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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: 2345)

**PROPOSED H SHARE RIGHTS ISSUE OF 151,942,000 H SHARES, ON THE
BASIS OF ONE H RIGHTS SHARE**

**FOR EVERY FIVE EXISTING H SHARES AT HK\$1.30 PER H RIGHTS
SHARE PAYABLE IN FULL ON ACCEPTANCE**

**PROPOSED DOMESTIC SHARE RIGHTS ISSUE OF 135,715,236
DOMESTIC SHARES, ON THE BASIS OF ONE DOMESTIC RIGHT SHARE**

**FOR EVERY FIVE EXISTING DOMESTIC SHARES AT RMB1.07 PER
DOMESTIC RIGHTS SHARE PAYABLE IN FULL ON ACCEPTANCE**

The Board hereby announces that the Company is proposing the Rights Issue which will comprise an offer of Domestic Rights Shares and an offer of H Rights Shares to Qualified Domestic Shareholder(s) and Qualified H Shareholders, respectively.

Under the Articles of Association, Shareholders' approval by way of special resolution is required for the Company to issue new Shares. This requirement is satisfied by the Shareholders having passed a special resolution granting the General Mandate to the Board at the annual general meeting of the Company held on 8 June 2018. No general meeting is required when the Shareholders have passed a special resolution authorising the issuance of Domestic Shares and H Shares not exceeding 20% of each of the aggregate nominal amount of the Domestic Shares and H Shares in issue within 12 months of the date on which the Shareholders' approval is obtained. Therefore, the Rights Issue is not subject to further approval by the Shareholders.

The Rights Issue is conducted on the basis of one Rights Share for every five existing Shares held by the Shareholders on the Record Date. The Subscription Prices of HK\$1.30 per H Rights Share and RMB1.07 (equivalent to approximately HK\$1.30) per Domestic Rights Share were determined by the Company with reference to the recent closing price of the H Shares. The H Share Rights Issue will proceed on a fully underwritten basis in accordance with Rule 7.19 of the Listing Rules and on the terms and conditions set out in the Underwriting Agreement.

The Rights Issue, consisting of the Domestic Share Rights Issue and the H Share Rights Issue, will raise, at maximum, (i) gross proceeds in an aggregate amount of approximately HK\$374 million (equivalent to approximately RMB308 million); and (ii) net proceeds (after deducting all estimated costs and expenses incidental to the Rights Issue) in an aggregate amount of approximately HK\$366 million (equivalent to approximately RMB301 million), on the basis of the Subscription Price and full subscription of the Rights Issue. The proceeds of the Rights Issue are intended to be used as follows (i) 50% for the partial repayment of the shareholder's loan in the amount of RMB 895 million and/or bank loans; (ii) 40% for investments including potential acquisitions of business related to the principal business of the Group (e.g. fastener, automotive and cutting tool industries) and/or capital expenditure in relation to business enhancement and expansion (e.g. construction of warehouse and factory); and (iii) 10% for general working capital of the Company. The Directors consider that the Rights Issue is in the interests of the Company and the Shareholders as a whole and is an appropriate means of raising capital for the above uses.

Shareholders and potential investor of the Company should note that the Rights Issue may or may not proceed and will be subject to, among others, the approval from CSRC and State-owned Asset Regulator and the terms and conditions of the Underwriting Agreement. If any of the conditions of the H Share Rights Issue are not fulfilled, the H Share Rights Issue will not proceed. The Underwriting Agreement contains provisions entitling SEC HK as the Underwriter by notice in writing to terminate the Underwriting Agreement upon the occurrence of certain events. In the event that the Underwriting Agreement does not become unconditional or if it is terminated in accordance with the terms thereof, the H Share Rights Issue will not proceed. As the H Share Rights Issue and the Domestic Share Rights Issue are inter-conditional, the Domestic Share Rights Issue will not proceed as well under such circumstance.

Any H Shareholder or other person dealing in H Shares up to the date on which all the conditions to which the H Share Rights Issue is subject are fulfilled (and the date on which the Underwriter's right of terminating the Underwriting Agreement ceases) and any person dealing in the Nil Paid H Rights during the period from Thursday, 6 September 2018 to Thursday, 13 September 2018 (both days inclusive) will bear the risk that the H Share Rights Issue may not become unconditional or may not proceed. If in any doubt, Shareholders and investors of the Company are recommended to consult their professional advisers.

As the tentative timetable may be subject to change and the Rights Issue may or may not proceed, Shareholders and potential investors of the Company are reminded to exercise caution when dealing in the Shares and securities of the Company.

A. INTRODUCTION

The Board hereby announces that the Company is proposing the Rights Issue which will comprise an offer of Domestic Rights Shares and an offer of H Rights Shares to Qualified Domestic Shareholders and Qualified H Shareholders, respectively, on the terms set out below.

Under the Articles of Association, Shareholders' approval by way of special resolution is required for the Company to issue new Shares. This requirement is satisfied by the Shareholders having passed a special resolution granting the General Mandate to the Board at the annual general meeting of the Company held on 8 June 2018. No general meeting is required where the Shareholders have passed a special resolution authorising the issuance of Domestic Shares and H Shares not exceeding

20% of each of the aggregate nominal amount of the Domestic Shares and H Shares in issue within 12 months of the date on which the Shareholders' approval is obtained. Therefore, the Rights Issue is not subject to further approval by the Shareholders. Under the General Mandate, a maximum of 135,715,236 Domestic Shares and 151,942,000 H Shares can be allotted and issued within 12 months from 8 June 2018. No Share has been issued under the General Mandate since it was granted on 8 June 2018.

B. PRC APPROVALS TO BE OBTAINED FOR THE RIGHTS ISSUE

According to applicable PRC laws, the Rights Issue (including the terms and conditions of the Rights Issue) is subject to approval from CSRC and the State-owned Asset Regulator. The Company is preparing submission documents to CSRC and the State-owned Asset Regulator and will publish supplemental announcement(s) disclosing updates on the status of the approval.

C. THE RIGHTS ISSUE

The Rights Issue is conducted on the basis of one Rights Share for every five existing Shares held by the Shareholders on the Record Date.

The Subscription Prices of HK\$1.30 per H Rights Share and RMB1.07 (equivalent to approximately HK\$1.30) per Domestic Rights Share were determined with reference to the recent closing price of the H Shares. The Subscription Prices of the Domestic Rights Shares and the H Rights Shares will be the same after exchange rate adjustment, and is higher than RMB1.00 (equivalent to approximately HK\$1.22), being the par value of the Share of the Company.

The Rights Issue, consisting of the Domestic Share Rights Issue and the H Share Rights Issue, will raise, at maximum, gross proceeds in an aggregate amount of approximately HK\$374 million (equivalent to approximately RMB308 million), on the basis of the Subscription Prices and full subscription of the Rights Issue. The Domestic Share Rights Issue and the H Share Rights Issue are inter-conditional.

As a result of the completion of the Rights Issue, the registered capital of the Company will be increased, and certain amendments will be made to the Articles of Association in relation to such increase in the registered capital of the Company. The Company will duly comply with the relevant PRC laws and regulations and the requirements as set out under the Listing Rules in respect of such amendments to the Articles of Association. Details of such amendments will be provided to the Shareholders in further announcement(s) to be issued by the Company in due course.

D. H SHARE RIGHTS ISSUE

The H Share Rights Issue is subject to the fulfilment of the conditions as set out in the subsection headed “Conditions of the H Share Rights Issue” below.

Details of the H Share Rights Issue are as follows:

H Share Rights Issue Statistics

Basis of the H Share Rights Issue:	One H Rights Share for every five existing H Shares held as at the close of business on the H Share Record Date
Number of Shares in issue as at the date of this announcement:	1,438,286,184
Number of H Shares in issue as at the date of this announcement:	759,710,000
Total number of H Rights Shares proposed to be issued (assuming the number of H Shares in issue on the H Share Record Date remains the same as at the date of this announcement):	151,942,000
Aggregate nominal value of the H Rights Shares proposed to be issued:	RMB151,942,000
Subscription Price for the H Rights Shares:	HK\$1.30 per H Rights Share
Underwriter:	SEC HK, a wholly-owned subsidiary of Shanghai Electric which is the controlling shareholder of the Company

As at the date of this announcement, the Company has no outstanding convertible securities, options or warrants in issue which would otherwise confer any right to subscribe for, convert or exchange into new H Shares.

Basis of Entitlement

Subject to the fulfilment of the conditions set out under the subsection below headed “Conditions of the H Share Rights Issue” in this announcement, Qualified H Shareholders will be entitled to Nil Paid H Rights to subscribe for one H Rights Share for every five existing H Shares held as at the close of business on the H Share Record Date at the Subscription Price of HK\$1.30 for each H Rights Share payable in full on acceptance, constituting a total of 151,942,000 H Rights Shares, representing 20.0% of the Company’s existing issued H Share capital as at the date of this announcement and approximately 16.7% of the enlarged issued H Share capital of the Company immediately after the H Share Rights Issue (assuming the number of H Shares in issue as at the close of business on the H Share Record Date remains the same as that as at the date of this announcement).

Fractional Entitlements to the H Rights Shares

The entitlements of Qualified H Shareholders will be rounded down to the nearest whole number and fractional entitlements to H Rights Shares will not be provisionally allotted to the H Shareholders. The Nil Paid H Rights representing the aggregate of all the fractions of H Rights Shares (rounded down to the nearest whole number) will be provisionally allotted to a nominee or nominees appointed by the Company and, if a premium (net of expenses) can be obtained, will be sold by the nominee or nominees on the Company’s behalf in the market as soon as practicable after the commencement of dealing in the Nil Paid H Rights and the net proceeds of such sale will be retained by the Company for its own benefit. Any H Rights Shares in respect of the unsold fractional entitlements will be made available for excess application by the Qualified H Shareholders.

Qualified H Shareholders, Closure of H Shareholders’ Register and Distribution of the Prospectus Documents

The Prospectus Documents will be despatched to the Qualified H Shareholders only. For the Excluded Shareholders, the Company will, to the extent reasonably practicable and legally permitted, send the H Share Rights Issue Prospectus to them for their information purposes only, but the Company will not send the Provisional Allotment Letter and the Excess Application Form to the Excluded Shareholders.

To qualify for the subscription of the H Rights Shares, an H Shareholder must be registered as a member of the Company on the H Shareholders’ register at the close of business on the H Share Record Date and must not be an Excluded Shareholder.

In order to be registered as members of the Company at the close of business on the H Share Record Date, based on the tentative timetable as set out in the paragraph headed “H Share Rights Issue Timetable”, H Shareholders must lodge any transfer of H Shares (together with the relevant share certificates) with the H Share Registrar for registration no later than 4:30 p.m. on 28 August 2018. Based on the current timetable, the H Shareholders’ register of the Company is intended to be closed from 29 August to 3 September 2018. No transfer of H Shares will be registered during this period. The Company will announce the closure of the H Shareholders’ register as and when appropriate in accordance with the Listing Rules.

Rights of Excluded Shareholders

If, at the close of business on the H Share Record Date, an H Shareholder’s address on the Company’s H Shareholders’ register is in a place outside Hong Kong, that H Shareholder may not be eligible to take part in the H Share Rights Issue. Prospectus Documents to be despatched in connection with the H Share Rights Issue have not and will not be registered or filed under the applicable securities or equivalent legislation of any jurisdictions other than Hong Kong.

The Company is currently making enquiries regarding the feasibility of allowing the Overseas Shareholders to participate in the H Share Rights Issue to subscribe for the H Rights Shares. If, after making enquiries, the Board considers that it is necessary or expedient not to offer the H Rights Shares to any of the Overseas Shareholders on account either of the legal restrictions under the laws of the place of his/her/its registered address or the requirements of the relevant regulatory body or stock exchange in that place, such Overseas Shareholders will not be allowed to take up their Nil Paid H Rights to subscribe for the H Rights Shares. The basis for such arrangement with respect to the Excluded Shareholders will be set out in the H Share Rights Issue Prospectus to be issued. The Company will, to the extent reasonably practicable and legally permitted, send copies of the H Share Rights Issue Prospectus to the Excluded Shareholders for their information purposes only, but the Company will not send the Provisional Allotment Letter and the Excess Application Form to the Excluded Shareholders.

Arrangements will be made for the Nil Paid H Rights of the Excluded Shareholders who hold their existing H Shares in certificated form to be provisionally allotted to a nominee or nominees appointed by the Company for the benefit of the Excluded Shareholders and, if a premium (net of expenses) can be obtained, to be sold by the nominee or nominees on such Excluded Shareholders’ behalf on the Hong Kong Stock Exchange as soon as practicable after the commencement of the dealings in the Nil Paid H Rights. The proceeds of such sale, less expenses, will be divided on a pro rata basis and distributed by the H Share Registrar to the Excluded Shareholders,

provided that individual amounts of HK\$100 or less will be paid to the Company for its own benefit. With respect to the Excluded Shareholders who hold interests in H Shares through CCASS, their nominees, custodians or other intermediaries may sell, on such Excluded Shareholders' behalf, their entitlements to the Nil Paid H Rights in compliance with applicable securities laws and distribute the proceeds thereof as appropriate. Any H Rights Shares in respect of unsold entitlements of the Excluded Shareholders, any unsold fractional entitlements to the H Rights Shares together with any H Rights Shares in respect of the Nil Paid H Rights not taken up by the Qualified H Shareholders or otherwise not subscribed for by transferees of the Nil Paid H Rights, will be made available for excess application on Excess Application Forms by the Qualified H Shareholders.

Odd Lot Arrangement

In order to facilitate the trading of odd lots of the Shares arising from the Rights Issue, a designated broker will be appointed to match the purchase and sale of odd lots of the Share at the relevant market price per Share for the period from 27 September 2018 to 18 October 2018 (both dates inclusive). Holders of odd lots of Shares should note that successful matching of the sale and purchase of odd lots of Shares is not guaranteed. Any Shareholder who is in any doubt about the odd lot arrangement is recommended to consult his/her/its own professional advisers. Details of the odd lot arrangement will be provided in the H Share Rights Issue Prospectus.

The Subscription Price for the H Rights Shares

The Subscription Price of HK\$1.30 per H Rights Share will be payable in full when a Qualified H Shareholder accepts the relevant provisional allotment of H Rights Shares or applies for excess H Rights Shares or when a transferee of the Nil Paid H Rights subscribes for the H Rights Shares.

The Subscription Price of HK\$1.30 per H Rights Share represents:

- (i) a premium of approximately 2.4% to the closing price of HK\$1.27 per H Share as quoted on the Hong Kong Stock Exchange on the Price Determination Date;
- (ii) a premium of approximately 1.1% to the average closing price of approximately HK\$1.29 per H Share as quoted on the Hong Kong Stock Exchange for the 5 consecutive Trading Days up to and including the Price Determination Date;
- (iii) a premium of approximately 0.5% to the average closing price of approximately HK\$1.29 per H Share as quoted on the Hong Kong Stock Exchange for the 10 consecutive Trading Days up to and including the Price Determination Date;

- (iv) a discount of approximately 0.8% to the average closing price of approximately HK\$1.31 per H Share as quoted on the Hong Kong Stock Exchange for the 20 consecutive Trading Days up to and including the Price Determination Date; and
- (v) a premium of approximately 2.0% to the theoretical ex-right price of approximately HK\$1.28 per H Share based on the closing price of HK\$1.27 per H Share as quoted on the Hong Kong Stock Exchange on the Price Determination Date.

The Subscription Price of HK\$1.30 per H Rights Share is determined with reference to the recent closing price of the H Shares. The net price per H Rights Share upon full acceptance of the relevant provisional allotment of H Rights Shares will be approximately HK\$1.27.

Status of the H Rights Shares

The H Rights Shares, when subscribed for and fully paid, will rank *pari passu* in all respects with the H Shares then in issue. Holders of the fully-paid H Rights Shares will be entitled to receive all future dividends and distributions which are declared, made or paid after the date of allotment and issue of the H Rights Shares.

Application for Excess H Rights Shares

Qualified H Shareholders may apply, by way of excess application, for H Rights Shares in respect of any unsold entitlements of the Excluded Shareholders, any unsold fractional entitlements to the H Rights Shares and any H Rights Shares in respect of the Nil Paid H Rights not taken up by the Qualified H Shareholders or otherwise not subscribed for by transferees of the Nil Paid H Rights.

Applications for excess H Rights Shares should be made only by the Qualified H Shareholders and only by completing an Excess Application Form and lodging the same with a separate remittance for the amount payable on application in respect of the excess H Rights Shares being applied for at the particular branches of receiving bank(s) as mentioned in the H Share Rights Issue Prospectus no later than the date to be determined and announced by the Company. All remittances must be made in Hong Kong dollars and by cheque or cashier's order. Cheques must be drawn on an account with, and cashier's orders must be issued by, a licensed bank in Hong Kong and made payable to the designated account as mentioned in the H Share Rights Issue Prospectus and crossed "Account Payee Only".

All cheques or cashier's orders will be presented for payment immediately following receipt and all interest earned on such monies will be retained for the benefit of the Company. Any Excess Application Form in respect of which a cheque or cashier's order is dishonoured on first presentation is liable to be rejected. An applicant must pay the exact amount payable upon application for the H Rights Shares, any underpaid application will be rejected. In the event of overpaid application, a refund cheque will be made out to the applicant only if the overpaid amount is HK\$100 or above.

If no excess H Rights Shares are allotted and issued to a Qualified H Shareholder, the amount tendered on application is expected to be refunded to that Qualified H Shareholder in full without any interest by means of cheque(s) despatched by ordinary post at the risk of such Qualified H Shareholder on or about 26 September 2018. If the number of excess H Rights Shares allotted and issued to a Qualified H Shareholder is less than the number applied for, the surplus application monies are also expected to be refunded to such Shareholder without any interest by means of cheque(s) despatched by ordinary post at the risk of such Shareholder on a date to be announced by the Company.

If the Underwriter exercises the right to terminate its obligations or if the conditions precedent under the Underwriting Agreement are not fulfilled before the Latest Time for Termination and the H Share Rights Issue does not proceed, the monies received in respect of the relevant applications for excess H Rights Shares will be returned to the relevant persons without interest, by means of cheque(s) to be despatched by ordinary post at the risk of such persons on or about 26 September 2018.

The Excess Application Form is for use only by the person(s) to whom it is addressed and is not transferable. All enquiries in connection with the Excess Application Form should be addressed to the H Share Registrar.

Excess H Rights Shares (if available) will, at the sole discretion of the Directors, be allocated and allotted on a fair and reasonable basis. All excess H Rights Shares will be allocated to Qualified H Shareholders who have applied for excess H Rights Shares on a pro rata basis with reference to their number of excess H Rights Shares applied for. No reference will be made to H Rights Shares comprised in applications by Provisional Allotment Letter or the existing number of H Shares held by Qualified H Shareholders. If the aggregate number of H Rights Shares not taken up by the Qualifying H Shareholders under Provisional Allotment Letters is greater than the aggregate number of excess H Rights Shares applied for through Excess Application Forms, the Directors will allocate to each Qualifying H Shareholder who applies for

excess H Rights Shares in full application. No preference will be given to topping up odd lots to whole board lots. There is no guarantee that Qualifying H Shareholders with odd lots of H Rights Shares will be topped up to whole board lots pursuant to their applications for excess H Rights Shares.

H Shareholders with their H Shares held by a nominee company should note that the Board will regard the nominee company as a single H Shareholder in accordance with the H Shareholders' register of the Company. Accordingly, such H Shareholders should note that the aforesaid arrangement in relation to the allocation of excess H Rights Shares will not be extended to Beneficial H Shareholder(s) individually. H Shareholders with their H Shares held by a nominee company are advised to consider whether they would like to arrange the registration of the relevant H Shares in the name of the Beneficial H Shareholder(s) prior to the H Share Record Date.

H Shareholders whose H Shares are held by their nominee(s) and who would like to have their names registered on the H Shareholders' register of the Company must lodge all necessary documents with the H Share Registrar for completion of the relevant registration at a date to be announced by the Company.

Conditions of the H Share Rights Issue

The H Share Rights Issue will be conditional upon the fulfilment of the following conditions:

- (i) the approval of the Rights Issue by the Board;
- (ii) the approval of the Rights Issue by the board of directors of Shanghai Electric and SEG, respectively;
- (iii) the registration of the Prospectus Documents to the H Shares Qualifying shareholders on or before the Prospectus Date;
- (iv) the approval of the H Share Rights Issue by the State-owned Asset Regulator;
- (v) the approval of the H Share Rights Issue by the CSRC;
- (vi) the Executive granting a waiver of the obligation of Shanghai Electric to make a general offer for the shares of the Company pursuant to Rule 26.1 of the Takeovers Code as a result of the Rights Issue and the subscription of the H Rights Shares by SEC HK under the Underwriting Agreement;

- (vii) the Listing Committee of the Hong Kong Stock Exchange agreeing to grant the listing of, and permission to deal in, the Nil Paid H Rights and the H Rights Shares in their fully-paid forms, either unconditionally or subject to such conditions which the Company accepts; and
- (viii) the delivery to the Hong Kong Stock Exchange and filing and registration of all documents in relation to the H Share Rights Issue as required by law to be filed by and registered with the Registrar of Companies in Hong Kong.

In addition to the conditions above, as the H Share Rights Issue and the Domestic Share Rights Issue are inter-conditional, the Company will not proceed with the H Share Rights Issue if the Domestic Share Rights Issue fails to become unconditional.

None of the conditions above can be waived by the Company or the Underwriter. Conditions (i), (ii) and (vi) have been satisfied as at the date of this announcement. **If any of the conditions is not fulfilled, the H Share Rights Issue will not proceed.**

Undertaking by SEG HK

SEG HK, which holds 63,882,000 H Shares, representing approximately 4.4% of the total issued share capital of the Company as of the date of this announcement, has made the following irrevocable undertakings on 21 June 2018 to the Company:

- (i) SEG HK will accept, subscribe and pay fully for all of SEG HK's entitlement to the H Rights Shares, which will be provisionally allotted to it, amounting to 12,776,400 H Rights Shares, as soon as practicable and not later than the last day for acceptance of and payment for such H Rights Shares; and
- (ii) SEG HK shall not withdraw or revoke the application, subscription or payment referred to in paragraph (i) above.

Please note that the H Share Rights Issue will proceed on a fully underwritten basis in accordance with Rule 7.19 of the Listing Rules. Please refer to the subsection headed "H Share Rights Issue Underwriting Arrangements" in this announcement for details of the underwriting arrangements. **In the event that the Underwriting Agreement does not become unconditional or if it is terminated in accordance with the terms thereof, the H Share Rights Issue will not proceed.**

Application for Listing/Dealing Arrangements

Application will be made to the Hong Kong Stock Exchange for the listing of, and permission to deal in, the Nil Paid H Rights and the H Rights Shares. Dealings in the Nil Paid H Rights and the H Rights Shares will be subject to the payment of stamp duty, Hong Kong Stock Exchange trading fee, Securities and Futures Commission transaction levy or any other applicable fees and charges in Hong Kong. The board lot size of Nil Paid H Rights and the H Rights Shares is 2,000 Nil Paid H Rights and 2,000 H Rights Shares, respectively.

Subject to the granting of listing of, and permission to deal in, the Nil Paid H Rights and the H Rights Shares on the Hong Kong Stock Exchange, and subject to compliance with the stock admission requirements of HKSCC, the Nil Paid H Rights and the H Rights Shares will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the respective commencement dates of dealings in the Nil Paid H Rights and the H Rights Shares on the Hong Kong Stock Exchange or such other date as determined by HKSCC. Settlement of transactions between participants of the Hong Kong Stock Exchange on any Trading Day is required to take place in CCASS on the second Trading Day thereafter. All activities under CCASS are subject to the “General Rules of CCASS” and “CCASS Operational Procedures” in effect from time to time.

Please note that the H Rights Shares and the Domestic Rights Shares are neither interchangeable nor fungible, and there is no trading or settlement between the Domestic Share and the H Share markets.

H Share Rights Issue Underwriting Arrangements

The H Share Rights Issue will be conducted on a fully underwritten basis. On 21 June 2018, the Company and the Underwriter entered into the Underwriting Agreement, pursuant to which the Underwriter has agreed to fully underwrite up to 139,165,600 H Rights Shares not taken up by the Qualified H Shareholders. The Rights Issue will be subject to the terms and conditions of the Underwriting Agreement to be entered into between the Company and the Underwriter.

The H Share Rights Issue will be conducted on a fully underwritten basis in accordance with Rule 7.19 of the Listing Rules. Details of the underwriting arrangements in relation to the H Share Rights Issue are set out below:

The Underwriting Agreement

The Underwriting Agreement was entered into between the Company and SEC HK on 21 June 2018, pursuant to which SEC HK shall act as the Underwriter and has agreed to fully underwrite up to 139,165,600 H Rights Shares not taken up by the Qualified H Shareholders.

Conditions of the Underwriting Agreement

The underwriting obligations of the Underwriter under the Underwriting Agreement are conditional upon the following conditions:

- (i) publication of the announcement of the Company in connection with the Rights Issue pursuant to the Listing Rules by no later than 8:30 a.m. on the business day following the date of the Underwriting Agreement;
- (ii) (i) the Nil Paid H Rights of all Qualifying Shareholders and (ii) the Nil Paid H Rights representing the aggregate of fractional entitlements and the entitlements of the Excluded Shareholders which would otherwise have to be allotted to a nominee or nominees appointed by the Company to be dealt with in accordance with the Underwriting Agreement having been provisionally allotted by a resolution of the Board on the terms set out in the Prospectus Documents;
- (iii) conditional grant of the listing of, and permission to deal in, the Nil Paid H Rights and H Rights Shares on the Main Board of the Hong Kong Stock Exchange having been obtained by no later than the business day prior to the first day of dealings in the Nil Paid H Rights as set out in the Prospectus, and such permission not being withdrawn prior to the latest time for termination;
- (iv) each condition to enable the Nil Paid H Rights and the H Rights Shares to be admitted as eligible securities for deposit, clearance and settlement in CCASS (other than the conditional listing approval in (iii) above) having been satisfied not later than the business day prior to the first day of dealings in the Nil Paid H Rights as set out in the Prospectus and no notification having been received by the Company from HKSCC by such date that such admission or facility for holding and settlement has been or is to be refused;

- (v) the Hong Kong Stock Exchange issuing a certificate authorising registration of the Prospectus with the Hong Kong Companies Registry under section 342C of the Companies (Winding Up and Miscellaneous Provisions) Ordinance (Chapter 32 of the laws of Hong Kong) not later than the date for despatch of the Prospectus Documents (or such later time and/or date as the Company and the Underwriter may agree in writing);
- (vi) a duly certified copy of the Prospectus (and other required documents) having been lodged with the Hong Kong Companies Registry not later than the date of despatch of the Prospectus Documents, and the Hong Kong Companies Registry issuing a confirmation of registration letter not later than the date of despatch of the Prospectus Documents;
- (vii) posting of the Prospectus Documents to Qualifying Shareholders not later than the date of despatch of the Prospectus Documents or such later date to be agreed between the Company and the Underwriter;
- (viii) the representations and warranties of the Company and SEC HK referred to in the Underwriting Agreement remaining true and accurate in all material respects and none of the undertakings of the Company and SEC HK referred to in the Underwriting Agreement having been breached;
- (ix) the approvals of the H Share Rights Issue by CSRC and the State-owned Asset Regulator, and such approvals not subsequently having been withdrawn or revoked or amended prior to the Latest Time for Termination;
- (x) compliance by the Company with all of its obligations under the Underwriting Agreement or in relation to the publication of this announcement;
- (xi) compliance by SEC HK with all of its obligations under the Underwriting Agreement (save for its obligations regarding its role as an underwriter to the Rights Issue);
- (xii) the Executive agreeing to grant a waiver of the obligation of Shanghai Electric to make a general offer for the shares of the Company as a result of the Rights Issue pursuant to Note 6(b) to Rule 26.1 of the Takeovers Code;
- (xiii) the Company, on the Business Day immediately before the Latest Time for Termination having delivered to the Underwriter a certificate duly signed by an authorised representative of the Board addressed to the Underwriter, dated as of the applicable date, and in the form set forth in the Underwriting Agreement; and

(xiv) receipt by the Underwriter (in the form and substance to the satisfaction of the Underwriter) of all relevant documents to be provided by the Company by all the times specified in the Underwriting Agreement.

If any of the conditions of the Underwriting Agreement (which has not previously been waived by the Underwriter if capable of being waived under the Underwriting Agreement) is not fulfilled, or becomes incapable of fulfilment, on or prior to the relevant date specified therein for fulfilment of the relevant condition or, if no such date is so specified or referred to, is not fulfilled on or prior to the Latest Time for Termination (or, in any such case, such later date or dates as the Underwriter may agree with the Company in writing), the Underwriting Agreement (save in respect of clauses relating to the conditions and indemnity and exclusion of liability which shall remain in full force and effect and save further that the Company shall pay the fees and expenses specified in the Underwriting Agreement) shall terminate and no party will have any claim against any other for costs, damages, compensation or otherwise, provided that such termination shall be without prejudice to the rights of the parties in respect of any breach of the Underwriting Agreement occurring prior to such termination.

Any of the conditions set out above (except conditions (iii), (iv), (v) and (ix) above) may be waived at any time by the Underwriter or extend the time or date for fulfilment of any such condition, in its sole discretion, and such waiver or extension may be made subject to such terms and conditions as are determined by the Underwriter. **If the Underwriting Agreement does not become unconditional or is terminated, the H Share Rights Issue will not proceed.**

Termination of the Underwriting Agreement

If any of the termination events set out in the Underwriting Agreement occurs at any time prior to the Latest Time for Termination, the Underwriter may, in its absolute discretion, terminate the underwriting arrangements set out under the Underwriting Agreement by notice in writing to the Company at any time prior to the Latest Time for Termination:

- (i) any matter or circumstance arises as a result of which any of the conditions in the Underwriting Agreement has become incapable of satisfaction as at the required time (unless otherwise waived or modified by the Underwriter in accordance with the terms of the Underwriting Agreement);

- (ii) any breach of any of the representations, warranties or undertaking made by the Company or SEC HK under the Underwriting Agreement comes to the knowledge of the Underwriter, or there has been a breach on the part of the Company or SEC HK of any other provisions of this Agreement, or the Underwriter have cause to believe that any such breach has occurred;
- (iii) any statement contained in the Prospectus has become or been discovered to be untrue, inaccurate, incomplete or misleading in any material respect;
- (iv) any matters arises or is discovered which would, if the Prospectus was to be issued at the time, constitute a material omission therefrom; or
- (v) there is any event or change or any other reason (whether or not permanent) which would or may result in that a supplemental prospectus or any document of a similar nature is or will be or is required to be issued in circumstances where the matter to be disclosed, in the absolute opinion of the Underwriter, prejudicially and materially affects or may prejudicially and materially affect the success of the Rights Issue, or makes or may make it inadvisable or inexpedient to proceed with the Rights Issue;
- (vi) there is any adverse change or prospective adverse change in the business or in the financial or trading position or prospects of any member of the Group which in the sole opinion of the Underwriter acting in good faith is material in the context of the Rights Issue; or
- (vii) there has been, occurred, happened, come into effect or become public knowledge any event, series of events or circumstances concerning or relating to (whether or not foreseeable):
 - a. any change in, or any event or series of events likely to result in any change in (whether or not permanent) local, national or international financial, political, economic, military, monetary, industrial, legal, fiscal, regulatory, currency or securities market matters or conditions or currency exchange rates or exchange controls (including without limitation, any change in the system under which the value of the Hong Kong currency is linked to that of the United States) in Hong Kong, the United States, the European Union, or the PRC;
 - b. any new laws, rules, statutes, ordinances, regulations, guidelines or circulars (in each case, to the extent mandatory or, if not complied with, the basis for legal or regulatory consequences), orders judgements, decrees or rulings of any governmental authority (the “Laws”) or changes in existing Laws or any development including a prospective change in existing Laws in Hong Kong or any other place in which any member of the Group conducts or carries on business;

- c. any event of force majeure affecting Hong Kong, the United States, the European Union, or the PRC including, without limiting the generality thereof, any act of God, war, outbreak or escalation of hostilities (whether or not war is declared) or act of terrorism, or declaration of a national or international emergency or war, riot, public disorder, civil commotion, economic sanctions, fire, flood, explosion, epidemic, outbreak of an infectious disease, calamity, crisis, strike or lock-out (whether or not covered by insurance);
- d. a general moratorium on commercial banking activities declared by relevant governmental authorities in Hong Kong, the PRC, the United States, the United Kingdom or the European Union (or any member thereof), or a material disruption in commercial banking or foreign exchange trading or securities settlement or clearance services, procedures or matters in Hong Kong, the PRC, the United States, the United Kingdom or the European Union (or any member state thereof);
- e. the imposition of any moratorium, suspension or restriction on trading in securities generally on the Stock Exchange, the London Stock Exchange, the New York Stock Exchange, the NASDAQ Global Market, the London Stock Exchange, the Tokyo Stock Exchange, the Shenzhen Stock Exchange or the Shanghai Stock Exchange;
- f. any governmental authorities commencing any investigation or other action, or announcing an intention to investigate or take other action, into or in respect of any material breach by the Group of applicable Laws, against the Group; or
- g. the permission to deal in and the listing of the Nil Paid H Rights and the H Rights Shares having been withdrawn by the Hong Kong Stock Exchange,
- h. any suspension of dealings in the Shares for a period of more than ten business days (other than any announcement regarding the Rights Issue),

which, in the sole opinion of the Underwriter: (a) has or will have, or is likely to have, a Material Adverse Effect (as defined in the Underwriting Agreement) or is or will be, or is likely to be, materially adverse to any present or prospective Shareholder in its capacity as such; (b) has or will have or is likely to have a material adverse impact on the success of the Rights Issue or dealings in the Rights Shares in the secondary market; or (c) make it impracticable, inadvisable or inexpedient to proceed with the H Share Rights Issue on the terms and in the manner contemplated in the Announcement and the Prospectus Documents.

In the event that the Underwriter exercise their right under the Underwriting Agreement to terminate the Underwriting Agreement, its underwriting obligations will cease, and the H Share Rights Issue will not proceed, in which case further announcement(s) will be made by the Company at the relevant time.

Despatch of H Share Certificates and the Refund Cheques for the H Rights Shares

Subject to the fulfilment of the conditions of the H Share Rights Issue, it is expected that the certificates for the H Rights Shares and the refund cheque(s) in respect of wholly or partly unsuccessful applications for excess H Rights Shares (if any) will be despatched by ordinary post to the allottees and those entitled thereto, at their own risk, to their registered addresses by the H Share Registrar on or about 26 September 2018.

Taxation

Qualified H Shareholders are advised to consult their professional advisers if they are in any doubt as to the tax implications of the receipt, purchasing, holding, exercising, disposing of or dealing in the Nil Paid H Rights or the H Rights Shares and, regarding the Excluded Shareholders, their receipt of the net proceeds, if any, from sales of the Nil Paid H Rights on their behalf.

None of the Company, the Directors nor any other parties involved in the H Share Rights Issue accepts responsibility for any tax effects or liabilities of holders of the H Shares resulting from the receipt, purchasing, holding, exercising, disposing of, or dealing in the Nil Paid H Rights or the H Rights Shares or receipt of such net proceeds.

Proceeds from the H Share Rights Issue

The H Share Rights Issue will raise, at maximum, (i) gross proceeds in an aggregate amount of approximately HK\$198 million (or approximately RMB163 million) and (ii) net proceeds (after deducting all estimated costs and expenses incidental to the H Share Rights Issue) in an aggregate amount of approximately HK\$193 million (or approximately RMB158 million).

Expected H Share Rights Issue Timetable

Subject to the approval of the H Share Rights Issue from CSRC and the State-owned Asset Regulator, the tentative timetable of the H Share Rights Issue will be as follows:

Last day of dealings in H Shares on a cum-rights basis	Friday, 24 August 2018
First day of dealings in H Shares on an ex-rights basis	Monday, 27 August 2018
Latest time for lodging transfers of H Shares in order to qualify for the H Share Rights Issue	Tuesday, 4:30 p.m., 28 August 2018
Register of the H Shareholders closed (Both days inclusive)	Wednesday to Monday, 29 August to 3 September 2018
H Share Record Date	Monday 3 September 2018
Despatch of Prospectus Documents	Tuesday, 4 September 2018
Register of the H Shareholders re-opens	Tuesday, 4 September 2018
First day for acceptance of and payment for H Rights Shares and application and payment for excess H Rights Shares	Wednesday, 5 September 2018
First day of dealings in Nil Paid H Rights	9:00 a.m., Thursday, 6 September 2018
Latest time for splitting Provisional Allotment Letters	4:30 p.m., Monday, 10 September 2018
Last day of dealings in Nil Paid H Rights	4:00 p.m., Thursday, 13 September 2018
Latest time for acceptance of and payment for H Rights Shares and application and payment for excess H Rights Shares	4:00 p.m., Tuesday, 18 September 2018

Latest time for the termination of the Underwriting Agreement and for the H Share Rights Issue to become unconditional	5:00 p.m., Thursday, 20 September 2018
Announcement of results of acceptance of and excess applications for H Rights Shares	Monday, 24 September 2018
Despatch of certificates for fully-paid H Rights Shares	Wednesday, 26 September 2018
Despatch of refund cheques in respect of wholly or partially unsuccessful applications for excess H Rights Shares	Wednesday, 26 September 2018
Commencement of dealings in H Rights Shares in fully-paid form	9:00 a.m., Thursday, 27 September 2018

Shareholders and potential investors of the Company should note that the dates specified in the expected timetable of the H Share Rights Issue as set out above, and in other parts of this announcement, are indicative only and are subject to, among others, the approval from CSRC and the State-owned Asset Regulator. In the event that special circumstances arise, the Board may extend, or make adjustment to, the timetable if it considers appropriate. Any such extension or adjustment to the expected timetable will be announced and notified to the Shareholders as and when appropriate.

Effect of Bad Weather on Latest Time for Acceptance of and Payment for H Rights Shares and Application and Payment for Excess H Rights Shares

The latest time for acceptance of and payment for H Rights Shares and application and payment for excess H Rights Shares will not take place if there is a tropical cyclone warning signal no. 8 or above, or a “black” rainstorm warning:

- (i) in force in Hong Kong at any local time before 12:00 noon and no longer in force after 12:00 noon on 18 September 2018. Instead, the latest time for acceptance of and payment for H Rights Shares and application and payment for excess H Rights Shares will be extended to 5:00 p.m. on the same Business Day; or

(ii) in force in Hong Kong at any local time between 12:00 noon and 4:00 p.m. on 18 September 2018 . Instead, the latest time for acceptance of and payment for H Rights Shares and application and payment for excess H Rights Shares will be rescheduled to 4:00 p.m. on the following Business Day which does not have either of those warnings in force at any time between 9:00 a.m. and 4:00 p.m.

If the latest time for acceptance of and payment for H Rights Shares and application and payment for excess H Rights Shares does not take place on 18 September 2018 , the dates mentioned in the subsection headed “Expected H Share Rights Issue Timetable” above may be affected. An announcement will be made by the Company in such event.

E. DOMESTIC SHARE RIGHTS ISSUE

Details of the Domestic Share Rights Issue are as follows:

Domestic Share Rights Issue Statistics

Basis of the Domestic Share Rights Issue:	One Domestic Rights Share for every five existing Domestic Shares held as at the close of business on the Domestic Share Record Date
Number of Shares in issue as at the date of this announcement:	1,438,286,184
Number of Domestic Shares in issue as at the date of this announcement:	678,576,184
Total number of Domestic Rights Shares proposed to be issued (assuming the number of Domestic Shares in issue on the Domestic Share Record Date remains the same as at the date of this announcement):	135,715,236
Aggregate nominal value of the Domestic Rights Shares proposed to be issued:	RMB135,715,236
Subscription Price for the Domestic Rights Shares:	RMB1.07 per Domestic Rights Share (equivalent to approximately HK\$1.30)

Basis of Entitlement

Subject to the fulfilment of the conditions set out under the subsection below headed “Conditions of the Domestic Share Rights Issue” in this announcement, Qualified Domestic Shareholder(s) will be entitled to subscribe for one Domestic Rights Share for every five existing Domestic Shares held on the Domestic Share Record Date at the Subscription Price of RMB1.07 for each Domestic Rights Share payable in full on acceptance, constituting a total of 135,715,236 Domestic Shares, representing 20.0% of the Company’s existing issued Domestic Shares capital as at the date of this announcement and approximately 16.7% of the enlarged issued Domestic Share capital of the Company immediately after the Domestic Share Rights Issue (assuming the number of Domestic Shares in issue as at the close of business on the Domestic Share Record Date remains the same as at the date of this announcement).

Qualified Domestic Shareholder(s)

In order to qualify for the Domestic Share Rights Issue, a Domestic Shareholder must be a registered Domestic Shareholder of the Company on the Domestic Share Record Date.

Expected Timetable of Domestic Share Rights Issue

Subject to the approval of the H Share Rights Issue from CSRC and the State-owned Asset Regulator, the tentative timetable of the Domestic Share Rights Issue will be as follows:

Domestic Share Record Date	3 September 2018, Monday
First day for acceptance of and payment for the Domestic Rights Shares	5 September 2018, Wednesday
Last day for acceptance of and payment for the Domestic Rights Shares	4:00 p.m., 18 September 2018, Tuesday

Shareholders and potential investors of the Company should note that the dates specified in the expected timetable of the Domestic Share Rights Issue as set out above, and in other parts of this announcement, are indicative only and are subject to the approval from CSRC and the State-owned Asset Regulator. Any such change to the expected timetable will be announced and notified to the Shareholders as and when appropriate.

Conditions of the Domestic Share Rights Issue

The Domestic Share Rights Issue is conditional upon the fulfilment of the following matters:

- (i) the approval of the Rights Issue by the Board ;
- (ii) the approval of the Rights Issue by the board of directors of Shanghai Electric and SEG, respectively;
- (iii) the approval of the Domestic Share Rights Issue by the State-owned Asset Regulator; and
- (iv) the approval of the Domestic Share Rights Issue by the CSRC.

As set out in the section headed “Introduction”, the Shareholders have passed a special resolution granting the General Mandate to the Board and as such the Domestic Share Rights Issue is not subject to the further approval of the Shareholders.

In addition to the conditions above, as the H Share Rights Issue and the Domestic Share Rights Issue are inter-conditional, the Company will not proceed with the Domestic Share Rights Issue if the H Share Rights Issue fails to become unconditional.

None of the conditions above can be waived by the Company or the Underwriter. Conditions (i) to (ii) have been satisfied as at the date of this announcement. **If any of the conditions is not fulfilled, the Domestic Share Rights Issue will not proceed.**

Shanghai Electric, which holds all the Domestic Shares, representing approximately 47.2% of the total Shares in issue as of the date of this announcement, has made the following irrevocable undertakings on 21 June 2018 to the Company:

- (i) Shanghai Electric will accept, subscribe and pay fully for all of Shanghai Electric’s entitlement to the Domestic Rights Shares, which will be provisionally allotted to it, amounting to 135,715,236 Domestic Rights Shares, as soon as practicable and not later than the last day for acceptance of and payment for such Domestic Rights Shares; and

(ii) Shanghai Electric shall not withdraw or revoke the application, subscription or payment referred to in paragraph (i) above.

As Shanghai Electric has undertaken to accept, subscribe and pay fully for all of the Domestic Rights Shares provisionally allotted to it, the Board considered that it is not necessary to set out the arrangement for excess application.

Proceeds from the Domestic Share Rights Issue

The Domestic Share Rights Issue will raise, at maximum, (i) gross proceeds in an aggregate amount of approximately RMB145 million (or approximately HK\$176 million) and (ii) net proceeds (after deducting all estimated costs and expenses incidental to the Domestic Share Rights Issue) in an aggregate amount of approximately RMB143 million (or approximately HK\$173 million).

F. REASONS FOR THE RIGHTS ISSUE AND USE OF PROCEEDS

The Group is principally engaged in designing, manufacturing and selling turbine blades, bearings, fasteners and cutting tools.

The aggregate estimated net proceeds from the Rights Issue (after deducting all estimated cost and expenses incidental to the Rights Issue) will be approximately HK\$366 million (assuming there is no change in the number of issued Shares on or before the Record Date).

The Board intends to apply the net proceeds from the Rights Issue in the following manner:

- approximately HK\$183 million (representing approximately 50% of the estimated net proceeds from the Rights Issue) will be applied for the partial repayment of the shareholder's loan in the amount of RMB 895 million and/or bank loans;
- approximately HK\$146 million (representing approximately 40% of the estimated net proceeds from the Rights Issue) will be applied for investments including potential acquisitions of business related to the principal business of the Group (e.g. fastener, automotive and cutting tool industries) and/or capital expenditure in relation to business enhancement and expansion (e.g. construction of warehouse and factory);

- the remaining proceeds of approximately HK\$37 million (representing approximately 10% of the estimated net proceeds from the Rights Issue) will be applied for general working capital of the Company.

The Directors consider that the Rights Issue offers all H Share Qualifying Shareholders the opportunity to participate and grasp the benefit of the future development of the Group. The Directors are of the view that the Rights Issue not only provides greater financial flexibility for the Company, but also offers all Qualifying Shareholders the opportunity to maintain their pro rata shareholding interests in the Company. Unlike borrowings or issuance of debt securities, the Directors consider that the Rights Issue would be a preferred means for the Company to raise long-term funds to finance potential investment without subjecting itself to interest burden or additional debt.

Furthermore, the capital base of the Company will be strengthened after completion of the Rights Issue and the improved financial position provided sufficient internal resources and financing capacity for the Company to meet its future expansion needs.

The Directors believe the Rights Issue is in the best interest of the Company and its Shareholders as a whole.

G. SHAREHOLDING STRUCTURE OF THE COMPANY PRIOR TO AND UPON COMPLETION OF THE RIGHTS ISSUE

The following table sets out the Company's current shareholding structure prior to, and its proposed shareholding structure upon completion of, the Rights Issue (assuming the Rights Issue is conducted on the basis of one Rights Share for every five existing Shares with full subscription for the Rights Shares, all the Qualified H Shareholders has taken up the H Rights Shares, and there will be no change in the issued share capital of the Company between the date of this announcement and the Record Date):

Share Class	Total number of issued Shares before the Rights Issue as at the date of this announcement	Percentage of the total number of issued Shares	(a) Assuming all the Qualified H Shareholders has taken up the H Rights Shares		(b) Assuming none of the Qualified H Shareholders has taken up the H Rights Shares	
			Total number of issued Shares immediately after the Rights Issue	Appro. %	Total number of issued Shares immediately after the Rights Issue	Appro. %
H Shares	759,710,000	52.8%	911,652,000	52.8%	911,652,000	52.8%
- SEC HK	—	—	—	—	139,165,600	8.1%
- SEG HK	63,882,000	4.4%	76,658,400	4.4%	76,658,400	4.4%
- other public H Shareholders	695,828,000	48.4%	834,993,600	48.4%	695,828,000	40.3%
Domestic Shares	678,576,184	47.2%	814,291,420	47.2%	814,291,420	47.2%
- Shanghai Electric	678,576,184	47.2%	814,291,420	47.2%	814,291,420	47.2%
Total	1,438,286,184	100%	1,725,943,420	100.0%	1,725,943,420	100.0%

The Company did not issue any equity securities in the 12 months immediately preceding the date of this announcement.

Upon the completion of the Rights Issue, the Company expects to be able to satisfy the public float requirements under Rule 8.08(1) of the Listing Rules. Assuming (i) none of the Qualified H Shareholders has taken up the H Rights Shares; (ii) Shanghai Electric and SEG HK have subscribed in full their respective entitlements to the Domestic Rights Shares and H Rights Shares provisionally allotted to them, respectively, and (iii) SEC HK as the Underwriter has purchased all the H Rights Shares not taken up by the Qualified H Shareholders under the Underwriting Agreement, the Company will still be able to satisfy the public float requirements.

H. H SHAREHOLDER HOTLINE

If you have questions in relation to the H Share Rights Issue, please telephone the H Shareholder hotline at (852) 2980 1333 during business hours from 9:00 a.m. to 6:00 p.m., Monday to Friday (other than public holidays).

I. LISTING RULES AND TAKEOVERS CODE IMPLICATIONS

As the proposed Rights Issue will not increase the issued share capital or the market capitalisation of the Company by more than 50%, the Rights Issue is not subject to Shareholders' approval under Rule 7.19(6) of the Listing Rules.

Shanghai Electric holds 47.2 % of the total issued share capital of the Company and is one of the controlling shareholders of the Company. The Underwriting Agreement entered into between the Company and Shanghai Electric constitutes a connected transaction of the Company under the Listing Rules but is exempted from the reporting, announcement and independent shareholders' approval requirements under Rule 14A.92(2)(b) of the Listing Rules as the Company has made arrangements for the Qualifying Shareholders to apply for Rights Shares in excess of their entitlements under the Rights Issue in accordance with Rule 7.21 of the Listing Rules.

Pursuant to the Underwriting Agreement, the Underwriter, a wholly-owned subsidiary of Shanghai Electric, has conditionally agreed to underwrite the H Share Rights Issue. Assuming there will be no change in the issued share capital of the Company between the date of this announcement and the Record Date and no acceptance by the Qualifying H Shareholders (except the 12,776,400 H Rights Shares provisionally allotted to SEG HK pursuant to the H Share Rights Issue and the relevant irrevocable undertaking) under the Rights Issue, the Underwriter will be required to take up 139,165,600 H Rights Shares and the total shareholding of Shanghai Electric upon completion of the Rights Issue would amount to approximately 55.3% of the then enlarged issued shares of the Company. Thus, in the event that the Underwriter is called upon to subscribe for the H Rights Shares pursuant to its obligations under the Underwriting Agreement, to the extent that it will increase the voting interest of Shanghai Electric from 47.2% to approximately 55.3%, the underwriting by the Underwriter will trigger an obligation on the Underwriter to make a mandatory general offer for all the issued Shares under Rule 26.1 of the Takeovers Code, unless a waiver from strict compliance with Rule 26.1 of the Takeovers Code is granted by the Executive.

Shanghai Electric and the Company have since their incorporation belonged to the same parent entity which is SEG and SEG, Shanghai Electric and the Company are parties acting in concert within the Class 1 definition of "Acting in concert" of the

Takeovers Code. As of the date of this announcement, SEG is interested in 51.6% of the voting interest of the Company and the voting interest of SEG would be increased to 59.7% (assuming none of the Qualifying H Shareholders has taken up the H Share Rights Issue Shares).

As of the date of this announcement, pursuant to Note 6(b) to Rule 26.1 of the Takeovers Code, the Executive has granted a waiver of the obligation on the part of Shanghai Electric to make a general offer for the shares of the Company arising as a result of the Rights Issue.

J. DEFINITIONS

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

“Articles of Association”	the articles of association of the Company (as amended from time to time)
“Beneficial H Shareholder(s)”	any beneficial owner(s) of H Shares whose H Shares are registered in the name of a registered H Shareholder as shown in the H Shareholders’ register of the Company
“Board”	the board of directors of the Company
“Business Day”	any day other than Saturday or Sunday on which commercial banks and financial institutions in Hong Kong are open for business
“CCASS”	the Central Clearing and Settlement System established and operated by Hong Kong Securities Clearing Company Limited
“Company”	Shanghai Prime Machinery Company Limited
“controlling shareholder(s)”	has the meaning ascribed to it under the Listing Rules
“CSRC”	China Securities Regulatory Commission
“Despatch Date”	the date on which the Prospectus Documents are despatched to Qualified H Shareholders
“Directors”	the directors of the Company

“Domestic Rights Shares”	the new Domestic Shares proposed to be allotted and issued to Domestic Shareholder(s) pursuant to the Domestic Share Rights Issue
“Domestic Share(s)”	domestic ordinary share(s) of RMB1.00 each in the share capital of the Company
“Domestic Share Record Date”	3 September 2018, or such other date determined by the Board by reference to which entitlements to the Domestic Share Rights Issue are to be determined
“Domestic Share Rights Issue”	the issue of 135,715,236 Domestic Rights Shares at the Subscription Price on the basis of one Domestic Rights Share for every five existing Domestic Shares in issue as at the close of business on the Domestic Share Record Date
“Domestic Shareholder(s)”	Holder(s) of the Domestic Shares
“Executive”	the Executive Director of the Corporate Finance Division of the SFC or any of his delegate(s)
“Excess Application Form(s)”	the application form(s) for excess H Rights Shares
“Excluded Shareholder(s)”	Overseas Shareholder(s) whom the Board, based on advice received from relevant legal advisers, considers it necessary or expedient to exclude on account either of the legal restrictions under the laws of the place of his/her/their registered address(es) or the requirements of the relevant regulatory body or stock exchange in such jurisdiction

“General Mandate”	the general mandate granted to the Board by a special resolution of the Shareholders passed at the annual general meeting of the Company held on 8 June 2018 authorising the Directors to issue, allot and deal with additional Domestic Shares and additional H Shares in the Company not exceeding 20% of each of the total number of Domestic Shares and H Shares of the Company in issue respectively as at the date of passing of such resolution, as further detailed in the notice of the annual general meeting and the circular of the Company dated 19 April 2018
“Governmental Authorities”	any public, regulatory, taxing, administrative or governmental agency of authority or any securities exchange authority
“Group”	the Company and its subsidiaries from time to time
“H Rights Shares”	the new H Shares proposed to be allotted and issued to the Qualified H Shareholders pursuant to the H Share Rights Issue
“H Share(s)”	overseas listed foreign share(s) of RMB1.00 each in the share capital of the Company, which are listed on the Hong Kong Stock Exchange and traded in Hong Kong dollars
“H Share Record Date”	3 September 2018, or such other date determined by the Board by reference to which entitlements to the H Share Rights Issue are to be determined
“H Share Registrar”	Tricor Investor Services Limited
“H Share Rights Issue”	the issue of 151,942,000 H Rights Shares at the Subscription Price on the basis of one H Rights Shares for every five existing H Shares in issue as at the close of business on the H Share Record Date
“H Share Rights Issue Prospectus”	the prospectus to be issued by the Company in respect of the H Share Rights Issue containing further details of the H Share Rights Issue
“H Shareholder(s)”	holder(s) of the H Shares
“HKSCC”	Hong Kong Securities Clearing Company Limited

“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Latest Time for Termination”	5:00 p.m., Thursday, 20 September 2018
“Hong Kong Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Laws”	all laws, rules, statutes, ordinances, regulations, codes, guidelines, opinions, notices, circulars, orders, judgements, decrees or rulings of any Governmental Authority and “Law” includes any one of them
“Listing Committee”	the listing committee of the Hong Kong Stock Exchange
“Listing Rules”	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited
“Material Adverse Effect”	a material adverse effect or any development reasonably likely to involve a material adverse effect on the earnings, general affairs, management, business, legal or financial condition, shareholders’ equity or results of operations of the Company, taken as a whole
“Nil Paid H Rights”	rights to subscribe for H Rights Shares (in the form of H Rights Shares in nil paid form) before the Subscription Price is paid
“Overseas Shareholder(s)”	(i) H Shareholder(s) whose name(s) appear(s) on the register of members of the Company at the close of business on the H Share Record Date and whose registered address(es) is/are in a place outside Hong Kong; and (ii) Beneficial H Shareholder(s) whose address(es) is/are in a place outside Hong Kong
“PRC”	the People’s Republic of China but excluding, for the purposes of this announcement, Hong Kong, Macau Special Administrative Region of the PRC and Taiwan
“Price Determination Date”	21 June 2018, the date on which the Subscription Price was fixed for the purposes of the Rights Issue
“Prospectus Date”	the date of issue of the H Share Rights Issue Prospectus

“Prospectus Documents”	the H Share Rights Issue Prospectus, the Provisional Allotment Letter and the Excess Application Form
“Provisional Allotment Letter(s)”	Provisional allotment letter(s) for the H Rights Shares
“Qualified Domestic Shareholder(s)”	Domestic Shareholder(s) whose name(s) appear(s) on the Domestic Shareholder(s)’ register of members of the Company at the close of business on the Domestic Share Record Date
“Qualified H Shareholder(s)”	H Shareholder(s) whose name(s) appear(s) on the H Shareholder(s)’ register of members of the Company at the close of business on the H Share Record Date and who is/are not an Excluded Shareholder(s)
“Record Date”	the Domestic Share Record Date and/or the H Share Record Date
“Rights Issue”	the Domestic Share Rights Issue and the H Share Rights Issue
“Rights Share(s)”	the Domestic Rights Share(s) and the H Rights Share(s)
“RMB”	Renminbi, the lawful currency of the PRC
“SEG”	Shanghai Electric (Group) Corporation (上海電氣(集團)總公司), one of the controlling shareholders of the Company holding approximately 60.9% equity interest of Shanghai Electric and is wholly owned by Shanghai SASAC
“SEC HK”	Shanghai Electric Hongkong Co. Limited (上海電氣香港有限公司), a company incorporated in Hong Kong and a wholly owned subsidiary of Shanghai Electric
“SEG HK”	Shanghai Electric Group Hongkong Company Limited (上海電氣集團香港有限公司), a company incorporated in Hong Kong and a wholly-owned subsidiary of SEG
“SFC”	the Securities and Futures Commission of Hong Kong

“Shanghai Electric”	Shanghai Electric Group Company Limited (上海電氣集團股份有限公司), a joint stock limited company incorporated in the PRC, whose A and H shares are listed on the Shanghai Stock Exchange under the stock code 601727 and the Hong Kong Stock Exchange under the stock code 02727, respectively, one of the controlling shareholders of the Company, as of the date of this announcement holding approximately 47.2% equity interests of the total issued share capital of the Company
“Shanghai SASAC”	Shanghai Municipal State-owned Assets Supervision and Administration Commission (上海市國有資產監督管理委員會)
“Share(s)”	Domestic Share(s) and/or H Share(s)
“Shareholder(s)”	holder(s) of the Domestic Shares and/or H Shares of the Company
“State-owned Asset Regulator”	Shanghai SASAC or SEG, the competent state-funded enterprise that has the authority over the Rights Issue in accordance with prevailing state-owned assets rules and regulations of the PRC at the time the relevant approval is issued
“Subscription Price(s)”	the final subscription price(s) for the Domestic Rights Shares and the H Rights Shares to be offered pursuant to the Rights Issue
“subsidiary” or “subsidiaries”	has the meaning given to it in the Listing Rules
“Takeovers Code”	The Codes on Takeovers and Mergers issued by the SFC
“Trading Day”	a day on which the Hong Kong Stock Exchange is open for dealing or trading in securities
“Underwriter”	SEC HK
“Underwriting Agreement”	the underwriting agreement dated 21 June 2018 entered into between the Company and the Underwriter
“%”	per cent.

Unless otherwise specified in this announcement, conversions of RMB into HK\$ are made in this announcement for illustration only, at the rate of HK\$1 to RMB0.82282. No representation is made that any amounts in RMB could have been or could be converted at that rate or at any other rates or at all.

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

Shanghai, the PRC, 21 June 2018

As at the date of this announcement, the Board consists of Executive Directors, namely Mr. Zhou Zhiyan, Mr. Xiao Yuman, Mr. Zhang Mingjie, 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.