreements, the transactions contemplated thereunder and their respective proposed annual cap amounts, and to advise the independent Shareholders as to whether the Non-exempt CCT Agreements, the transactions contemplated thereunder and their respective proposed annual cap amounts are on normal commercial terms, fair and reasonable and in the interests of the Company and the Shareholders as a whole. Gram Capital Limited has been appointed as the Independent Financial Adviser to advise the Independent Board Committee of the Company and the independent Shareholders on the terms of the Non-exempt CCT Agreements.

EXTRAORDINARY GENERAL MEETING

A notice of the EGM to be held at Meeting Center, North 6th Floor, 2747 Songhuajiang Road, Hongkou District, Shanghai, PRC, on Friday, 8 December 2017 at 1:00 p.m. is set out on pages 51 to 53 of this circular.

In order to determine the Shareholders who are entitled to attend the EGM, the Company's register of H Shareholders will be closed from Wednesday, 8 November 2017 to Friday, 8 December 2017 (both days inclusive) during which period no transfer of H Shares will be effected. Holders of H Shares whose names appear on the Company's register of members on Friday, 8 December 2017 are entitled to attend the EGM. In order to be eligible to attend and vote at the EGM, holders of H Shares whose transfers have not been registered must deposit the transfer documents together with the relevant share certificates at the office of the H Share registrar of the Company, Tricor Investor Services Limited, at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong not later than 4:30 p.m. on Tuesday, 7 November 2017.

A reply slip and a form of proxy for use at the EGM are enclosed herewith and also published on both the websites of the Hong Kong Stock Exchange (<http://www.hkexnews.hk>) and the Company (<http://www.pmcs.com>). If you intend to appoint a proxy to attend the EGM, you are requested to complete, sign and return the enclosed form of proxy in accordance with the instructions printed thereon the latest 24 hours before the time fixed for holding the EGM or any adjournment thereof (as the case may be). Completion and return of the form of proxy will not preclude you from attending and voting in person at the EGM. Shareholders who intend to attend the meeting in person or by proxy should complete, sign and return the reply slip in accordance with the instructions printed thereon on or before Saturday, 18 November 2017.

LETTER FROM THE BOARD

LISTING RULES REQUIREMENT

According to Rule 13.39(4) of the Listing Rules, apart from certain exceptions, any vote of shareholders at a general meeting must be taken by poll. All resolutions at the EGM will be taken by way of poll. An announcement on the poll vote results will be published on the websites of the Hong Kong Stock Exchange (<http://www.hkexnews.hk>) and the Company (<http://www.pmcsh.com>) respectively by the Company after the EGM in the manner prescribed under the Listing Rules.

RECOMMENDATION

The Board believes that the proposals mentioned above are in the interests of the Company and the Shareholders as a whole. Accordingly, the Board recommends that all Shareholders vote in favour of the relevant resolutions to be proposed at the EGM as set out in the notice of the EGM.

Yours faithfully,
By order of the Board
Shanghai Prime Machinery Company Limited
Zhou Zhiyan
Chairman

LETTER FROM THE INDEPENDENT BOARD COMMITTEE

The following is the text of a letter from the Independent Board Committee setting out its recommendation to the independent Shareholders in relation to the Framework Agreements:



上海集優機械股份有限公司

Shanghai Prime Machinery Company Limited

(A joint stock limited company incorporated in the People's Republic of China with limited liability)

(Stock Code: 02345)

23 October 2017

To the Independent Shareholders

Dear Sirs or Madams,

CONTINUING CONNECTED TRANSACTIONS AND MAJOR TRANSACTION

We refer to the circular dated 23 October 2017 issued by the Company to the Shareholders (the “**Circular**”), of which this letter forms part. Terms defined in the Circular shall have the same meanings as those used in this letter, unless the context otherwise requires.

We have been appointed by the Board as the members of the Independent Board Committee to consider and advise the independent Shareholders as to whether, in our opinion, the terms of the Non-exempt CCT Agreements, the transactions contemplated thereunder and the respective annual cap amounts, details of which are set out in the letter from the Board contained in the Circular, are fair and reasonable so far as the independent Shareholders are concerned, and are in the interests of the Company and the Shareholders as a whole.

Gram Capital has been appointed as the independent financial adviser to advise us and the independent Shareholders in this regard. Details of its advice, together with the principal factors taken into consideration in arriving at such, are set out in its letter set out on pages 22 to 44 of the Circular. We wish to draw your attention to the letter from the Board, as set out on pages 5 to 19 of the Circular, and the letter from Gram Capital to the Independent Board Committee and the independent Shareholders which contains its advice to us in respect of the Non-exempt CCT Agreements, as set out on pages 22 to 44 of the Circular.

Having considered the terms and conditions of the Non-exempt CCT Agreements and their respective proposed annual cap amounts, the advice given by Gram Capital and the principal factors and reasons taken into consideration by them in arriving at their advice, we are of the opinion that the Non-exempt CCT Agreements were entered into in the ordinary and usual course of business, on normal commercial terms and the terms of the Non-exempt CCT Agreements, the transactions contemplated thereunder and their respective annual cap amounts

LETTER FROM THE INDEPENDENT BOARD COMMITTEE

are fair and reasonable so far as the independent Shareholders are concerned, and are in the interests of the Company and the Shareholders as a whole. Accordingly, we recommend that the independent Shareholders vote in favor of the ordinary resolutions concerning the same to be proposed at the EGM.

Yours faithfully,

For and on behalf of the Independent Board Committee

Shanghai Prime Machinery Company Limited

Chan Oi Fat

Ling Hong

Sun Zechang

Independent non-executive Directors

LETTER FROM GRAM CAPITAL

Set out below is the text of a letter received from Gram Capital, the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders in respect of the Non-exempt CCT Agreements and the transactions contemplated thereunder for the purpose of inclusion in this circular.



Room 1209, 12/F.
Nan Fung Tower
88 Connaught Road Central/
173 Des Voeux Road Central
Hong Kong

23 October 2017

*To: The independent board committee and the independent shareholders
of Shanghai Prime Machinery Company Limited*

Dear Sirs,

CONTINUING CONNECTED TRANSACTIONS AND MAJOR TRANSACTION

INTRODUCTION

We refer to our appointment as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in respect of the transactions contemplated under the Non-exempt CCT Agreements, details of which are set out in the letter from the Board (the “**Board Letter**”) contained in the circular dated 23 October 2017 issued by the Company to the Shareholders (the “**Circular**”), of which this letter forms part. Terms used in this letter shall have the same meanings as defined in the Circular unless the context requires otherwise.

On 26 September 2017 (after trading hours), the Company and SEG entered into the Amended Framework Agreements to amend Relevant Framework Agreements for a term commencing from 1 January 2018 and expiring on 31 December 2019. On the even date, the Company entered into the Framework Financial Services Agreement with SE Finance for a term commencing from the date of approval in the general meeting of the Company and expiring on 31 December 2019.

Pursuant to the Amended Framework Agreements and Framework Financial Services Agreement, the Company will conduct, among other things, (i) the sales and purchases of goods and services among the Group and SEG Group (including the SEC Group) (the “**Sales & Purchase Transactions**”); and (ii) the acceptance of deposit services (the “**Deposit Services**”) and comprehensive banking services provided by SE Finance.

With reference to the Board Letter, the Sales & Purchase Transactions and Deposit Services constitute non-exempt continuing connected transactions of the Company, and are subject to reporting, announcement, annual review and independent shareholders’ approval

LETTER FROM GRAM CAPITAL

requirements under Chapter 14A of the Listing Rules. In addition, the Deposit Services constitute a major transaction, which is subject to the reporting, announcement and shareholders' approval requirements under Chapter 14 of the Listing Rules.

The Independent Board Committee comprising Mr. Ling Hong, Mr. Chan Oi Fai and Mr. Sun Zechang (all being independent non-executive Directors) has been established to advise the Independent Shareholders on (i) whether the terms of each of the Non-exempt CCT Agreements are on normal commercial terms and are fair and reasonable so far as the Independent Shareholders are concerned; (ii) whether each of the Sales & Purchase Transactions and Deposit Services is in the interests of the Company and the Shareholders as a whole and is conducted in the ordinary and usual course of business of the Group; and (iii) how the Independent Shareholders should vote in respect of the resolution(s) to approve the Non-exempt CCT Agreements and the transactions contemplated thereunder at the EGM. We, Gram Capital Limited, have been appointed as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in this respect.

OUR INDEPENDENCE

During the past two years immediately preceding the Latest Practicable Date, Mr. Graham Lam was the person signing off the opinion letter from the independent financial adviser contained in the circular dated 30 November 2016 in respect of continuing connected transaction for the Company. Notwithstanding the aforesaid past engagement, as at the Latest Practicable Date, we were not aware of any relationships or interests between Gram Capital and the Company or any other parties that could be reasonably regarded as hindrance to Gram Capital's independence to act as the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders.

Besides that, apart from the advisory fee and expenses payable to us in connection with our appointment as the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders, no arrangement exists whereby we shall receive any other fees or benefits from the Company.

BASIS OF OUR OPINION

In formulating our opinion to the Independent Board Committee and the Independent Shareholders, we have relied on the statements, information, opinions and representations contained or referred to in the Circular and the information and representations as provided to us by the Directors. We have assumed that all information and representations that have been provided by the Directors, for which they are solely and wholly responsible, are true and accurate at the time when they were made and continue to be so as at the Latest Practicable Date. We have also assumed that all statements of belief, opinion, expectation and intention made by the Directors in the Circular were reasonably made after due enquiry and careful consideration. We have no reason to suspect that any material facts or information have been withheld or to doubt the truth, accuracy and completeness of the information and facts contained in the Circular, or the reasonableness of the opinions expressed by the Company, its advisers and/or the Directors, which have been provided to us. Our opinion is based on the Directors' representation and confirmation that there are no undisclosed private agreements/arrangements or implied understanding with anyone concerning the Non-exempt CCT

LETTER FROM GRAM CAPITAL

Agreements. We consider that we have taken sufficient and necessary steps on which to form a reasonable basis and an informed view for our opinion in compliance with Rule 13.80 of the Listing Rules.

The Circular, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief the information contained in the Circular is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement contained in the Circular or the Circular misleading. We, as the Independent Financial Adviser, take no responsibility for the contents of any part of the Circular, save and except for this letter of advice.

We consider that we have been provided with sufficient information to reach an informed view and to provide a reasonable basis for our opinion. We have not, however, conducted any independent in-depth investigation into the business and affairs of the Company, SEG Group or their respective subsidiaries or associates, nor have we considered the taxation implication on the Group or the Shareholders as a result of the entering into of the Non-exempt CCT Agreements. Our opinion is necessarily based on the financial, economic, market and other conditions in effect and the information made available to us as at the Latest Practicable Date. Shareholders should note that subsequent developments (including any material change in market and economic conditions) may affect and/or change our opinion and we have no obligation to update this opinion to take into account events occurring after the Latest Practicable Date or to update, revise or reaffirm our opinion. In addition, nothing contained in this letter should be construed as a recommendation to hold, sell or buy any Shares or any other securities of the Company.

Lastly, where information in this letter has been extracted from published or otherwise publicly available sources, it is the responsibility of Gram Capital to ensure that such information has been correctly extracted from the relevant sources while we are not obligated to conduct any independent in-depth investigation into the accuracy and completeness of those information.

PRINCIPAL FACTORS AND REASONS CONSIDERED

In arriving at our opinion in respect of the Non-exempt CCT Agreements and the transactions contemplated thereunder, we have taken into consideration the following principal factors and reasons:

Background of and reasons for the Non-exempt CCT Agreements

Information on the Group

With reference to the Board Letter, the Group is principally engaged in design, manufacture and sales of fasteners, turbine blades, bearings and cutting tools.

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Set out below are the consolidated financial information of the Group for the three years ended 31 December 2016 and the six months ended 30 June 2017 as extracted from the annual report of the Company for the year ended 31 December 2015, the annual report of the Company for the year ended 31 December 2016 (the “**2016 Annual Report**”) and the interim report of the Company for the six months ended 30 June 2017 (the “**2017 Interim Report**”):

	For the six months ended 30 June 2017 (Unaudited) <i>RMB'000</i>	For the year ended 31 December 2016 (Audited) <i>RMB'000</i>	For the year ended 31 December 2015 (Audited) <i>RMB'000</i>	For the year ended 31 December 2014 (Audited) <i>RMB'000</i>	Change from 2015 to 2016 %	Change from 2014 to 2015 %
Revenue	4,289,168	7,644,931	7,126,763	4,664,675	7.27	52.78
Net profit for the year/period	159,300	203,149	186,984	80,678	8.65	131.77

As illustrated in the above table, the Group recorded a substantial increase in revenue of approximately 52.78% from FY2014 to FY2015. The increase was primarily attributable to the initial synergistic effects of acquisition, reorganization projects and fastener segment in addition to the growth of automotive business and aviation business. The Group also recorded a substantial increase of approximately 131.77% in net profit from FY2014 to FY2015.

During 2016, the Group recorded a continuous increase in revenue of approximately 7.27%. With reference to the 2016 Annual Report, such increase was primarily driven by the continued growth in the automotive fastener business and moderate improvement in the turbine blade business. The Group also recorded an increase of approximately 8.65% in net profit for FY2016, which was increased generally in line with the revenue in FY2016.

A. THE AMENDED FRAMEWORK SALES AGREEMENT AND AMENDED FRAMEWORK PURCHASE AGREEMENT

Information on SEG

With reference to the Board Letter, SEG is principally engaged in management of state-owned assets and investment activities. The ultimate beneficial owner of SEG is the Shanghai Municipal State-owned Assets Supervision and Administration Commission.

On 14 November 2016, the Company was informed that SEG, the controlling shareholder of the Company, intended to transfer all of the 678,576,184 domestic shares of the Company held by it to SEC (the “**Proposed Transfer**”). Upon completion of the proposed transfer, SEC and SEG (including shares held by Shanghai Electric HK) would continue to have an aggregate interest of 51.62% in the total issued shares of the Company (of which approximately 47.18% would be held by SEC and approximately 4.44% will be held by SEG and Shanghai Electric HK). The Company had been informed by SEG and SEC that the Proposed Transfer had been completed on 29 August 2017.

Reasons for entering into the supplemental agreements

With reference to the Board Letter, the Group has been carrying out the transactions with SEG Group since the initial listing of the Company’s shares on the Stock Exchange in 2006. In view of such long-term and solid business relationships between the Group and SEG Group, the familiarity of each other’s product and demand specifications which avails quickly and in cost-effective response to any new requirements upon request and the reliable supply of products, materials and services, the Group’s operations would be adversely affected if the cross-supply of products, materials and services are terminated.

As confirmed by the Directors, as the transactions contemplated under the Sales & Purchase Transactions have been entered into in the ordinary and usual course of business of the Group and on a frequent and regular basis, it would be (i) impracticable to negotiate for numerous agreements with SEG Group; and (ii) costly and impractical to make regular disclosure of each of the relevant transactions and obtain the prior approval from the Independent Shareholders, as required by the Listing Rules, if necessary. Accordingly, the Directors are of the view that the Sales & Purchase Transactions will be beneficial to the Company and the Shareholders as a whole.

The Amended Framework Agreements are aimed to revise the existing Relevant Framework Agreements and their respective annual cap amounts for the two years ending 31 December 2019, and reflect the terms of the continuing connected transactions with SEG Group (including SEC Group) after relevant restructuring.

Having considered that (i) long-term business relationships between the Group and the SEC Group; (ii) the Sales CCTs (as defined below) will provide a source of income to the Group and are of a revenue nature for the Group; (iii) the Purchase CCTs (as defined below) will allow the Company to have a stable supply source and enjoy an extended time for payment under the Nedschroef Transactions (as defined below); and (iv) it would be (a) impracticable to negotiate for numerous agreements with SEG Group; and (b) costly

LETTER FROM GRAM CAPITAL

and impractical to make regular disclosure of each of the relevant transactions and obtain the prior approval from the Independent Shareholders, as required by the Listing Rules, if necessary, we concur with the Directors that the Sales & Purchase Transactions are in the interests of the Company and the Shareholders as a whole and are conducted in the ordinary and usual course of business of the Group.

1. Principle terms of the Amended Framework Sales Agreement

- Date: 26 September 2017
- Parties: (i) the Company, as supplier; and
(ii) SEG, as purchaser.
- Amendments: (i) SEG and its associates (including SEC Group), as purchaser;
(ii) Increase the annual cap amounts under the agreement after taking into account of the addition of relevant transactions of SEC Group;
(iii) Expand the types of equipment sold under the agreement.

Pricing basis

Pursuant to the SEG Framework Sales Agreement, the pricing basis of certain materials, components, accessories or raw materials, finished products and other related or similar items, power generation equipment and parts under the SEG Framework Sales Agreement shall be in the order of standards as following: (i) prices as may be stipulated by the PRC government (if any); (ii) if there are no such stipulated prices, the prices not less than any pricing guidelines or pricing recommendations set by the PRC government (if any); (iii) if there are no such stipulated prices nor such pricing guidelines or recommendations, with reference to the market price which is determined by an independent third party; and (iv) if none of the above is applicable, an agreed price consisting of the actual or reasonable costs incurred thereof plus a reasonable profit margin.

We understood from the Company that, when implementing the existing SEG Framework Sales Agreement, there were no relevant PRC government documents in relation to the price for the Company to follow. Accordingly, the Company has adopted the “market price” as the pricing standard when selling materials, components, accessories or raw materials, finished products and other related or similar items, power generation equipment and parts under the existing SEG Framework Sales Agreement (the “**Sales CCTs**”). After implementation of the SEG Framework Sales Agreement, the Company will continue to determine the prices of all the products under the SEG Framework Sales Agreement with reference to the

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“market price” as the pricing basis. In the unforeseeable event that the PRC government decides to set prices of products sold by the Group, the Group will comply with the relevant government regulations and price its products accordingly.

We also understood from the Company that, the Company will seek to obtain information on prevailing market price through various channels. The main factors with which the relevant market prices are determined are the then demand and supply of relevant product in the PRC, distance between the location of buyers and sellers, as well as the quality of relevant product. After collecting the market information, the pricing term will be used as benchmark for the transactions with the SEG and its associates (including the SEC Group). The final terms in the specific agreements will then be discussed, assessed and approved by the finance department and relevant operations departments with reference to the aforesaid information.

In light of the above, in particular, (i) the source of obtaining information on prevailing market price; and (ii) the final terms in the specific agreement the specific agreements will then be discussed, assessed and approved by the finance department and relevant operations departments with reference to the abovementioned information, we are of the view that such pricing mechanisms are acceptable.

Internal control

In addition, we noted that the Company has established a special department with sufficient, dedicated and experienced personnel in place to conduct the monitoring and management of its connected transactions. The personnel of this special department reviews and evaluates the usage of the annual cap amounts, as well as the implementation of the internal assessments to ensure the adoption of the pricing principles according to the terms of the existing agreements on a regular basis. The external auditors of the Company review the connected transactions and report the factual findings to the management of the Company on semi-annual basis.

The following internal assessments have been undertaken by the Group to monitor the pricing standards of the transactions and ensure that the transactions are conducted and the actual sale prices in accordance with the pricing basis under the SEG Framework Sales Agreement:

- (i) the Company would compare the sale prices of the sales to SEG and its corresponding associates with the sale prices to the other customers of the Group;
- (ii) the Company would adhere to the relevant internal control policy of the Group on connected transactions to ensure that the relevant departments of the Group will monitor the sale prices payable by SEG and its corresponding associates shall be not lower than those payable to the Group from independent third party subject to the same conditions;

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- (iii) in the event that the market price mechanism is applied and the Group notes that subject to the same conditions, the sales prices for the similar products to SEG is lower than those to independent third parties, the Group will re-negotiate with SEG regarding the sales prices to ensure the sales prices payable by SEG shall be not lower than those payable by independent third parties;
- (iv) in the event that the market price for relevant new product is not available and the Group notes that subject to the same conditions, the profit margin on the product to SEG is lower than the profit margin on the similar product to independent third parties, the Group will re-negotiate with SEG regarding the sales prices to ensure the profit margin on the products to be offered to SEG shall be not lower than the profit margin on the products offered to independent third parties for similar products;
- (v) the Board is responsible for approving all the continuing connected transactions carried out by the Group including the continuing connected transactions under the SEG Framework Sales Agreement;
- (vi) the finance department of the Company and the auditors would review the transactions under the Framework Agreements regularly; and
- (vii) the finance department of the Company would follow and collect the data of the Sales CCTs to ensure that the proposed annual caps are not exceeded.

Accordingly, we consider that the effective implementation of the internal control mechanism would help to ensure fair pricing of the Sales CCTs according to the pricing policy.

In light of the above as well as that save as the aforementioned amendments, other terms under the SEG Framework Sales Agreement remain unchanged, we are of the view that the terms of the Amended Framework Sales Agreement are on normal commercial terms and are fair and reasonable so far as the Independent Shareholders are concerned.

LETTER FROM GRAM CAPITAL

Proposed annual caps

The table below sets out the historical transaction amounts and the proposed annual cap amounts under the Amended Framework Sales Agreement:

Historical transaction amounts	For the year ended 31 December 2015 <i>(in RMB million)</i>	For the year ended 31 December 2016 <i>(in RMB million)</i>	For the six months ended 30 June 2017 <i>(in RMB million)</i>
Aggregate sales to SEG and its associates (including SEC Group)	378.4	355.6	176.3
Proposed annual cap amounts (the “New Sales Cap(s)”) 	For the year ending 31 December 2018 <i>(in RMB million)</i>	For the year ending 31 December 2019 <i>(in RMB million)</i>	
Aggregate sales to SEG and its associates (including SEC Group)	496.0	506.0	

In arriving at the above revised annual caps for the two years ending 31 December 2019, the Directors have taken into account of following factors:

- (i) the historical transaction amounts of the products sold to SEG and its associates (including the SEC Group) and the existing annual cap amounts of respective years;
- (ii) the future business development plans of SEG Group;
- (iii) the changes in the market conditions, the anticipated demand and supply of the products of SEG Group and its associates.

Based on our understanding, the relevant utilization rate of the existing annual cap for the year ending 31 December 2017 (i.e. RMB491 million) is, for illustration purpose only, approximately 71.8% for the year ending 31 December 2017, based on annualized historical amount for the six months ended 30 June 2017 (i.e. RMB176.3 million/(6/12) = approximately RMB352.6 million). In addition, the historical amount for each of the two years ended 31 December 2016 represented approximately 76.3% and 71.7% respectively to the proposed annual cap for the year ending 31 December 2018.

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As further advised by the Directors, the proposed annual caps for the two years ending 31 December 2019 equal to the sum of existing annual caps for the two years ending 31 December 2019 under the existing SEG Framework Sales Agreement and SEC Framework Sales Agreement.

With reference to the Board Letter, the transactions in respect of the sale of products to SEG Group has been carried out for years, and the quality of such products sold by the Group has been recognised by SEG Group. It is expected that the range of products sold by the Group to SEG Group will be further expanded under the Amended Framework Sales Agreement. For example, the range of equipment sales is expected to expand from the power generation equipment to other machinery and equipment.

The Group is committed to the research and development (R&D) of high-end technology with good market prospect. For example, the Group has introduced and improved new coating technology which can be widely used in various areas including wind power, railway, power generation equipment and infrastructure. As such, the Group expects that the order amount made by SEG Group will be increased accordingly.

As the Group completed the acquisition of Nedschroef in August 2014 and the acquisition of 70% equity interest in Shanghai Tianhong Miniature Bearing CO., Ltd. (上海天虹微型軸承有限公司) in 2015, the Group's scale of operation as well as the production capacity and R&D competitiveness in relevant areas would be enhanced. The Group expects that the transaction volume of sales to SEG Group will be increased accordingly.

With reference to 2017 interim report of SEC, we noted that for the six months ended 30 June 2017, SEC obtained new orders in the amount of RMB50.3 billion, among which, new orders from new energy and environmental protection equipment, high efficiency and clean energy equipment, industrial equipment and modern services accounted for 14.5%, 23.2%, 28.6% and 33.7% of the total new orders, respectively. As at 30 June 2017, SEC's orders on hand amounted to RMB248.0 billion (with orders in the aggregate amount of RMB101.4 billion not yet coming into effect). SEC's orders on hand from new energy and environmental protection equipment, high efficiency and clean energy equipment, industrial equipment and modern services accounted for 11.8%, 50.0%, 8.8% and 29.4% of the total orders on hand, respectively.

During the six months ended 30 June 2017, among other things, SEC undertook (i) the orders of 44 units of 6.0MW offshore wind turbines in Fujian Putian Pinghai Bay (福建莆田平海灣) and 46 units of 4.0MW offshore wind turbines in Fujian Putian Nanri Island (福建莆田南日島); and (ii) the steam turbine equipment order for the Yu Men Xin Neng Molten Salt Tower 50MW Solar Thermal Power Project (玉門鑫能溶鹽塔式5萬千瓦光熱發電項目). In addition, SEC entered into an order in respect of the power supply project in Port of Doraleh, Djibouti with a power company in Djibouti, Africa during the six months ended 30 June 2017.

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Having considered that (i) the historical amount of transactions contemplated under the SEG Framework Sales Agreement and SEC Framework Sales Agreement as mentioned above; (ii) the proposed annual caps for the two years ending 31 December 2019 equal to the sum of existing annual caps for the two years ending 31 December 2019 under the existing SEG Framework Sales Agreement and SEC Framework Sales Agreement; (iii) the existing annual caps under SEC Framework Sales Agreement represent approximately 90.7% and 88.9% to the New Sales Caps for the two years ending 31 December 2019; (iv) operational data of SEC for the six months ended 30 June 2017; and (v) the existing annual caps for the two years ending 31 December 2019 under SEC Framework Sales Agreement are fair and reasonable, details of analysis are set out under the section headed “Proposed annual caps” of letter from Gram Capital as contained in the circular of the Company dated 30 November 2016, we are of the view that the New Sales Caps for the two years ending 31 December 2019 are fair and reasonable.

Shareholders should note that as the proposed annual caps are relating to future events and were estimated based on assumptions which may or may not remain valid for the entire period up to 31 December 2019, and they do not represent forecasts of revenue/income/cost to be incurred from the transactions contemplated under the Amended Framework Sales Agreement. Consequently, we express no opinion as to how closely the actual revenue/income to be incurred from the transactions contemplated under the Amended Framework Sales Agreement will correspond with the proposed annual caps.

2. Principle terms of the Amended Framework Purchase Agreement

- Date: 26 September 2017
- Parties: (i) the Company, as purchaser; and
(ii) SEG, as supplier.
- Amendments: (i) SEG and its associates (including SEC Group), as supplier; and
(ii) Increase the annual cap for the transactions under the agreement.

Pricing basis

Pursuant to the SEG Framework Purchase Agreement, the pricing basis of certain raw materials, spare parts, equipment, assets and other related or similar items under the SEG Framework Purchase Agreement shall be in the order of standards as following: (i) prices as may be stipulated by the PRC government (if any); (ii) if there are no such stipulated prices, the prices not less than any pricing guidelines or pricing recommendations set by the PRC government (if any); (iii) if there are no such stipulated prices nor such pricing guidelines or recommendations, with reference to the market price which is determined by an independent third

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party; and (iv) if none of the above is applicable, an agreed price consisting of the actual or reasonable costs incurred thereof plus a reasonable profit margin. In addition, the prices payable by Nedschroef for the purchase of relevant raw materials, components and equipment through Electric HK is determined by reference to the original consideration paid by Electric HK for purchasing the same raw materials, components and equipment and the relevant administrative expenses (the “**Relevant Admin Expenses**”) and it is no less favorable than the purchase price of similar raw materials, components and equipment in the open market under the same conditions. The Relevant Admin Expenses will be determined with reference to Electric HK’s fund occupation cost during the extended period and necessary administrative cost. Such Relevant Admin Expenses will not be higher than cost of fund raising to be conducted by Nedschroef (the “**Cost of Fund Raising**”).

We understood from the Company that, when implementing the existing SEG Framework Purchase Agreement, there were no relevant PRC government documents in relation to the price for the Company to refer to. Accordingly, the Company has adopted the “market price” as the pricing standard when purchasing raw materials, spare parts, equipment, assets and other related or similar items under the existing SEG framework purchase agreement (the “**Purchase CCTs**”). After implementation of the SEG Framework Purchase Agreement, SEG will continue to determine the prices of all the products under the SEG Framework Purchase Agreement with reference to the “market price” as the pricing basis. In the unforeseeable event that the PRC government decides to set prices of products sold by SEG, SEG will comply with the relevant government regulations and price its products accordingly.

We also understood from the Company that, the Company will seek to obtain information on prevailing market price through various channels. The main factors with which the relevant market prices are determined are the then demand and supply of relevant product in the PRC, distance between the location of buyers and sellers, as well as the quality of relevant product. After collecting the market information, the pricing term will be used as benchmark for the transactions with the SEG and its associates. The final terms in the specific agreements will then be discussed, assessed and approved by the finance department and relevant operations departments with reference to the aforesaid information.

In respect of the Nedschroef Transactions, the Directors advised us that recently, the Company were advised that Electric HK is willing to purchase Nedschroef Products from independent supplier(s) and resell such products to Nedschroef with an extended time for payment (the “**Nedschroef Transactions**”). As mentioned above, the prices payable by Nedschroef for the purchase of relevant raw materials, components and equipment through Electric HK is determined by reference to the original consideration paid by Electric HK for purchasing the same raw materials, components and equipment and the relevant administrative expenses and it is no less favorable than the purchase price of similar raw materials, components and equipment in the open market under the same conditions.

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In light of the above, in particular, (i) the source of obtaining information on prevailing market price; (ii) the final terms in the specific agreement the specific agreements will then be discussed, assessed and approved by the finance department and relevant operations departments with reference to the abovementioned information; and (iii) under the Nedschroef Transactions, the prices payable by Nedschroef is no less favorable than the purchase price of similar raw materials, components and equipment in the open market under the same conditions, we are of the view that such pricing mechanisms are acceptable.

Internal control

In addition, we noted that the Company has established a special department with sufficient, dedicated and experienced personnel in place to conduct the monitoring and management of its connected transactions. The personnel of this special department reviews and evaluates the usage of the annual cap amounts, as well as the implementation of the internal assessments to ensure the adoption of the pricing principles according to the terms of the existing agreements on a regular basis. The external auditors of the Company review the connected transactions and report the factual findings to the management of the Company on semi-annual basis.

The following internal assessments have been undertaken by the Group to monitor the pricing standards of the transactions and ensure that the transactions are conducted and the actual sale prices in accordance with the pricing basis under the SEG Framework Purchase Agreement:

- (i) the Company would compare the sale prices of the purchase from SEG and its corresponding associates with the sale prices from the other suppliers of the Group;
- (ii) the Company would adhere to the relevant internal control policy of the Group on connected transactions to ensure that the relevant departments of the Group will monitor the sale prices offered by SEG and its corresponding associates shall be not higher than those offered to the Group from independent third party subject to the same conditions;
- (iii) in the event that the market price mechanism is applied and the Group notes that subject to the same conditions, the sales prices for the similar products from SEG is higher than those offered by independent third parties, the Group will re-negotiate with SEG regarding the sales prices to ensure the sales prices offered by SEG shall be not higher than those payable by independent third parties;
- (iv) in the event that the Company notes that the Relevant Admin Expenses is higher than Cost of Fund Raising, the Company will (a) re-negotiate with Electric HK to ensure the Relevant Admin Expenses to be not higher than the Cost of Fund Raising; or (b) procure Nedschroef to conduct such fund raising and purchase the Nedschroef Products directly from independent supplier(s);

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- (v) the Board is responsible for approving all the continuing connected transactions carried out by the Group including the continuing connected transactions under the SEG Framework Purchase Agreement;
- (vi) the finance department of the Company and the auditors would review the transactions under the Framework Agreements regularly; and
- (vii) the finance department of the Company would follow and collect the data of the Purchase CCTs to ensure that the proposed annual caps are not exceeded.

Accordingly, we consider that the effective implementation of the internal control mechanism would help to ensure fair pricing of the Purchase CCTs according to the pricing policy.

In light of the above as well as that save as the aforementioned amendments, other terms under the SEG Framework Purchase Agreement remain unchanged, we are of the view that the terms of the Amended Framework Purchase Agreement are on normal commercial terms and are fair and reasonable so far as the Independent Shareholders are concerned.

Proposed annual caps

The table below sets out the historical transaction amounts and the proposed annual cap amounts under the Amended Framework Purchase Agreement:

Historical transaction amounts	For the year ended 31 December 2015 <i>(in RMB million)</i>	For the year ended 31 December 2016 <i>(in RMB million)</i>	For the six months ended 30 June 2017 <i>(in RMB million)</i>
Aggregate purchases from SEG and its associates (including SEC Group)	0.2	0.1	Nil
Proposed annual cap amounts (the “New Purchase Cap(s)”) 	For the year ending 31 December 2018 <i>(in RMB million)</i>	For the year ending 31 December 2019 <i>(in RMB million)</i>	
Aggregate purchase from SEG and its associates (including SEC Group)	655	725	

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In arriving at the above revised annual caps for the two years ending 31 December 2019, the Directors have taken into account following factors, among other things:

- (i) the historical transaction amounts of the products supplied by SEG and its associates (including the SEC Group) to the Group and the existing annual cap amounts;
- (ii) Nedschroef, a wholly-owned subsidiary of the Company, is intended to purchase the relevant raw materials, components and equipment (the “**Nedschroef Products**”) through Electric HK. Such purchase of the Nedschroef Products from Electric HK with extended time for payment will significantly enhance the cash flow of the Group.

Based on our understanding, the existing annual caps under the SEG Framework Purchase Agreement represented less than 10% of the New Purchase Caps for the two years ending 31 December 2019. In the other words, the proposed demand from Nedschroef constituted most of the New Purchase Caps for the two years ending 31 December 2019.

In this regard, we enquired into the Directors regarding the substantial increase of the New Purchase Caps and understood that the Company directly purchase the Nedschroef Products from independent supplier(s) in the past. Recently, the Company were advised that Electric HK is willing to purchase Nedschroef Products from independent supplier(s) and resell such products to Nedschroef with an extended time for payment. Such arrangements constitute continuing connected transactions of the Company.

Upon our further request, we note that the historical amount of Nedschroef Products purchased by the Group from independent supplier(s) for the six months ended 30 June 2017 and each of the two years ended 31 December 2016 amounted to approximately EUR32.5 million (equivalent to approximately RMB251.9 million), EUR68.0 million (equivalent to approximately RMB496.9 million) and EUR62.4 million (equivalent to approximately RMB442.7 million) respectively. The annualized historical amount of Nedschroef Products (based on historical amount for the six months ended 30 June 2017), for illustration purpose only, represented approximately 76.9% to the New Purchase Cap for the year ending 31 December 2018, while the historical amount for each of the two years ended 31 December 2016 represented approximately 75.9% and 67.6% to the New Purchase Caps for the year ending 31 December 2018.

We also understood from the Directors that the Nedschroef Products will mainly be used for manufacturing of fastener products, which will be used for, among other things, automotive industry. With reference to the 2017 Interim Report, the Group is a leading global fastener partner for world-renowned automobile manufacturers and its diversified customer portfolio includes Volkswagen, BMW, Renault, Audi, Daimler, General Motors and SAIC Motor. With reference to the 2016 Annual Report, revenue of the automotive business increased 13% year-on-year to

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RMB4,859 million in FY2016 (FY2015: RMB4,297 million), of which automotive fastener revenue, accounting for a 94% share of the segment's revenue. We noted from an article named "Economic and Market Report: EU auto industry — Quarter 2 2017" published on website of European Automobile Manufacturers Association that during the first half year of 2017, passenger car registration (i) across Europe represented 24.5% of world new passenger car registrations and recorded an increase of approximately 4.3% for first half year of 2017 as compared to first half year of 2016; (ii) across North America represented 21.3% of world new passenger car registrations and recorded a decrease of 2.3% for first half year of 2017 as compared to first half year of 2016 ; (iii) across Asia represented 44.7% of world new passenger car registrations and recorded an increase of approximately 5.2% for first half year of 2017 as compared to first half year of 2016. We also noted the statistics from the Traffic Management Bureau of the Ministry of Public Security of the PRC, as at the end of June 2017, national motor vehicle ownership reached 304 million units, represented an increase of approximately 3.18% as compared to that as at 31 December 2016.

Based on (i) historical transactions amount of Nedschroef Products of approximately RMB496.9 million for FY2016; and (ii) implied growth rate of purchase of Nedschroef Products of approximately 9.0% from FY2015 to FY2016, the transactions amount of Nedschroef Products estimated to be approximately RMB590.4 million for the year ending 31 December 2018. Based on SEG Framework Purchase Agreement and SEC Framework Purchase Agreement, the annual caps for the year ending 31 December 2018 is RMB51 million (i.e. aggregate purchases from SEG and its associate (excluding SEC Group) and RMB8 million (i.e. aggregate purchases from SEC and its associate) respectively. The sum (the "Sum of Purchase") of (i) estimated transactions amount of Nedschroef Products for the year ending 31 December 2018; and (ii) annual cap under each of SEG Framework Purchase Agreement and SEC Framework Purchase Agreement, is RMB649.4 million, which is close to the New Purchase Cap (i.e. aggregate purchase from SEG and its associates (including SEC Group)) for the year ending 31 December 2018.

Having considered that (i) the historical amount of Nedschroef Products purchased by the Group from independent supplier(s); (ii) the Company will enjoy an extended time for payment if the Company through Electric HK to purchase the Nedschroef Products, which will constitute continuing connected transactions of the Company; and (iii) the Sum of Purchase is close to the New Purchase Cap for the year ending 31 December 2018, we are of the view that the New Purchase Cap for the year ending 31 December 2018 is fair and reasonable.

According to the above table, we noted that the New Purchase Cap for the year ending 31 December 2019 represented an increase of approximately 10.7% as compared to the New Purchase Caps for the year ending 31 December 2018. Having considered that (i) the revenue of the Group for FY2016 represented an increase of approximately 7.27% as compared to FY2015; and (ii) the historical amount of

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Nedschroef Products purchased by the Group for the FY2016 represented an increase of approximately 9.0% as compared to that for FY2015, we consider that the aforesaid increase in New Purchase Cap during 2019 to be acceptable.

Accordingly, we consider that the New Purchase Cap for the year ending 31 December 2019 is fair and reasonable.

Shareholders should note that as the proposed annual caps are relating to future events and were estimated based on assumptions which may or may not remain valid for the entire period up to 31 December 2019, and they do not represent forecasts of revenue/income/cost to be incurred from the transactions contemplated under the Amended Framework Purchase Agreement. Consequently, we express no opinion as to how closely the actual revenue/income to be incurred from the transactions contemplated under the Amended Framework Purchase Agreement will correspond with the proposed annual caps.

Listing Rules implication

The Directors confirmed that the Company shall comply with the requirements of Rules 14A.53 to 14A.59 of the Listing Rules pursuant to which (i) the values of the Sales & Purchase Transactions must be restricted by the proposed annual caps for the period concerned under the Amended Framework Sales Agreement and Amended Framework Purchase Agreement (as the case may be); (ii) the terms of the Amended Framework Sales Agreement and Amended Framework Purchase Agreement must be reviewed by the independent non-executive Directors annually; (iii) details of independent non-executive Directors' annual review on the terms of the Amended Framework Sales Agreement and Amended Framework Purchase Agreement must be included in the Company's subsequent published annual reports and financial accounts. Furthermore, it is also required by the Listing Rules that the auditors of the Company must provide a letter to the Board confirming whether anything has come to their attention that causes them to believe that the Sales & Purchase Transactions (i) have not been approved by the Board; (ii) were not, in all material respects, in accordance with the pricing policies of the Group if the transactions involve the provision of goods or services by the listed issuer's group; (iii) were not entered into, in all material respects, in accordance with the relevant agreement governing the transactions; and (iv) have exceeded the annual caps. In the event that the total amounts of the Sales & Purchase Transactions exceed the annual caps, or that there is any material amendment to the terms of the Amended Framework Sales Agreement and/or Amended Framework Purchase Agreement, as confirmed by the Directors, the Company shall comply with the applicable provisions of the Listing Rules governing continuing connected transactions.

Given the above stipulated requirements for continuing connected transactions pursuant to the Listing Rules, we are of the view that there are adequate measures in place to monitor the Sales & Purchase Transactions and thus the interest of the Independent Shareholders would be safeguarded.

Recommendation

Having taken into consideration the factors and reasons as stated above, we are of the opinion that (i) the terms of the Amended Framework Sales Agreement and Amended Framework Purchase Agreement are on normal commercial terms and are fair and reasonable so far as the Independent Shareholders are concerned; and (ii) the Sales & Purchase Transactions are in the interests of the Company and the Shareholders as a whole. Accordingly, we recommend the Independent Board Committee to advise the Independent Shareholders to vote in favour of the resolution(s) to be proposed at the EGM to approve the Amended Framework Sales Agreement, Amended Framework Purchase Agreement and the transactions contemplated thereunder and we recommend the Independent Shareholders to vote in favour of the resolution(s) in this regard.

B. DEPOSIT SERVICES

Information on SE Finance

With reference to the Board Letter, SE Finance was established in accordance with the “Regulation on the Administration of a Group of Financial Companies (《企業集團財務公司監理辦法》)” (the “**Procedures**”) with the approval of the PBOC and the CBRC. SE Finance has obtained all necessary approvals, permits and licenses for its operation and is principally engaged in provision of financial services, including but not limited to loans and bill discounting services, deposit services and other financial services, to SEG Group.

We understood that the Procedures was issued by the CBRC to regulate the operation of group financing companies and reduce the possible financial risk. We also noted that the Procedures set out certain compliance and risk control requirements/measures in relation to the operation of group financing companies, including but not limited to maintaining certain financial ratios at all times, reporting to CBRC, etc.

As confirmed by the Directors, they are not aware of any record of non-compliance with relevant laws and regulations of the PRC on SE Finance during the recent three years.

Reasons for and benefit of the Deposit Services

With reference to the Board Letter, in considering the reasons and benefits for entering into the Framework Financial Services Agreement, (i) the Company and SE Finance would communicate more efficient, as they are both under SEG Group, which helps to reduce execution costs and increase operating flexibility; (ii) as the Company and SE Finance are under SEG Group, SE Finance would satisfy the Company’s demand of services and products and the relevant services would not be interrupted easily under fair conditions; (iii) funds deposited in SE Finance would help both parties to receive comprehensive financial services and products from each other; and (iv) seeking more options for financial services enables the Company to choose a more favourable solution.

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Pursuant to the Deposit Services under the Framework Financial Services Agreement, the interest rates set by SE Finance for the Company's deposits shall be in line with the relevant interest rates published by the PBOC from time to time, and shall not be less than the interest rates received from other independent commercial banks by the Group in the same period.

As mentioned above, SE Finance is a non-banking financial institution authorised and regulated by the PBOC and CBRC, and provides financial services in compliance with the rules and other operational requirements of these regulatory authorities. According to SE Finance's articles of association, the purpose for the establishment of SE Finance is to strengthen the central management of funds within SEG Group and enhance the efficiency of such funds. Furthermore, we also noted from SE Finance's articles of association, board of directors of SEG undertakes that in the event that SE Finance is in difficulty in making payment, SEG will increase SE Finance's capital accordingly based on the actual need.

In light of the above reasons, in particular:

- (i) deposit interest rate of the Deposit Services set by SE Finance for the Company's deposits will be in line with the relevant interest rates published by the PBOC from time to time, and shall not be less than the interest rates received from other domestic independent commercial banks by the Group in the same period;
- (ii) according to SE Finance's articles of association, board of directors of SEG undertakes that in the event that SE Finance is in difficulty in making payment, SEG will increase SE Finance's capital accordingly based on the actual need,

we consider the entering into of the Deposit Services are in the interests of the Company and the Shareholders as a whole and are conducted in the ordinary and usual course of business of the Group.

Principal terms of the Deposit Services

Date:	26 September 2017
Parties:	The Company, as recipient of services; and SE Finance, as provider of services
Terms:	From the date of approval in the general meeting of the Company to 31 December 2019, renewable upon expiry, subject to conditions precedent including but not limited to compliance with the Listing Rules

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Nature of transactions: The provision of financial services which will include deposit services to the Company and its associates by SE Finance.

Pricing basis: The interest rates set by SE Finance for the Company's deposits shall be determined in accordance with the relevant interest rates published by the PBOC from time to time, and shall not be less than the interest rates received from other independent commercial banks by the Group in the same period.

As also advised by the Directors, to safeguard the interests of the shareholders as whole, the Company will adopt internal approval and monitoring procedures relating to the Deposit Services provided by SE Finance, including:

- (i) the finance department of the Company monitors the daily balance of deposits placed at SE Finance on a daily basis to ensure that the deposit amounts will not exceed the proposed annual caps;
- (ii) before the Group places any fixed deposit at SE Finance, the finance department of the Company negotiates the deposit rate with SE Finance to ensure that:
 - a. such interest rate is determined by reference to and is not less than the benchmark interest rate of similar deposits announced by the PBOC in the same period, and will negotiate with SE Finance if the benchmark interest rate changes to determine such interest rate;
 - b. such interest rate is determined by reference to the interest rates of similar deposits services provided by at least two other independent commercial banks on normal commercial terms and is no less than those interest rates;
- (iii) in the event that the finance department of the Group notes that the interest rate provided by SE Finance is less favorable to that provided by the independent commercial banks in the PRC for the same period, the Group will not place deposits with SE Finance; and/or transfer cash balance in the auto-transfer account to a non-auto-transfer account at independent commercial bank(s) in the PRC before proceeding with the auto-transfer; or negotiate with SE Finance to re-determine such interest rate; and
- (iv) the finance department of the Company updates the deposit arrangement with SE Finance on a monthly basis and reports the irregularities to the management, if any.

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For our due diligence purpose, we discussed with the Directors regarding the above measures and we consider that the above measures are sufficient for the Company to monitor the transaction under the Deposit Services.

Taking into account the aforesaid measures, we consider that the effective implementation of the Measures would help to ensure fair pricing of the transactions contemplated under the Framework Financial Services Agreement according to the pricing policies.

The historical amounts and the proposed annual caps

Set out below is the proposed annual caps for provision of Deposit Services under the Framework Financial Services Agreement (the “**Deposit Cap(s)**”) for the three years ending 31 December 2019:

	For the year ending 31 December 2017	For the year ending 31 December 2018	For the year ending 31 December 2019
The Deposit Caps	<i>(in RMB million)</i>	<i>(in RMB million)</i>	<i>(in RMB million)</i>
Maximum daily deposit balance (including corresponding interests)	1,000	1,350	1,450

To assess the fairness and reasonableness of the Deposit Caps, we have discussed with the Directors regarding the basis of determination of the Deposit Caps as set out above. With reference to the Board Letter, the Deposit Caps have been determined after taking into account of, among other things, (i) the Group’s (a) bank balance and cash of approximately RMB1,102 million; and (b) trade receivables and bill receivables of approximately RMB2,070 million as at 30 June 2017; (ii) the business development plan and projection on corresponding future cash of the Group; (iii) the current progress regarding the conversion of the deposits of the Group within other individual commercial banks as well as the collection of trade receivables; and (iv) working capital requirement in various divisions of the Group for the period from now up to 31 December 2019. Details of the aforesaid bases are set out under the sub-section headed “Historical Figures, the Proposed Annual Cap Amounts and the Corresponding Basis for the Transactions under the Framework Financial Services Agreement” of the Board Letter.

We noted from the 2017 interim report of the Company that as at 30 June 2017, the Group recorded (i) bank balances and cash of approximately RMB1.10 billion (as at 31 December 2016: RMB1.12 billion); and (ii) trade and bill receivable of approximately RMB2.07 billion (as at 31 December 2016: RMB1.81 billion). The sum of aforesaid two items (the “**Sum**”) amounted to RMB3.17 billion as at 30 June 2017 (as at 31 December 2016: RMB2.93 billion). The Deposit Caps, which indicate the possible demand on deposit services, for each of the three years ending 31 December 2019 is less than half of the Sum.

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The Deposit Cap for the year ending 31 December 2017 is also close to but less than the bank balances and cash as at 30 June 2017. In light of the above factors as well as that the Company has sole discretionary to decide to place cash in banks or SE Finance, subject to the then deposit rate offered by banks and SE Finance, we consider that the Deposit Cap for the year ending 31 December 2017 is fair and reasonable.

In respect of the Deposit Cap for the year ending 31 December 2018, taking into account of the above factors, including (i) the Group's (a) cash and cash equivalents; and (b) trade and bill receivable (which may turn into cash upon receipt) as at 30 June 2017; (ii) the Group's future business may expand; (iii) when determining the Deposit Caps, the Directors also took into account of the current cash position of the Group, which may fully covered by the Deposit Cap for the year ending 31 December 2018; and (iv) the Deposit Caps can provide greater flexibility for the Group to manage its idle cash on hand, we are of the view that the Deposit Cap for the year ending 31 December 2018 is fair and reasonable.

In addition, we noted that the Deposit Cap for the year ending 31 December 2019 represented an increase of approximately 7.4% as compared to the Deposit Cap for the year ending 31 December 2018. Having considered that (i) as concluded above, the Deposit Cap for the year ending 31 December 2018 is fair and reasonable; (ii) the Sum as at 30 June 2017 represented an increase of approximately 8.2% as compared to that as at 31 December 2016; and (iii) the Group's revenue for the year ended 31 December 2016 represented an increase of approximately 7.27% as compared to that for the year ended 31 December 2015, we consider that the increase in Deposit Cap during 2019 to be acceptable. Accordingly, we are of the view that the Deposit Cap for the year ending 31 December 2019 is fair and reasonable.

As confirmed by the Directors, should there be any substantial increase in total cash of the Group, the Group may opt to deposit larger portion of cash in commercial banks or re-comply with the applicable provisions of the Listing Rules governing continuing connected transaction to revise the Deposit Caps for the three years ending 31 December 2019.

Listing Rules implication

The Directors confirmed that the Company shall comply with the requirements of Rules 14A.53 to 14A.59 of the Listing Rules pursuant to which (i) the maximum values of the Deposit Services must be restricted by the Deposit Caps for the period concerned under the Framework Financial Services Agreement; (ii) the terms of the Deposit Services under the Framework Financial Services Agreement must be reviewed by the independent non-executive Directors annually; (iii) details of independent non-executive Directors' annual review on the terms of the Framework Financial Services Agreement must be included in the Company's subsequent published annual reports and financial accounts. Furthermore, it is also required by the Listing Rules that the auditors of the Company must provide a letter to the Board confirming, among other things, whether anything has come to their attention that causes them to believe that the Deposit Services (i) have not been approved by the Board; (ii) were not entered into, in all material respects, in

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accordance with the relevant agreement governing the transactions; and (iii) have exceeded the annual caps. In the event that the maximum amounts of the Deposit Services are anticipated to exceed the Deposit Caps, or that there is any proposed material amendment to the terms of the Framework Financial Services Agreement, as confirmed by the Directors, the Company shall comply with the applicable provisions of the Listing Rules governing continuing connected transaction.

Given the above stipulated requirements for continuing connected transactions pursuant to the Listing Rules, we are of the view that there are adequate measures in place to monitor the Deposit Services and thus the interest of the Independent Shareholders would be safeguarded.

RECOMMENDATION

Having taken into consideration the factors and reasons as stated above, we are of the opinion that (i) the terms of the Deposit Services under the Framework Financial Services Agreement are on normal commercial terms and are fair and reasonable so far as the Independent Shareholders are concerned; and (ii) the Deposit Services are in the interests of the Company and the Shareholders as a whole. Accordingly, we recommend the Independent Board Committee to advise the Independent Shareholders to vote in favour of the resolution(s) to be proposed at the EGM to approve the Deposit Services under Framework Financial Services Agreement and we recommend the Independent Shareholders to vote in favour of the resolution(s) in this regard.

Yours faithfully,
For and on behalf of
Gram Capital Limited
Graham Lam
Managing Director

Note: Mr. Graham Lam is a licensed person registered with the Securities and Futures Commission and a responsible officer of Gram Capital Limited to carry out Type 6 (advising on corporate finance) regulated activity under the SFO. He has over 20 years of experience in investment banking industry.

1. FINANCIAL INFORMATION OF THE GROUP FOR THE SIX MONTHS ENDED 30 JUNE 2017 AND THE THREE YEARS ENDED 31 DECEMBER 2016

The unaudited consolidated financial statements of the Group for the six months ended 30 June 2017 have been set out in the 2017 interim report of the Company which was posted on 31 August 2017 on the Stock Exchange's website (<http://www.hkexnews.hk>).

The audited consolidated financial statements of the Group for the year ended 31 December 2016 have been set out in the 2016 annual report of the Company which was posted on 6 April 2017 on the Stock Exchange's website (<http://www.hkexnews.hk>).

The audited consolidated financial statements of the Group for the year ended 31 December 2015 have been set out in the 2015 annual report of the Company which was posted on 10 April 2016 on the Stock Exchange's website (<http://www.hkexnews.hk>).

The audited consolidated financial statements of the Group for the year ended 31 December 2014 have been set out in the 2014 annual report of the Company which was posted on 15 April 2015 on the Stock Exchange's website (<http://www.hkexnews.hk>).

The three auditors' reports for the consolidated financial statements of the Group for the above three years are unqualified reports.

2. INDEBTEDNESS STATEMENT

As at the close of business on 22 September 2017, being the latest practicable date for the purpose of determining this indebtedness of the Group prior to the printing of this circular, the details of which are as following:

I. Debts and Borrowings

As at 22 September 2017, the Group had interest-bearing bank and other borrowings with an aggregate amount of RMB3,057 million, of which RMB1,689 million was shareholder loans; bank borrowings amounted to RMB70 million and RMB809 million were secured by assets and equity interests held by designated subsidiaries of the Group, respectively.

II. Contingent Liabilities

As at 22 September 2017, there were no any contingent liabilities.

III. Disclaimer

Save as aforementioned, at the close of business on 22 September 2017, the Group did not have any other outstanding loan capital issued and outstanding or agreed to be issued, term loans (secured, unsecured, guaranteed or not), bank overdrafts, charges or debentures, mortgages, loans, or other similar indebtedness or any finance lease commitments, hire purchase commitments, liabilities under acceptance (other than normal trade bills), acceptance credits or any guarantees or other material contingent liabilities.

3. FINANCIAL AND TRADING PROSPECT

During the first half of 2017, benefitted from the relieving of oversupply and the demand for restocking in the second half of 2016, China's economy rebounded, the trend of the overall market fluctuation prevailed and the manufacturing and sales of industrial products boosted. Meanwhile, economies in Europe are gradually recovering with a slight growth in the automobile market. Our group captured the opportunity of the market need for improvement and gained a steady increase of operating incomes. Concurrently, by increasing the efficiency on production and operation, the increase of operating cost has been effectively controlled and therefore our net profits have significantly increased.

Although there is a good performance in major operational indicators in the first half of 2017, the ultimate market demand has not yet fully recovered, and the business environment remained tense. Therefore, we have to keep an eye on it and never give up by capturing the main points for strengthening our advantage and addressing our weaknesses, so as to complete the work with efficiency and move on with the momentum derived from the positive development in the first half of 2017; build an extensive customer base for facilitating the synergy of the businesses of its subsidiaries; continue to facilitate the cross-selling between the Chinese market and the European markets; further implement reform measures for enterprise revitalization; and explore the acquisition and merger opportunity to drive the continuous upgrading and restructuring of enterprise.

In the long term, by continuously exploring new markets, speeding up the synergy, implementing restructuring and upgrading measures for the Group's four core products, namely, fastener, turbine blade, bearing and cutting tool, the Directors believe that the Group will ultimately achieve a comprehensive and sustainable development.

4. WORKING CAPITAL STATEMENT

The Directors are of the opinion that, after taking into account of the presently available financial resources available to the Group (including internal resources and available banking facilities), the Group will have sufficient working capital for its present requirements for at least the next 12 months from the date of this circular.

1. RESPONSIBILITY STATEMENT

This circular, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief the information contained in this circular is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this circular misleading.

2. DISCLOSURE OF INTERESTS

As at the Latest Practicable Date, the interests or short positions of directors, supervisors or chief executives of the Company in shares, underlying shares and debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO) (i) which would have to be notified to the Company and the Hong Kong Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO; (ii) which were required, pursuant to Section 352 of the SFO, to be registered in the register required to be kept by the Company; or (iii) which were required to be notified to the Company and the Hong Kong Stock Exchange pursuant to the “Model Code for Securities Transactions by Directors of Listed Issuers” (the “Model Code”) set out in Appendix 10 to the Listing Rules were as follows:

Name of director	Class of shares	No. of shares	Capacity	Nature of interests	Approximate percentage of the relevant class of shares (%)	Approximate percentage of the total share capital of the Company (%)
Zhou Zhiyan	H	392,000	Beneficial owner	Long position	0.05	0.00
Chen Hui	H	219,500	Beneficial owner	Long position	0.03	0.00

Note:

- (1) The above Shares in the Company were awarded pursuant to the incentive scheme of the Company as adopted on 17 January 2014.

Save as disclosed above, as at the Latest Practicable Date, none of the directors, supervisors or chief executives of the Company had any interests or short positions in shares, underlying shares or debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register required to be kept by the Company under Section 352 of the SFO or which were required to be notified to the Company and the Hong Kong Stock Exchange pursuant to the Model Code. As at the Latest Practicable Date, none of the directors, supervisors or chief executives of the Company or their respective associates was granted the right to acquire any interests in shares or debentures of the Company or any of its associated corporations.

None of the Directors is a director or employee of a company which has an interest or short position in the shares and underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO as at the Latest Practicable Date.

3. DIRECTOR'S SERVICE CONTRACTS

According to the terms of the service contracts, each of the Directors agreed to take up the office of Director for a term of the period from the date of the approval of appointment by the general meeting of the Company to the date of expiry of this session of the Board of Directors and to be subject to re-election upon the expiry of the term. These contracts are renewable in accordance with the Listing Rules and terminable at the option of the Company and the executive directors by giving three months' notice in writing or according to the terms of the contract prior to the expiry of the contract.

Apart from the foregoing, no director has a service contract with the Company which is not terminable by the Company within one year without payment of compensation, other than statutory compensation.

4. ARRANGEMENT AFFECTING DIRECTORS

As at the Latest Practicable Date:

- (a) None of the Directors is interested, directly or indirectly, in any assets which have, since 31 December 2016, the date to which the latest published audited consolidated financial statements of the Company were made up, been acquired or disposed of by or leased to any member of the Group, or are proposed to be acquired or disposed of by or leased to any member of the Group.
- (b) None of the Directors is materially interested in any contract or arrangement subsisting as entered into by any member of the Group and which is significant in relation to the business of the Group.
- (c) None of the Directors and his/her associates had any competing interests that would be required to be disclosed under Rule 8.10 of the Listing Rules where he was a controlling shareholder.

5. MATERIAL ADVERSE CHANGES

The Directors are not aware of any material adverse change in the financial and trading position of the Group since 31 December 2016, the date to which the latest published audited consolidated financial statements of the Group were made up.

6. LITIGATION

As at the Latest Practicable Date, neither the Company nor any of its subsidiaries is engaged in any litigation or arbitration of material importance and no litigation or claim of material importance is known to the Directors to be pending or threatened by or against the Company or any of its subsidiaries.

7. EXPERT AND CONSENT

The following is the qualification of the expert who has given opinions or advices contained in this circular:

Name	Qualification
Gram Capital Limited	A licensed corporation to carry out Type 6 (advising on corporate finance) regulated activity under the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)

Gram Capital issued a letter dated 23 October 2017 for the purpose of incorporation in this circular in connection with its advice to the Independent Board Committee and the Independent Shareholders.

As at the Latest Practicable Date, Gram Capital had no shareholding in any member of the Group and did not have any right, whether legally enforceable or not, to subscribe for or to nominate persons to subscribe for securities in any member of the Group.

As at the Latest Practicable Date, Gram Capital had no direct or indirect interest in any assets which had been, since 31 December 2016 (the date to which the latest published audited consolidated financial statements of the Company were made up), acquired, disposed of by, or leased to any member of the Group, or were proposed to be acquired, disposed of by, or leased to any member of the Group.

Gram Capital has given and has not withdrawn its written consent to the issue of this circular with the inclusion of its letter and the reference to its name included herein in the form and context in which it appears.

8. MISCELLANEOUS

- (a) The company secretary of the Company is Mr. Ng Kwong, Alexander and he is a member of the Hong Kong Institute of Certified Public Accountants.
- (b) The registered address of the Company is at Room 1501, Jidian Edifice, 600 Heng Feng Road, Shanghai, the PRC.
- (c) The H share registrar and transfer office of the Company in Hong Kong is Tricor Investor Services Limited at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong.
- (d) The English text of this circular shall prevail over the Chinese text in case of any inconsistency.

9. MATERIAL CONTRACTS

There was no contract (not being contracts in the ordinary course of business) having been entered into by members of the Group during the two years immediately preceding the Latest Practicable Date and are material to the Group.

10. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection during normal business hours on any weekday (except public holidays) at 23/F, Gloucester Tower, 15 Queen's Road Central, Hong Kong up to and including the date of the EGM:

- (a) the Non-exempt CCT Agreements;
- (b) the letter from the Independent Board Committee, the text of which is set out on pages 20 to 21 of this circular;
- (c) the letter of advice from Gram Capital, the text of which is set out on pages 22 to 44 of this circular;
- (d) the written consent referred to in the paragraph headed "Expert and Consent" in this appendix;
- (e) the relevant announcement of the Company dated 26 September 2017;
- (f) the service contracts as disclosed in item 3 of this appendix;
- (g) this circular;
- (h) the Articles of Association of the Company; and
- (i) Annual reports of the Company for 2014–2016 and the Interim report of the Company for six months ended 30 June 2017.

NOTICE OF EXTRAORDINARY GENERAL MEETING



上海集優機械股份有限公司

Shanghai Prime Machinery Company Limited

(A joint stock limited company incorporated in the People's Republic of China with limited liability)

(Stock Code: 02345)

NOTICE OF THE EXTRAORDINARY GENERAL MEETING

NOTICE IS HEREBY GIVEN that the extraordinary general meeting (the “EGM”) of Shanghai Prime Machinery Company Limited (the “**Company**”) will be held at Meeting Center, North 6th Floor, 2747 Songhuajiang Road, Hongkou District, Shanghai, PRC on Friday, 8 December 2017 at 1:00 p.m. to consider and, if thought fit, to pass the following resolutions:

ORDINARY RESOLUTIONS

- (1) To consider, approve and confirm the Amended Framework Sales Agreement dated 26 September 2017 (a copy of which will be produced to the meeting marked “A” and signed by the chairman of the meeting for the purpose of identification) entered into between the Company and SEG, and the transactions contemplated thereunder be and are hereby approved, confirmed and ratified (and accordingly the SEC Framework Sales Agreement will be terminated upon the Amended Framework Sales Agreement becoming effective); and any one director of the Company is hereby authorized to sign or execute such other documents or supplemental agreements or deeds on behalf of the Company and to do all such things and take all such actions as he may consider necessary or desirable for the purpose of giving effect to the Amended Framework Sales Agreement with such changes as he may consider necessary, desirable or expedient;
- (2) To consider, approve and confirm the Amended Framework Purchase Agreement dated 26 September 2017 (a copy of which will be produced to the meeting marked “B” and signed by the chairman of the meeting for the purpose of identification) entered into between the Company and SEG, and the transactions contemplated thereunder be and are hereby approved, confirmed and ratified; and any one director of the Company is hereby authorized to sign or execute such other documents or supplemental agreements or deeds on behalf of the Company and to do all such things and take all such actions as he may consider necessary or desirable for the purpose of giving effect to the Amended Framework Purchase Agreement with such changes as he may consider necessary, desirable or expedient; and
- (3) To consider, approve and confirm the deposit services under the Framework Financial Services Agreement dated 26 September 2017 (a copy of which will be produced to the meeting marked “C” and signed by the chairman of the meeting for

NOTICE OF EXTRAORDINARY GENERAL MEETING

the purpose of identification) entered into between the Company and SEG, and the transactions contemplated thereunder be and are hereby approved, confirmed and ratified; and any one director of the Company is hereby authorized to sign or execute such other documents or supplemental agreements or deeds on behalf of the Company and to do all such things and take all such actions as he may consider necessary or desirable for the purpose of giving effect to the deposit services under the Framework Financial Services Agreement with such changes as he may consider necessary, desirable or expedient.

By order of the Board of
Shanghai Prime Machinery Company Limited
Zhou Zhiyan
Chairman

Shanghai, the PRC

23 October 2017

As at the date of this notice, the Board consists of Executive Directors, namely Mr. Zhou Zhiyan, Mr. Mao Yizhong, Mr. Xiao Yuman, Mr. Zhang Jie and Mr. Chen Hui, Non-executive Director, namely Mr. Dong Yeshun, and Independent Non-executive Directors, namely Mr. Ling Hong, Mr. Chan Oi Fat and Mr. Sun Zechang.

Notes:

1. Holders of the Company's H shares ("**H Shares**") and domestic shares ("**Domestic Shares**") whose names appear on the register of members of the Company on Friday, 8 December 2017 are entitled to attend and vote at the EGM. The register of members of the Company will be closed from Wednesday, 8 November 2017 to Friday, 8 December 2017 (both days inclusive), during which time no transfer of H Shares will be effected. In order to be eligible to attend and vote at the EGM, any holders of H Shares whose transfers have not been registered must deposit the transfer documents together with the relevant share certificates at the H Share registrar of the Company, Tricor Investor Services Limited, not later than 4:30 p.m. on Tuesday, 7 November 2017.
2. Shareholders who intend to attend the EGM in person or by proxy should complete and sign the reply slip accompanying the notice of the EGM and return it to the Company's H Share registrar, applicable for the holders of H Shares, or to the address of the company secretary of the Company (the "**Company Secretary**"), applicable for holders of Domestic Shares on or before Saturday, 18 November 2017 by hand, by post or by fax. Completion and return of the reply slip do not affect the right of a Shareholder to attend the EGM. However, the failure to return the reply slip may result in adjournment of the EGM, if the number of shares carrying right to vote represented by the Shareholders proposing to attend the EGM by reply slip does not reach more than half of total number of shares of the Company carrying right to vote at the EGM.
3. Any shareholder of the Company entitled to attend and vote at the EGM is entitled to appoint one or more proxies to attend and vote at the meeting on his behalf. A proxy need not be a shareholder of the Company. Each shareholder who wishes to appoint proxy should first review the circular of the Company dated 23 October 2017, which were despatched to shareholders on 23 October 2017.
4. A proxy shall be appointed by an instrument in writing (including the proxy form). Such instrument shall be signed by the appointer or his attorney duly authorised in writing. If the appointer is a legal person, then the instrument shall be signed under a legal person's seal or signed by its director or an attorney duly authorised in writing. The instrument appointing the proxy shall be deposited at the Company's H Share registrar for holders of H Shares or at the address of the company secretary for holders of Domestic Shares not less than 24 hours before the time appointed for the holding of the EGM or any adjournment thereof (as the case may

NOTICE OF EXTRAORDINARY GENERAL MEETING

be). If the instrument appointing the proxy is signed by a person authorised by the appointer, the power of attorney or other document of authority under which the instrument is signed shall be notarised. The notarised power of attorney or other document of authority shall be deposited together and at the same time with the instrument appointing the proxy at the Company's H Share registrar or the address of the company secretary (as may be applicable).

5. Shareholders or their proxies are required to produce their identification documents when attending the EGM.

6. Miscellaneous

i. It is expected that the EGM will last for half a day. All attending shareholders shall arrange for their transportation and accommodation and shall bear all their own expenses in connection with their attendance.

ii. The address of the company secretary:

Company Secretary
Shanghai Prime Machinery Company Limited
2747 Songhuajiang Road, Hongkou District
Shanghai, The People's Republic of China
Postal code: 200437

Tel: (8621) 64729900
Fax: (8621) 64729889
Contact Person: NG Kwong, Alexander

iii. The address of the Company's H Share registrar:

Tricor Investor Services Limited
Level 22, Hopewell Centre
183 Queen's Road East
Hong Kong

Tel: (852) 2980 1333
Fax: (852) 2810 8185