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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)*

**(Stock Code: 02345)**

**ANNOUNCEMENT  
CONTINUING CONNECTED TRANSACTIONS**

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



**BACKGROUND**

The continuing connected transactions between the Group and SEG and its associates contemplated under the 2017 Framework Agreements will expire on 31 December 2019. In view of the business needs, the Company and SEG entered into the following framework agreements on 18 October 2019 to extend the continuing connected transactions under the 2017 Framework Agreements, so as to continue the existing continuing connected transactions between the Group and SEG and its associates for the period from 1 January 2020 to 31 December 2022:

- (i) Framework Sales Agreement;
- (ii) Framework Purchase Agreement;
- (iii) Framework Property Lease Agreement; and
- (iv) Framework Comprehensive Service Agreement.

## **LISTING RULES IMPLICATIONS**

As at the date of this announcement, SEG and its associates are connected persons of the Company under Chapter 14A of the Listing Rules, the 2020–2022 Framework Agreements and the transactions as contemplated thereunder therefore constitute continuing connected transactions for the Company.

### **(i) Framework Sales Agreement**

As one or more of the applicable percentage ratios of the transactions contemplated under the Framework Sales Agreement, on an annual basis, are expected to exceed 5%, the transactions (including the proposed annual caps) contemplated under the Framework Sales Agreement are subject to reporting, announcement, annual review and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

### **(ii) Framework Purchase Agreement, Framework Property Lease Agreement and Framework Comprehensive Service Agreement**

As the highest applicable percentage ratio of the transactions contemplated under each of the Framework Purchase Agreement, Framework Property Lease Agreement and Framework Comprehensive Service Agreement, each on an annual basis, is expected to be more than 0.1% but less than 5% under the Listing Rules, the transactions contemplated under these agreements are exempt from independent shareholders' approval requirement, but subject to reporting, announcement and annual review requirements under Chapter 14A of the Listing Rules.

## **GENERAL**

A circular containing, among other things, (i) the information relating to the Framework Sales Agreement; (ii) the advice from the Independent Board Committee to the Independent Shareholders in respect of the Framework Sales Agreement; (iii) the letter of advice from Gram Capital to the Independent Board Committee and the Independent Shareholders in respect of the Framework Sales Agreement; and (iv) the notice convening the EGM for the Shareholders to approve the transactions contemplated under the Framework Sales Agreement and the proposed annual cap amounts is expected to be despatched to the Shareholders on or before 21 November 2019 in accordance with the Listing Rules and the PRC Company Law.

## **BACKGROUND**

References are made to the announcement of the Company dated 26 September 2017 and the circular of the Company dated 23 October 2017 in relation to the existing continuing connected transactions under the 2017 Framework Agreements.

The continuing connected transactions between the Group and SEG and its associates contemplated under the 2017 Framework Agreements will expire on 31 December 2019. In view of the business needs, the Company and SEG entered into the following framework agreements on 18 October 2019 to extend the continuing connected transactions under the 2017 Framework Agreements, so as to continue the existing continuing connected transactions between the Group and SEG and its associates for the period from 1 January 2020 to 31 December 2022:

- (i) Framework Sales Agreement;
- (ii) Framework Purchase Agreement;
- (iii) Framework Property Lease Agreement; and
- (iv) Framework Comprehensive Service Agreement.

## **2020–2022 FRAMEWORK AGREEMENTS**

Save for the changes of the applicable period from 1 January 2020 to 31 December 2022, the 2020–2022 Framework Agreements adopted substantially the same terms of the 2017 Framework Agreements, including the pricing basis.

### **(A) Framework Sales Agreement**

#### *Summary of the terms of the Framework Sales Agreement*

Date:	18 October 2019
Parties:	<ul style="list-style-type: none"><li>● the Company; and</li><li>● SEG.</li></ul>
Subject matter:	Sales of certain materials, components, accessories or raw materials, finished products and other related or similar items, power generation equipment, spare parts, other machinery and equipment by the Group to SEG and its associates.

- Terms:
- Three years from 1 January 2020 to 31 December 2022, renewable upon expiry, subject to conditions precedent, including but not limited to obtaining approval from the Independent Shareholders (if applicable) and the compliance with the Listing Rules; and
  - Subject to termination in part or in whole by either party to the agreement by giving at least three months' prior notice.

Payment terms: The payment terms are subject to the types of products/goods to be provided and are determined at the time when such sales are entered into. The payment terms will be specified on each separate contract(s) to be agreed by the parties from time to time.

*Historical transaction amounts and the proposed annual caps*

The following table sets out the historical transaction amounts under the existing framework sales agreement for the year ended 31 December 2018 and for the six months ended 30 June 2019. The table also sets out the proposed annual cap amounts under the Framework Sales Agreement for each of the three years ending 31 December 2020 to 2022:

	Historical transaction amounts		Proposed annual cap amounts		
	For the year ended 31 December 2018	For the six months ended 30 June 2019	2020	For the year ending 31 December 2021	2022
Aggregate amounts of the sales to SEG and its associates	279.0	92.8	304.0	354.0	352.0

*(RMB million)*

*Basis of determination of the proposed annual caps*

In determining the proposed annual caps for 2020, 2021 and 2022, the Directors have taken into account the following factors:

- (i) the historical transaction amounts of the products sold to SEG and its associates;
- (ii) the future business development plan of the Group;
- (iii) the changes in market conditions and the expected demand and supply of products by SEG Group and its associates, which includes:
  - (a) the transactions in respect of the sale of products to SEG and its associates have been carried out for years, and the quality of such products sold by the Group has been recognised by SEG and its associates. It is expected that the

range of products to be sold by the Group to SEG and its associates will be further expanded under the Framework Sales Agreement. For example, the sales-range of the equipment is expected to be expanded from the power generation equipment to other machinery and equipment;

- (b) the nuclear power project was launched in 2019 when SEG and its associates approved several generating unit projects of the power stations at the beginning of the year. 2021 will be the starting year for “the 14th Five-Year Plan”. The nuclear power generating units will be restarted in an orderly manner and be included in the clean energy category, which will be expected to become a development opportunity in 2020 and in the future. Subsequently, the demand for the generating units from SEG and its associates will be urgent. In respect of the newly launched projects, the winning rate of the bid would be expected to be over 50%. The collaborative business between our Group and the power stations will continue to grow; and
- (c) the Group is committed to the research and development (R&D) of high-end technology with good market prospect. The Group introduces and improves new coating technology which can be widely used in various areas including wind power, railway, power generation equipment and infrastructures. As such, the Group expects that the quantity of the purchase orders to be made by SEG and its associates will increase accordingly.

#### *Pricing basis*

The pricing basis is based on the following criteria (in sequence):

- (i) price(s) as may be stipulated by the PRC government (if any);
- (ii) if there are no such stipulated price(s), the price(s) not less than any pricing guidelines or pricing recommendations set by the PRC government (if any);
- (iii) if there are neither 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 therefrom plus a reasonable profit.

The market price shall be the price of the same or comparable type of goods offered to independent third parties by the Group in the PRC market in the normal course of business.

The Directors consider that the terms of the Framework Sales Agreement are negotiated on an arm’s length basis and on normal commercial terms, and the terms of the transactions contemplated thereunder shall be no more favourable than those offered to independent third parties by the Group for the same or comparable type of products, and are in the interests of the Company and the Shareholders as a whole.

## (B) Framework Purchase Agreement

### *Summary of the terms of the Framework Purchase Agreement*

Date:	18 October 2019
Parties:	<ul style="list-style-type: none"><li>• the Company; and</li><li>• SEG.</li></ul>
Subject matter:	Purchase of certain raw materials, spare parts, equipment, assets and other related or similar items by the Group from SEG and its associates.
Terms:	<ul style="list-style-type: none"><li>• Three years from 1 January 2020 to 31 December 2022, renewable upon expiry, subject to conditions precedent, including but not limited to obtaining approval from the Independent Shareholders (if applicable) and the compliance with the Listing Rules; and</li><li>• Subject to termination in part or in whole by either party to the agreement by giving at least three months' prior notice.</li></ul>
Payment terms :	The payment terms are subject to the types of products/goods to be purchased and are determined at the time when such purchases are entered into. The payment terms will be specified on each separate contract(s) to be agreed by the parties from time to time.

### *Historical transaction amounts and the proposed annual caps*

The following table sets out the historical transaction amounts under the existing framework purchase agreement for the year ended 31 December 2018 and for the six months ended 30 June 2019. The table also sets out the proposed annual cap amounts under the Framework Purchase Agreement for each of the three years ending 31 December 2020 to 2022:

	Historical transaction amounts		Proposed annual cap amounts		
	For the year ended 31 December 2018	For the six months ended 30 June 2019	2020	For the year ending 31 December 2021	2022
Aggregate amounts of the purchase from SEG and its associates	0	0	8.0	12.0	14.0

*Basis of determination of the proposed annual caps*

In determining 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 to the Group. The Group did not have any purchase transactions with SEG and its associates in the past year, which was mainly due to the slowdown in the European and Chinese automotive markets; further weakening of the demand for coal-fired power generation equipment in China; and a drop in orders caused by a general slowdown in industrial production; and
- (ii) according to the Group's future development plan, the Group expects that the demand for raw materials and equipment procurement will continue to increase in the future.

*Pricing basis*

The pricing basis is based on the following criteria (in sequence):

- (i) price(s) as may be stipulated by the PRC government (if any);
- (ii) if there are no such stipulated price(s), the price(s) not less than any pricing guidelines or pricing recommendations set by the PRC government (if any);
- (iii) if there are neither 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 therefrom plus a reasonable profit.

The market price shall be the price of the same or comparable type of goods offered by independent third parties to the Group in the PRC market in the normal course of business.

The Directors, including the independent non-executive Directors, consider that the terms of the Framework Purchase Agreement are negotiated on an arm's length basis and on normal commercial terms, and the terms of the transactions contemplated thereunder shall be no less favourable than those offered by independent third parties to the Group for the same or comparable type of products, and are in the interests of the Company and the Shareholders as a whole.

## (C) Framework Property Lease Agreement

### *Summary of the terms of the Framework Property Lease Agreement*

Date:	18 October 2019
Parties:	<ul style="list-style-type: none"><li>● the Company; and</li><li>● SEG.</li></ul>
Subject matter:	Leasing of certain properties including offices and production sites located in various districts in Shanghai, the PRC by the Group from SEG and its associates.
Term:	Three years from 1 January 2020 to 31 December 2022 (the “ <b>Term</b> ”).
Payment terms:	The payment terms are determined at the time when the lease is entered into. The payment terms would be specified on (if applicable) each specific lease contract(s) to be agreed by the parties from time to time.

### *Specific lease contract(s)*

Subject to compliance with the terms and conditions of the Framework Property Lease Agreement, any subsidiary(ies) of the Group that is willing to take up a lease in respect of the relevant property(ies) shall enter into a specific lease agreement with the relevant entity(ies) of SEG and its associates (as landlord) and that such specific lease agreement must satisfy the following requirements:

- (i) the term of the specific lease contract must be for a fixed term of not more than three years;
- (ii) the terms and conditions of the specific lease contract must be no less favourable than the terms and conditions of lease agreements entered into by independent third parties for similar or comparable premises;
- (iii) the aggregate right-of-use assets acquired under all of the specific lease contracts for any given year during the Term shall not exceed the corresponding annual cap for the relevant year; and
- (iv) the annual rental payable under the specific lease contract shall be negotiated and determined in accordance with the following principles to ensure that the relevant pricing terms are fair and reasonable:
  - (a) based on the respective interests of the relevant parties; and
  - (b) with reference to the then prevailing market conditions and the market rental value as appraised by an independent valuer which should reflect the rental rate of similar or comparable spaces and/or units offered to independent third parties.



Pursuant to the Framework Property Lease Agreement, any lease contract entered into between any subsidiary of the Group and any entities of SEG and its associates in respect of any of the properties prior to and remaining in effect as at the effective date of the Framework Property Lease Agreement is deemed to be a specific lease agreement for the purposes of calculating the relevant annual cap.

In the event that: (i) the term of any specific lease contract will end after the end of the Term, and the Framework Property Lease Agreement is not extended or renewed; or (ii) the Framework Property Lease Agreement is terminated in accordance with its terms prior to the end of the term of any specific lease contract(s), such specific lease contract(s) shall remain in effect and in that event the Company shall comply in full with the applicable requirements under the Listing Rules for such specific lease contract(s) in respect of the period for which the term of such specific lease contract(s) exceeds the Term.

*Accounting implication to the specific lease contracts under the Framework Property Lease Agreement*

The HKFRSs applicable to the Group include HKFRS 16 “Leases” which came into effect on January 2019. Under HKFRS 16 and in the consolidated statement of financial position of the Group, the Group as the lessee shall recognise a lease as a right-of-use asset and a corresponding lease liability. Except for short-term leases and leases of low value assets, the Group recognises right-of-use assets at the commencement date of the lease (i.e. the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any re-measurement of lease liabilities.

*Historical transaction amounts and the proposed annual caps*

The following table sets out the historical transaction amounts under the existing framework property lease agreement for the year ended 31 December 2018 and for the six months ended 30 June 2019. The table also sets out the proposed annual cap amounts of the transactions under the specific lease contracts pursuant to the Framework Property Lease Agreement for each of the three years ending 31 December 2020 to 2022:

	Historical transaction amounts		Proposed annual cap amounts		
	For the year ended 31 December 2018	For the six months ended 30 June 2019	2020	For the year ending 31 December 2021	2022
Aggregate rental paid to SEG and its associates	23.9	11.6			
Aggregate right-of-use assets acquired from SEG and its associates			59.0	59.0	59.0

(RMB million)

*Basis of determination of the proposed annual caps*

The proposed annual cap amounts for the continuing connected transactions for the three years ending 31 December 2020 to 2022 set out in the table above are based on:

- (i) the estimated total value of the right-of-use assets relating to the specific lease contracts to be entered into by the Group as lessee during the Term pursuant to the Framework Property Lease Agreement;
- (ii) the historical transaction amounts of the rentals charged by SEG and its associates to the Group;
- (iii) the Group's business expansion and operational needs;
- (iv) the prevailing market price of rentals of properties with similar conditions, facilities and size within the same or nearby geographical regions; and
- (v) a reasonable buffer for any upward adjustments of property rentals in the property leasing market in Shanghai in recent years.

*Pricing basis*

The pricing basis of rental is based on the prevailing market prices as reported from time to time by real estate agencies as well as properties of similar conditions, facilities and size within the same or nearby geographical regions after an arm's length negotiations between the both parties.

The Directors, including the independent non-executive Directors, consider that the terms of the Framework Property Lease Agreement are negotiated on an arm's length basis and on normal commercial terms, the rentals payable and the terms of payment for the specific lease contracts under the Framework Property Lease Agreement granted by SEG and its associates to the Group from time to time shall be no less favourable than the terms offered by other independent third parties to the Group for the same or similar properties in the vicinity, and are in the interests of the Shareholders as a whole.

## (D) Framework Comprehensive Service Agreement

### *Summary of the terms of the Framework Comprehensive Service Agreement*

Date:	18 October 2019
Parties:	<ul style="list-style-type: none"><li>● the Company; and</li><li>● SEG.</li></ul>
Subject matter:	Provision of freight transportation, collection and payment of water, electricity and gas charges, ancillary services and other services by SEG and its associates to the Group.
Term:	<ul style="list-style-type: none"><li>● Three years from 1 January 2020 to 31 December 2022, renewable upon expiry, subject to conditions precedent, including but not limited to obtaining approval from the Independent Shareholders (if applicable) and the compliance with the Listing Rules; and</li><li>● Subject to termination in part or in whole by either party to the agreement by giving at least three months' prior notice.</li></ul>
Payment terms:	The payment terms are subject to the type of services to be purchased and are determined at the time when such services are rendered. The payment terms will be specified on each separate contract(s) to be agreed by the parties from time to time.

### *Historical transaction amounts and the proposed annual caps*

The following table sets out the historical transaction amounts under the existing framework comprehensive service agreement for the year ended 31 December 2018 and the six months ended 30 June 2019. The table also sets out the proposed annual cap amounts under the Framework Comprehensive Service Agreement for each of the three years ending 31 December 2020 to 2022:

	Historical transaction amounts		Proposed annual cap amounts		
	For the year ended 31 December 2018	For the six months ended 30 June 2019	2020	For the year ending 31 December 2021	2022
Aggregate fees to SEG and its associates	0.3	0.4	13.0	22.0	24.0

*Basis of determination of the proposed annual caps*

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

- (i) the historical transaction amounts of the comprehensive services provided by SEG and its associates to the Group;
- (ii) the latest business development plans of the Group;
- (iii) in order to improve the refined management of the business divisions, the Company will strengthen the demand for comprehensive services. It is expected that in the future the Company will cooperate with SEG and its associates in the field of information technology. Meanwhile, some charges for advisory services, administrative services, as well as collection and payment services will be incurred; and
- (iv) the expected demand and supply for services in business divisions of the Group.

*Pricing basis*

The pricing basis is based on the following criteria (in sequence):

- (i) price(s) as may be stipulated by the PRC government (if any);
- (ii) if there are no such stipulated price(s), the price(s) not less than any pricing guidelines or pricing recommendations set by the PRC government (if any);
- (iii) if there are neither 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 therefrom plus a reasonable profit.

The market price shall be the price of the same or comparable type of service offered by the independent third parties to the Group in the PRC market in the normal course of business.

The Directors, including the independent non-executive Directors, consider that the terms of the Framework Comprehensive Service Agreement are negotiated on an arm's length basis and on normal commercial terms, and the terms of the transactions contemplated thereunder shall be no less favourable than those offered by independent third parties to the Group for the same or comparable type of services, and are in the interests of 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 connected transactions. Staff of the special department shall periodically review and evaluate the utilization of the annual cap amounts and implement internal assessments to ensure the adoption of the relevant pricing principles according to the terms of the relevant agreements. The external auditor of the Company shall review the connected transactions on a semi-annual basis and will report the findings to the management of the Company.

In particular, the specific arrangements of the internal control and risk management under the Framework Sales Agreement are as follows:

- (i) the Group conducts internal assessments to monitor the pricing basis of the transactions and to ensure the transactions are entered into and the actual transaction prices will be determined according to the pricing basis of the relevant connected transactions;
- (ii) the Company will compare the transaction price of SEG and its associates with the transaction price of other customers of the Group;
- (iii) the Company will comply with the relevant internal control policies for the connected transactions of the Group to ensure that the relevant department(s) of the Group will monitor the transaction price of the SEG and its associates is no more favorable than those available to independent third parties (subject to the same conditions);
- (iv) if the market price mechanism is applied and the Group is aware that, subject to the same conditions, the transaction price of SEG and its associates is more favorable than those available to independent third parties, the Group will renegotiate the transaction price with SEG and its associates to ensure that the transaction price of SEG and its associates is no more favorable than those available to independent third parties;
- (v) if no market price for the relevant new product is available and the Group is aware that, subject to the same conditions, the profit generated from the provision of products to SEG and its associates is less than those generated from the provision of similar or comparable products to independent third parties, the Group will renegotiate the sales price with SEC and its associates to ensure that the profit generated from the provision of products to SEC and its associates is no less than those generated from the provision of similar or comparable products to independent third parties;
- (vi) the Board is responsible for approving all continuing connected transactions of the Group, including the continuing connected transactions under the Framework Sales Agreement;
- (vii) the finance department and the auditor of the Company will periodically review the transactions under the Framework Sales Agreement; and
- (viii) the finance department of the Company will follow up and collect the data of the transactions under the Framework Sales Agreement on a monthly basis to ensure that the relevant amounts will not exceed the proposed annual caps.

## **REASONS FOR AND BENEFITS OF THE CONTINUING CONNECTED TRANSACTIONS CONTEMPLATED UNDER THE 2020–2022 FRAMEWORK AGREEMENTS**

As at the date of this announcement, SEG holds approximately 59.18% interests in the total issued share capital of SEC directly and indirectly. SEC is the controlling shareholder of the Company, directly and indirectly holding 55.06% interests in the total issued share capital of the Company.

The Group has been carrying out the transactions with SEG and its associates since the initial listing of the Company's shares on the main board of 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 business mode, product and demand specifications, the Group was able to make quick and cost-effective responses to any new requirements upon request. Moreover, in view of the reliable supply of products, materials and services, as well as high matching degree of products; under the same condition, the cross-supply of products, materials and services will be more stable than those offered by the independent third parties, and the cost of business development will be much lower.

Regarding the reasons for and benefits of entering into the Framework Property Lease Agreement, SEG and its associates have additional properties readily available to be leased to the Group for manufacturing and office use. Therefore, the Group is able to immediately commence or (as the case may be) continue to carry on business on these leased properties without having to search for suitable premises in the market and can save transaction cost accordingly. Furthermore, continuing the lease of the properties by the Group from SEG and its associates would help minimize any potential disruption to the business operations arising from the expiry of the lease(s) and the need for relocation. In addition, the properties leased or (as the case may be) to be leased from SEG and its associates are within close proximity to the Group's other manufacturing sites and offices, such continuing connected transaction of property leasing thus gives rise to administrative convenience to the Group.

Accordingly, the Directors are of the view that (i) the continuing connected transactions contemplated under the 2020–2022 Framework Agreements 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 2020–2022 Framework Agreements 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 2020–2022 Framework Agreements are fair and reasonable so far as the Shareholders are concerned.

## **INFORMATION ON THE GROUP, SEC, SEG AND THE RELATIONSHIP BETWEEN THE COMPANY AND SEG**

### **The Group**

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

### **SEC**

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

### **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.

## **LISTING RULES IMPLICATIONS**

### **Connected Persons**

As at the date of this announcement, SEG and SEC together directly and indirectly holds approximately 59.5% interests in the total issued share capital of the Company. SEG holds approximately 59.18% interests in the total issued share capital of SEC. As SEG and its subsidiaries (including SEG Group but excluding the Group) and associates are connected persons of the Company under Chapter 14A of the Listing Rules, the transactions contemplated under the 2020–2022 Framework Agreements constitute continuing connected transactions for the Company under Chapter 14A of the Listing Rules.

### **Listing Rules Implications**

#### *(i) Framework Sales Agreement*

As one or more of the applicable percentage ratios of the transactions contemplated under the Framework Sales Agreement, on an annual basis, are expected to exceed 5%, the transactions (including the proposed annual caps) contemplated under the Framework Sales Agreement are subject to reporting, announcement, annual review and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.



(ii) *Framework Purchase Agreement, Framework Property Lease Agreement and Framework Comprehensive Service Agreement*

As the highest applicable percentage ratio of the transactions contemplated under each of the Framework Purchase Agreement, Framework Property Lease Agreement and Framework Comprehensive Service Agreement, each on an annual basis, is expected to be more than 0.1% but less than 5% under the Listing Rules, the transactions contemplated under these agreements are exempt from independent shareholders' approval requirement, but subject to reporting, announcement and annual review requirements under Chapter 14A of the Listing Rules.

## **CONFIRMATION FROM THE BOARD**

The Directors (including the independent non-executive Directors) are of the view that the 2020–2022 Framework Agreements (save for the Framework Sales Agreement where the independent non-executive Directors will render their view after reviewing the advice and recommendation from Gram Capital) 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 those agreements, together with the respective annual caps, are fair and reasonable and in the interests of the Company and its Shareholders as a whole.

None of the Directors of the Company has any material interest in the 2020–2022 Framework Agreements and therefore none of them is required to abstain from voting.

SEG and their respective associates are required under the Listing Rules to abstain from voting on the resolution to be proposed to approve the Framework Sales Agreement and the proposed annual cap amounts at the EGM.

## **GENERAL INFORMATION**

An EGM will be convened at which, among other things, an ordinary resolution will be proposed to seek Independent Shareholders' approval for the Framework Sales Agreement, the transactions contemplated thereunder and the 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) will be formed by the Company to consider the Framework Sales Agreement, the transactions contemplated thereunder and the proposed annual cap amounts, and to advise the Independent Shareholders as to whether the Framework Sales Agreement, the transactions contemplated thereunder and the 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 has been appointed as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders on the terms of the Framework Sales Agreement and the transaction contemplated thereunder and the proposed annual cap amounts.

A circular containing, among other things, (i) the information relating to the Framework Sales Agreement; (ii) the advice from the Independent Board Committee to the Independent Shareholders in respect of the Framework Sales Agreement; (iii) the letter of advice from Gram Capital to the Independent Board Committee and the Independent Shareholders in



respect of the Framework Sales Agreement; and (iv) the notice convening the EGM for the Shareholders to approve the transactions contemplated under the Framework Sales Agreement, and their proposed annual cap amounts, is expected to be despatched to the Shareholders on or before 21 November 2019 in accordance with the Listing Rules and the PRC Company Law.

## DEFINITIONS

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

“2017 Framework Agreements”	collectively, the Framework Sales Agreement (2017 revised), the Framework Purchase Agreement (2017 revised), the Framework Property Lease Agreement and the Framework Comprehensive Service Agreement (2017 revised), all entered into between the Company and SEG on 26 September 2017 (for details, please see the Company’s announcement and circular dated 26 September 2017 and 23 October 2017, respectively);
“2020–2022 Framework Agreements”	collectively, the Framework Sales Agreement, the Framework Purchase Agreement, the Framework Property Lease Agreement, and the Framework Comprehensive Service Agreement, all entered into between the Company and SEG on 18 October 2019;
“associate(s)”	has the meaning ascribed thereto under the Listing Rules;
“Board”	the board of directors of the Company;
“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 purpose of, among other matters, considering and, if appropriate, approving the Framework Sales Agreement, the transaction contemplated thereunder and the proposed annual cap amounts;

“Framework Comprehensive Service Agreement”	the agreement entered into between the Company and SEG on 18 October 2019 in relation to the purchase of freight transportation, collection and payment of water, electricity and gas charges, ancillary services and other services by the Group from SEG and its associates;
“Framework Property Lease Agreement”	the agreement entered into between the Company and SEG on 18 October 2019 in relation to the leasing of certain properties including offices and production sites located in various districts in Shanghai, the PRC by the Group from SEG and its associates;
“Framework Purchase Agreement”	the agreement entered into between the Company and SEG on 18 October 2019 in relation to the purchase of certain raw materials, spare parts, equipment, assets and other related or similar items by the Group from SEG and its associates;
“Framework Sales Agreement”	the agreement entered into between the Company and SEG on 18 October 2019 in relation to the sales of certain materials, components, accessories or raw materials, finished products and other related or similar items, power generation equipment and spare parts by the Group to SEG and its associates;
“Group”	the Company and its subsidiaries;
“HKFRS(s)”	Hong Kong Financial Reporting Standard(s) issued by the Hong Kong Institute of Certified Public Accountants from time to time;
“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 Framework Sales Agreement, the transaction contemplated thereunder and the 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 to advise the Independent Board Committee and the Independent Shareholders on the terms of the Framework Sales Agreement, the transaction contemplated thereunder and the proposed annual cap amounts;

“Independent Shareholder(s)”	shareholder(s) of the Company other than SEG and its associates, who is/are not involved in or interested in the Framework Sales Agreement and the transactions contemplated thereunder and the proposed annual cap amounts;
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange (as amended from time to time);
“percentage ratio(s)”	has the same meaning ascribed thereto under the Listing Rules;
“PRC” or “China”	the People’s Republic of China which, for the purpose of this announcement only, does not include the Hong Kong Special Administrative Region, the Macau Special Administrative Region and Taiwan;
“RMB”	Renminbi, the lawful currency of the PRC;
“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;
“SEG”	Shanghai Electric (Group) Corporation (上海電氣(集團)總公司), an indirect controlling shareholder (as defined in the Listing Rules) of the Company, holding 59.18% interests in the total issued share capital of SEC as at the date of this announcement;
“SEG Group”	SEG and its subsidiaries (excluding the Group);
“Shareholder(s)”	registered holder(s) of the share(s) of the Company;
“specific lease contract(s)”	the specific lease contract(s) (in the prescribed form as set out in the Framework Property Lease Agreement or as otherwise agreed between the relevant subsidiary(ies) of the Group and the relevant entity(ies) of SEG and its associates) to be or to be deemed to have been entered into between the relevant subsidiary(ies) of the Group (as tenant) and the relevant entity(ies) of SEG and its associates (as landlord) pursuant to the Framework Property Lease Agreement;
“Stock Exchange”	The Stock Exchange of Hong Kong Limited; and

“%”

per cent

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

Shanghai, the PRC, 18 October 2019

*As at the date of this announcement, the Board consists of Executive Directors, namely Mr. Zhou Zhiyan, Mr. Xiao Yuman, Dr.-Ing. Gou Jianhui, Mr. Zhang Mingjie, and Mr. Si Wenpei, Non-executive Director, namely Mr. Dong Yeshun, and Independent Non-executive Directors, namely Mr. Ling Hong, Mr. Chan Oi Fat and Mr. Sun Zechang.*