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

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

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上海集優機械股份有限公司

Shanghai Prime Machinery Company Limited

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

(Stock Code: 02345)

CONTINUING CONNECTED TRANSACTIONS

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



A notice of the EGM to be held at Meeting Center, North 6th Floor, 2747 Songhuajiang Road, Hongkou District, Shanghai, PRC on Friday, 6 December 2019 at 1:00 p.m. together with the reply slip and the form of proxy for use at the EGM have been sent to Shareholders on 18 October 2019. Please refer to the websites of the Stock Exchange (<http://www.hkexnews.hk>) and the Company (<http://www.pmcsh.com>) for details.

If you intend to appoint a proxy to attend the EGM, you are requested to complete, sign and return the enclosed form of proxy in accordance with the instructions printed thereon not less than 24 hours before the time fixed for holding the EGM or any adjournment thereof (as the case may be). Completion and return of the form of proxy will not preclude you from attending and voting in person at the EGM. Shareholders who intend to attend the meeting in person or by proxy should complete, sign and return the reply slip in accordance with the instructions printed thereon on or before Saturday, 16 November 2019.

21 November 2019

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DEFINITIONS

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

“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 at Meeting Center, North 6th Floor, 2747 Songhuajiang Road, Hongkou District, Shanghai, PRC on Friday, 6 December 2019 at 1:00 p.m. for the purpose of, among other matters, considering and, if appropriate, approving the Framework Sales Agreement and the transaction contemplated thereunder and its proposed annual cap amounts;
“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, components, other machinery and equipment by the Group to SEG and its associates;
“Group”	the Company and its subsidiaries;
“Independent Board Committee”	an independent board committee of the Company, comprising all the independent non-executive Directors, to advise the Independent Shareholders on the terms of the Framework Sales Agreement and the transaction contemplated thereunder and the proposed annual cap amounts;

DEFINITIONS

“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 and the transactions 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;
“Latest Practicable Date”	19 November 2019, being the latest practicable date prior to the printing of this circular for ascertaining information contained herein;
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange (as amended from time to time);
“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 circular 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 Latest Practicable Date;
“SEG Group”	SEG and its subsidiaries (excluding the Group);
“Shareholder(s)”	registered holder(s) of the share(s) of the Company;

DEFINITIONS

“Stock Exchange” The Stock Exchange of Hong Kong Limited; and
“%” per cent

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

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

LETTER FROM THE BOARD



上海集優機械股份有限公司

Shanghai Prime Machinery Company Limited

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

(Stock Code: 02345)

Executive Directors:

Mr. Zhou Zhiyan (*Chairman*)
Mr. Xiao Yuman
Dr.-Ing. Gou Jianhui
Mr. Zhang Mingjie
Mr. Si Wenpei

Non-executive Director:

Mr. Dong Yeshun

Independent Non-executive Directors:

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

Registered office:

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

Principal Place of

Business in Hong Kong:

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

21 November 2019

To the Shareholders

Dear Sir or Madam,

CONTINUING CONNECTED TRANSACTIONS

INTRODUCTION

Reference is made to the announcement of the Company dated 18 October 2019 in relation to, among other matters, the continuing connected transactions (and the proposed annual cap amounts) contemplated under the Framework Sales Agreement.

An Independent Board Committee has been established to consider and advise the Independent Shareholders in respect of the transactions (and the proposed annual cap amounts) contemplated under the Framework Sales Agreement. Gram Capital has been appointed as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders as to whether or not the terms and conditions of the Framework Sales Agreement and the transactions contemplated thereunder (and the proposed annual cap amounts) are fair and reasonable so far as the Independent Shareholders are concerned and are in the interests of the Company and the Shareholders as a whole.

LETTER FROM THE BOARD

The purpose of this circular is to provide the Shareholders with further information regarding (i) the details of the Framework Sales Agreement and the transactions contemplated thereunder and the proposed annual cap amounts; (ii) the advice from the Independent Board Committee to the Independent Shareholders in respect of the Framework Sales Agreement; and (iii) the letter of advice from Gram Capital to the Independent Board Committee and Independent Shareholders in respect of the Framework Sales Agreement and the transactions contemplated thereunder and the proposed annual cap amounts, so that Independent Shareholders will have an informed decision in voting on the relevant resolution at the EGM.

INFORMATION OF THE PARTIES AND THEIR RELATIONSHIP

The Group

The Group is principally engaged in design, manufacture and sales of turbine blades, bearings, fasteners, cutting tools and others, the provision of related technical services and investment holding.

SEC

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

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.

As at the Latest Practicable Date, 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 SEC 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 Framework Sales Agreement constitute continuing connected transactions for the Company under Chapter 14A of the Listing Rules.

FRAMEWORK SALES AGREEMENT

Summary of the terms of the Framework Sales Agreement

- Date: 18 October 2019
- Parties:
- the Company; and
 - SEG.

LETTER FROM THE BOARD

Subject matter: Sales of certain materials, components, accessories or raw materials, finished products and other related or similar items, power generation equipment, components, 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 the approval from the Independent Shareholders (if applicable) and compliance with the Listing Rules; and
- Be subject to the termination in part or in whole by either party to the agreement by giving at least three months' 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 agreed by the parties.

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	For the six months ended	For the year ending		
	31 December	30 June	31 December		
	2018	2019	2020	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 above 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. As the demand for coal-fired power equipment in China shrunk, there had been a decline in the sales to SEG and its associates for the six months ended 30 June 2019. The Group believes that the sales would begin to pick up gradually in the second half of the year as a result of the Chinese government's resumption of new approval for nuclear plants in 2019;

LETTER FROM THE BOARD

- (ii) the future business development plan of the Group. In this regards, the Group will aim at concentrating resources to better expand the market share of highly-efficient products with promising market prospect (i.e. products with high level of technical sophistication and high added value). One of such products includes the application of a new generation of anti-corrosion coating technology which the Group believes will help source more contracts from potential customers including SEG and its associates in the market;
- (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. In particular, the sales-range of the equipment is expected to expand from the power generation equipment to include other machinery and equipment, mechanical parts and components and electro-mechanical integrated units. The Group expects that the expanded range of products will provide more flexibility and competitive terms to SEG Group and its associates to cater for their needs in their project developments;
 - (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 National Energy Administration promulgates that it will vigorously develop clean energy, including nuclear power. At present, the research work on the energy development for “the 14th Five-Year Plan” is being carried out in China, which aims to make a plan in respect of energy in the next five years commencing from 2021 to 2025. One of the most important development objectives and tasks is to increase efforts to expand the clean energy industry. As the Group understands, SEG and its associates plan to launch the nuclear power generating units in an orderly manner within the clean energy category, which will be expected to become a development opportunity in 2020 and in the future according to the 14th Five-Year Plan. As such, the Group expects that there will be a strong demand for the generating units from SEG and its associates. The Group expects that more contracts for the newly launched projects can be obtained from SEG Group and its associates in the coming years. According to the 2019 interim report of SEC, SEC is the sole nuclear equipment manufacturer group in China, possessing a set of complete industrial chain covering nuclear island and conventional main and auxiliary equipment on island as well as nuclear heavy forging. In the first half of 2019, the Company understands that SEC has won the bids for multinational nuclear projects. Given that the market share of SEC remains leading in China in terms of main equipment on nuclear island, the collaborative business between the Group and the power stations will continue to grow; and

LETTER FROM THE BOARD

- (c) the Group is committed to the research and development (R&D) of high-end technology with good market prospect. Based on the historical circumstances, it is expected that 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); when implementing the Framework Sales Agreement, there are no relevant price-related documents from the Chinese government available for the Company to comply with. In the event that the Chinese government decides to set a price for any particular products to be sold by the Group, the Group will comply with relevant government regulations and product prices accordingly;
- (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); when implementing the Framework Sales Agreement, there are no relevant price-related documents from the Chinese government available for the Company to comply with. In the event that the Chinese government decides to set a price for any particular products to be sold by the Group, the Group will comply with relevant government regulations and product prices accordingly;
- (iii) if there are neither such stipulated prices nor such pricing guidelines or recommendations, with reference to the market price which shall be the price of the same or comparable type of products offered to independent third parties by the Group in the PRC market. The staff of the special department will obtain prices offered by at least two competing independent third parties to ascertain the prices to be offered to SEG and its associates; 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 profit margin is expected to range between 3% to 20%, depending on the different technical requirements of relevant products, staffing, resources commitment, location and the Group's estimated demand for the products. To this, the special department will conduct an evaluation of the costs incurred and the price will be determined primarily on a willing buyer-willing seller basis for the relevant products.

The Directors (including the independent non-executive 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 other 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.

LETTER FROM THE BOARD

INTERNAL CONTROL AND RISK MANAGEMENT

The Company has established a special department (comprising the Internal Auditing Office and Finance Department) with a team of not less than three dedicated and experienced internal auditing and financial 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 framework 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) through staff of the special departments, 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. For contracts that are based on the prices stipulated by the Government or the pricing guidelines or recommendation set by the Government, the staff of the special department will collate, on a monthly basis, contracts entered into by the Group and compared the prices with the specified or recommended prices set by the Government at the relevant time. For contracts that are to be based on market price and to the extent that those products are of comparable nature, quality and condition, the staff of the special department will conduct internal compared price by obtaining prices offered by at least two competing independent third parties to ascertain whether and at what price the Group should provide to SEG and its associates for sale of relevant products. For contracts that are to be based on cost-plus price, the staff of the special department will consider comprehensively the labour cost, equipment cost, material inputs and etc. of the Group to ensure a reasonable cost plus with reasonable profit margin of relevant products. As far as the general procedure is concerned, the Company's Marketing Department, Technology Department and Finance Department must participate in determining the reasonable profit margin. Based on information such as product material requirements and technical sophistication, costs will be estimated, while internal management cost and the Company's average gross margin will be aggregated, to ensure the reasonableness when determining the profit margin;
- (ii) the Company will compare the transaction prices of SEG and its associates with the transaction price of at least two other customers who are independent of the Company and its connected persons of the Group;
- (iii) The Sales Framework Agreement is to be conducted on a non-exclusive basis. Accordingly, if the market price mechanism is applied and the Group is aware that the transaction price offered by independent third parties for similar or comparable products is less favourable than the price offered by SEG and its associates, but the

LETTER FROM THE BOARD

costs of the Group are significantly reduced due to bulk purchase of the products, preference shall be given to transaction price offered by independent third parties and vice versa;

- (iv) if no market price for the relevant new product is available and the Group is aware that, on applying the same terms of sales (i.e. products using similar materials with application of the same or similar technologies and techniques), if the profit generated from the provision of products to SEG and its associates is less than that 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;
- (v) the Board is responsible for approving all continuing connected transactions of the Group, including the continuing connected transactions under the Framework Sales Agreement;
- (vi) the finance department will, on a monthly basis review and the auditor of the Company will, on a semi-annually basis review the transactions under the Framework Sales Agreement; and
- (vii) 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 FRAMEWORK SALES AGREEMENT

As at the Latest Practicable Date, 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 models, 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.

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The Directors (including the independent non-executive Directors) are of the view that the Framework Sales Agreement is entered into on normal commercial terms and in the ordinary and usual course of business of the Company, and that the terms of Framework Sales Agreement and the annual cap amounts are fair and reasonable and in the interests of the Company and its Shareholders as a whole.

CONFIRMATION FROM THE BOARD

The Framework Sales Agreement and the transactions contemplated thereunder and the proposed annual cap amounts were approved by the Board. None of the Directors has any material interest in the Framework Sales Agreements (including the annual caps) and therefore none of them was required to abstain from voting.

EXTRAORDINARY GENERAL MEETING

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 and the transactions contemplated thereunder and the proposed annual cap amounts in accordance with the requirements of the Listing Rules.

SEG and their respective associates, holding directly and indirectly an aggregate of 1,027,038,882 Shares as at the Latest Practicable Date, are required under the Listing Rules to abstain from voting on the resolution to be proposed to approve the Framework Sales Agreement and the transactions contemplated thereunder and the annual cap amounts at the EGM.

The Independent Board Committee (comprising all the independent non-executive Directors) has been formed by the Company to consider the Framework Sales Agreement and the transactions contemplated thereunder and the annual cap amounts, and to advise the Independent Shareholders as to whether the Framework Sales Agreement and the transactions contemplated thereunder and the 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 of the Company and the Independent Shareholders on the terms of the Framework Sales Agreement.

A notice of the EGM to be held at Meeting Center, North 6th Floor, 2747 Songhuajiang Road, Hongkou District, Shanghai, PRC on Friday, 6 December 2019 at 1:00 p.m. together with the reply slip and the form of proxy for use at the EGM have been sent to Shareholders on 18 October 2019. Please refer to the websites of the Stock Exchange (<http://www.hkexnews.hk>) and the Company (<http://www.pmcs.com>) for details.

In order to determine the Shareholders who are entitled to attend the EGM, the Company's register of H Shareholders was closed from Wednesday, 6 November 2019 to Friday, 6 December 2019 (both days inclusive) during which period no transfer of H Shares will be effected. Holders of H Shares whose names appear on the Company's register of members on Friday, 6 December 2019 are entitled to attend the EGM. In order to be eligible to attend and vote at the EGM, holders of H Shares whose transfers have not been registered must

LETTER FROM THE BOARD

deposit the transfer documents together with the relevant share certificates at the office of the H Share registrar of the Company, Tricor Investor Services Limited, at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong not later than 4:30 p.m. on Tuesday, 5 November 2019.

If you intend to appoint a proxy to attend the EGM, you are requested to complete, sign and return the form of proxy in accordance with the instructions printed thereon at least 24 hours before the time fixed for holding the EGM or any adjournment thereof (as the case may be). Completion and return of the form of proxy will not preclude you from attending and voting in person at the EGM. Shareholders who intend to attend the meeting in person or by proxy should complete, sign and return the reply slip in accordance with the instructions printed thereon on or before Saturday, 16 November 2019.

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

RECOMMENDATION

The Directors consider that the Framework Sales Agreement and the transactions contemplated thereunder and the proposed annual caps are in the interests of the Company and the Shareholders as a whole. Accordingly, the Directors recommend that all Shareholders vote in favour of the resolution in respect of the Framework Sales Agreement (including the proposed annual caps) to be proposed at the EGM as set out in the notice of the EGM.

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

LETTER FROM THE INDEPENDENT BOARD COMMITTEE

The following is the text of a letter from the Independent Board Committee setting out its recommendation to the Independent Shareholders in relation to the Framework Sales Agreement and the transaction contemplated thereunder and the proposed annual cap amounts:



上海集優機械股份有限公司

Shanghai Prime Machinery Company Limited

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

(Stock Code: 02345)

21 November 2019

To the Independent Shareholders

Dear Sirs or Madams,

CONTINUING CONNECTED TRANSACTIONS

We refer to the circular dated 21 November 2019 issued by the Company to the Shareholders (the “**Circular**”), of which this letter forms part. Terms defined in the Circular shall have the same meanings as those used in this letter, unless the context otherwise requires.

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

Gram Capital has been appointed as the Independent Financial Adviser to advise us and the Independent Shareholders in this regard. Details of its advice, together with the principal factors taken into consideration in arriving at such advice, are set out in its letter set out on pages 15 to 26 of the Circular. We wish to draw your attention to the letter from the Board, as set out on pages 4 to 12 of the Circular, and the letter from Gram Capital to the Independent Board Committee and the Independent Shareholders which contains its advice to us in respect of the Framework Sales Agreement, as set out on pages 15 to 26 of the Circular.

Having considered the terms of the Framework Sales Agreement and the proposed annual cap amounts, the advice given by Gram Capital and the principal factors and reasons taken into consideration by them in arriving at their advice, we are of the opinion that the Framework Sales Agreement was entered into in the ordinary and usual course of business, on normal commercial terms and the terms of the Framework Sales Agreement, the transactions

LETTER FROM THE INDEPENDENT BOARD COMMITTEE

contemplated thereunder and the proposed annual cap amounts are fair and reasonable so far as the Independent Shareholders are concerned, and are in the interests of the Company and the Shareholders as a whole. Accordingly, we recommend that the Independent Shareholders vote in favor of the ordinary resolution concerning the same to be proposed at the EGM.

Yours faithfully,

For and on behalf of the Independent Board Committee

Shanghai Prime Machinery Company Limited

Ling Hong

Chan Oi Fat

Sun Zechang

Independent non-executive Directors

LETTER FROM GRAM CAPITAL

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



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

21 November 2019

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

Dear Sirs,

CONTINUING CONNECTED TRANSACTIONS

INTRODUCTION

We refer to our appointment as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in respect of the transactions contemplated under the Framework Sales Agreement (the “**Transactions**”), details of which are set out in the letter from the Board (the “**Board Letter**”) contained in the circular dated 21 November 2019 issued by the Company to the Shareholders (the “**Circular**”), of which this letter forms part. Terms used in this letter shall have the same meanings as defined in the Circular unless the context requires otherwise.

The continuing connected transactions between the Group and SEG and its associates contemplated under the existing framework sales agreement will expire on 31 December 2019. In view of the business needs, the Company and SEG entered into the Framework Sales Agreement on 18 October 2019 to extend the continuing connected transactions under the existing framework sales agreement, 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.

With reference to the Board Letter, the Transactions constitute continuing connected transaction for the Company, and are subject to reporting, announcement, annual review and independent shareholders’ approval requirements under Chapter 14A of the Listing Rules.

The Independent Board Committee comprising Mr. Ling Hong, Mr. Chan Oi Fai and Mr. Sun Zechang (all being independent non-executive Directors) has been established to advise the Independent Shareholders on (i) whether the terms of the Framework Sales Agreement are on normal commercial terms and are fair and reasonable; (ii) whether the Transactions are in the interests of the Company and the Shareholders as a whole and are conducted in the

LETTER FROM GRAM CAPITAL

ordinary and usual course of business of the Group; and (iii) how the Independent Shareholders should vote in respect of the resolution(s) to approve the Framework Sales Agreement and the transactions contemplated thereunder at the EGM. We, Gram Capital Limited, have been appointed as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in this respect.

INDEPENDENCE

As at the Latest Practicable Date, we were not aware of any relationships or interests between Gram Capital and the Company during the past two years immediately preceding the Latest Practicable Date, or any other parties that could be reasonably regarded as hindrance to Gram Capital's independence to act as the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders.

BASIS OF OUR OPINION

In formulating our opinion to the Independent Board Committee and the Independent Shareholders, we have relied on the statements, information, opinions and representations contained or referred to in the Circular and the information and representations as provided to us by the Directors. We have assumed that all information and representations that have been provided by the Directors, for which they are solely and wholly responsible, are true and accurate at the time when they were made and continue to be so as at the Latest Practicable Date. We have also assumed that all statements of belief, opinion, expectation and intention made by the Directors in the Circular were reasonably made after due enquiry and careful consideration. We have no reason to suspect that any material facts or information have been withheld or to doubt the truth, accuracy and completeness of the information and facts contained in the Circular, or the reasonableness of the opinions expressed by the Company, its advisers and/or the Directors, which have been provided to us. Our opinion is based on the Directors' representation and confirmation that there are no undisclosed private agreements/arrangements or implied understanding with anyone concerning the Framework Sales Agreement. We consider that we have taken sufficient and necessary steps on which to form a reasonable basis and an informed view for our opinion in compliance with Rule 13.80 of the Listing Rules.

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

We consider that we have been provided with sufficient information to reach an informed view and to provide a reasonable basis for our opinion. We have not, however, conducted any independent in-depth investigation into the business and affairs of the Company, SEG Group or their respective subsidiaries or associates, nor have we considered the taxation implication on

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the Group or the Shareholders as a result of the entering into of the Framework Sales Agreement. Our opinion is necessarily based on the financial, economic, market and other conditions in effect and the information made available to us as at the Latest Practicable Date. Shareholders should note that subsequent developments (including any material change in market and economic conditions) may affect and/or change our opinion and we have no obligation to update this opinion to take into account events occurring after the Latest Practicable Date or to update, revise or reaffirm our opinion. In addition, nothing contained in this letter should be construed as a recommendation to hold, sell or buy any Shares or any other securities of the Company.

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

PRINCIPAL FACTORS AND REASONS CONSIDERED

In arriving at our opinion in respect of the Framework Sales Agreement and the transactions contemplated thereunder, we have taken into consideration the following principal factors and reasons:

Background of and reasons for the Framework Sales Agreement

Information on the Group

With reference to the Board Letter, the Group is principally engaged in design, manufacture and sales of turbine blades, bearings, fasteners, cutting tools and others, the provision of related technical services and investment holding.

Set out below are the consolidated financial information of the Group for the two years ended 31 December 2018 and the six months ended 30 June 2019 as extracted from the Company's annual report for the year ended 31 December 2018 (the "2018 Annual Report") and interim report for the six months ended 30 June 2019 (the "2019 Interim Report"):

	For the six months ended 30 June 2019	For the year ended 31 December 2018	For the year ended 31 December 2017	Change from 2017 to 2018
	<i>(Unaudited)</i>	<i>(Audited)</i>	<i>(Audited)</i>	
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>%</i>
Revenue	4,484,717	9,027,535	8,478,895	6.47
Profit for the year/period attributable to owners of the Company	114,736	280,438	253,424	10.66

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As illustrated in the above table, the Group's revenue amounted to approximately RMB9,028 million for the year ended 31 December 2018 ("FY2018"), representing an increase of approximately 6.47% as compared to that for the year ended 31 December 2017 ("FY2017"). With reference to the 2018 Annual Report, the increase in revenue was primarily driven by organic growth in the fastener business and the acquisition of CP Tech GmbH completed in August 2017, partially offset by decline in revenue of the turbine blade business.

As also illustrated in the above table, the profit attributable to owners of the Company for FY2018 increased by 10.66% to RMB280 million. With reference to the 2018 Annual Report, such increase was due to the reduction in finance costs and higher net foreign exchange gains (after hedging).

With reference to the 2019 Interim Report, the Group will (i) actively promote mergers and acquisitions for long-run development; (ii) strengthen management and improve business result in European region; (iii) concentrate resources to better and expand the market share of highly-efficient products with promising market prospect; and (iv) reinforce research and development capabilities and create new business mode.

Information on SEG

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

Reasons for entering into the Framework Sales Agreement

With reference to the Board Letter, 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.

As confirmed by the Directors, as the Transactions are entered into in the ordinary and usual course of business of the Group and on a frequent and regular basis, it would be costly and impractical to make regular disclosure of each of the relevant transactions and obtain the prior approval from the Independent Shareholders, as required by the Listing Rules, if necessary. Accordingly, the Directors are of the view that the Transactions will be beneficial to the Company and the Shareholders as a whole.

Having considered that (i) long-term business relationships between the Group and the SEG Group; (ii) the Transactions will provide a source of income to the Group and are of a revenue nature for the Group; and (iii) it would be costly and impractical to make regular disclosure of each of the relevant transactions and obtain the prior approval from the Independent Shareholders, as required by the Listing Rules, if necessary, we concur

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with the Directors that the Transactions are in the interests of the Company and the Shareholders as a whole and are conducted in the ordinary and usual course of business of the Group.

1. Principle terms of the Framework Sales Agreement

Date: 18 October 2019

Parties: (i) the Company, as supplier; and
(ii) SEG, as purchaser.

Subject matter: Sales of certain materials, components, accessories or raw materials, finished products and other related or similar items, power generation equipment, components, other machinery and equipment (the “**Products**”) by the Group to SEG and its associates.

Term: (i) 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
(ii) Subject to the 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 type 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 agreed by the parties.

Pricing basis

With reference to the Board Letter, the pricing basis is based on the following criteria (in sequence):

- (i) prices 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 shall be the price of the same or comparable type of products offered to independent third parties by the Group in the PRC market. The staff of the Group’s

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special department will obtain prices offered by at least two competing independent third parties to ascertain the prices to be offered to SEG and its associates; 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 profit margin will range between 3% to 20% depending on the different technical requirements of relevant products, staffing, resources commitment, location and the demand for the products estimated by the Group.

We understood from the Company that, when implementing the existing framework sales agreement, there were no relevant PRC government documents in relation to the prices for the Company to follow. Accordingly, the Company has adopted the “market price” as the pricing standard when selling the Products under the existing framework sales agreement. After implementation of the Framework Sales Agreement, the Company will continue to determine the prices of all the Products under the Framework Sales Agreement with reference to the “market price” as the pricing basis. In the unforeseeable event that the PRC government decides to set prices of products sold by the Group, the Group will comply with the relevant government regulations and price the Products accordingly.

We also understood from the Company that, the Company will seek to obtain information on prevailing market prices (i.e. the price of the same or comparable type of products offered to independent third parties by the Group in the PRC market) on a quarterly to semi-annually basis through contacts between its sales representatives, its customers and industry peers. Based on the information on prevailing market prices, the Company will determine the relevant market prices with reference to the then demand and supply of relevant products in the PRC, distance between the location of buyers and sellers, as well as the quality of relevant products. After collecting the market information, the pricing terms will be used as benchmark for the Transactions with SEG and its associates. The final terms in the specific agreements will then be discussed, assessed and approved by the Group’s finance department and relevant operations departments with reference to the aforesaid information.

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

As advised by the Directors, the Products sold to connected persons during 2018 and 2019 included three types of Products. Among the total three types of Products, the sale amount of two types (type A and type B) of Products represented over 95% to the sale amount of the Products to connected persons for FY2018 and first half year of 2019 respectively. For our due diligence purpose, we obtained (i)

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four sets of sales documents regarding the sale of the aforementioned two types of Products (the “**Individual Products**”) during 2018 and 2019 by the Group to connected persons (i.e. two sets regarding sale of type A Products during each of 2018 and 2019; and two sets regarding sale of type B Products during each of 2018 and 2019); and (ii) four sets of sales documents regarding the sale of products (which were comparable to the Individual Products) during 2018 and 2019 by the Group to independent third parties (i.e. two sets regarding sale of type A Products during each of 2018 and 2019; and two sets regarding sale of type B Products during each of 2018 and 2019). We noted that the selling prices of the Individual Products offered by the Group to connected persons were no more favourable than those of comparable products offered to independent third parties.

With reference to Rule 14A.56 of the Listing Rules, among other things, the auditors of the Company must provide a letter to the Board confirming whether anything has come to their attention that causes them to believe that the continuing connected transactions were not, in all material respects, in accordance with the pricing policies of the listed issuer’s group if the transactions involve the provision of goods or services by the listed issuer’s group. We obtained such letter from the auditors of the Company to the Company in relation to the Group’s continuing connected transactions for FY2018, showing their confirmation that, among other things, for transactions involving the provision of goods or services by the Group, nothing has come to their attention that causes them to believe that the transactions were not, in all material respects, in accordance with the pricing policies of the Group.

Internal control

We noted that the Company established a special department (comprising the Internal Auditing Office and Finance Department) with a team of not less than three dedicated and experienced internal auditing and financial staff to monitor and manage the Group’s connected transactions. The special department’s staff 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 existing agreements. The auditors of the Company reviews the connected transactions on a semi-annual basis and reports the findings to the management of the Company.

For our due diligence purpose, we obtained personnel information of the special department’s members and noted that they (i) have at least three years of relevant experience in compliance and financial management; and (ii) obtained accounting qualifications. Accordingly, we consider they are experienced and capable to monitor and manage connected transactions.

The Group undertakes various internal assessments to monitor the pricing basis of the Transactions and ensure that the Transactions are entered into and the actual sale prices are determined in accordance with the pricing basis of the Framework Sales Agreement. Details of such internal assessments were set out under the section

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headed “INTERNAL CONTROL AND RISK MANAGEMENT” of the Board Letter. Having considered that there would be price comparison procedures and re-negotiation procedures (which may ensure the prices offered by the Group to SEG and its associates to be no more favourable than those offered by the Group to other independent third parties for the same or comparable type of products), we consider that the effective implementation of the internal control mechanism would help to ensure fair pricing of the Transactions contemplated under the Framework Sales Agreement are in compliance with its pricing policy.

We further discussed with the Company’s staff in the special department and understood that they were aware of the internal control and risk management for transactions contemplated under the Framework Sales Agreement (including price comparison procedures and re-negotiation procedures) and will implement internal assessments to ensure the adoption of the relevant pricing principles according to the terms of the Framework Sales Agreement.

Having also considered (i) our findings on the sales documents and auditors’ confirmation as mentioned above; and (ii) our discussion with the Company’s staff in the special department, we do not doubt the effectiveness of the implementation of the internal control mechanism.

In light of the above, we are of the view that the terms of the Framework Sales Agreement are on normal commercial terms and are fair and reasonable.

Proposed annual caps

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

	Historical transaction amounts		
	For the year ended 31 December 2017 (RMB million)	For the year ended 31 December 2018 (in RMB million)	For the year ending 31 December 2019 (in RMB million)
Aggregate sales to SEG and its associates	278.2	279	92.8 <i>(Note)</i>
Existing annual caps	491	496	506
<i>Utilization (%)</i>	56.7	56.3	N/A

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Proposed annual cap amounts (the “New Sales Cap(s)”)	For the year ending 31 December 2020 <i>(in RMB million)</i>	For the year ending 31 December 2021 <i>(in RMB million)</i>	For the year ending 31 December 2022 <i>(in RMB million)</i>
Aggregate sales to SEG and its associates	304	354	352

Note: The figure was for the six months ended 30 June 2019.

In arriving at the above annual caps for the three years ending 31 December 2022, the Directors had taken of various factors, details of which were set out under the sub-section headed “Historical transaction amounts and the proposed annual caps” of the Board Letter.

We noted that the utilization rates of the existing annual caps reached approximately 56.7% for FY2017 and approximately 56.3% for FY2018. As advised by the Directors, The low utilization rates of the existing annual caps were mainly due to the PRC government’s temporary suspension on new nuclear power projects approval which led to the reduction of the demand for the Products by SEG and its associates. In light of the above and that the sale amounts represented less than 20% to the existing annual caps for the year ending 31 December 2019, the New Sales Caps for the three years ending 31 December 2022 were set below the existing annual cap for the year ending 31 December 2019.

We noted that the New Sales Cap for the year ending 31 December 2020 increased by approximately 8.96% as compared to the aggregate sales to SEG and its associates for FY2018 while the New Sales Caps for each of the two years ending 31 December 2022 increased by approximately 16.45% and 15.79% as compared to the New Sales Cap for the year ending 31 December 2020.

As advised by the Directors, the New Sales Caps for the three years ending 31 December 2022 was determined with reference to, among other things, the Group’s historical business development. Based on the 2018 Annual Report, the average growth rate of the Group’s revenue for the three years ended 31 December 2018 was approximately 8.22%. With reference to the 2018 Annual Report, the Group is organised into business units based on their products and services and has five reportable operating segments (i.e. (i) bearing, (ii) turbine blade, (iii) cutting tool, (iv) fastener and (v) others). The average growth rate of the Group’s revenue for the three years ended 31 December 2018 indicates a general reference of demand for such products by the market. As advised by the Directors, the products to be sold to SEG and its associates fall into the aforesaid (i) to (iv) reportable operating segments. Accordingly, we consider that it is acceptable to estimated aggregate sales to SEG and its associates based on the historical market response (i.e. the average growth rate of the Group’s revenue).

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Pursuant to the Framework Sales Agreement, the products to be sold to SEG and its associates include certain materials, components, accessories or raw materials, finished products and other related or similar items, power generation equipment, components, other machinery and equipment. As confirmed by the Directors, such products will be applied to, among other things, wind power equipment manufacturing, nuclear power equipment manufacturing, power plants construction. For our due diligence purpose, we discussed with relevant staffs of the Group, who had over 15-year experience respectively in sale of fastener and turbine blade, and understood that fastener and turbine blade (being the products under the Framework Sales Agreement) will be applied for the manufacturing of nuclear power equipment and wind power equipment. Therefore, we do not doubt the use of Products under the Framework Sales Agreement.

As further advised by the Directors, the PRC government resumed approvals of new nuclear power stations in 2019 after three-year halt to approving new nuclear projects. We searched over the internet and noted that on 18 March 2019, the Ministry of Ecology and Environment of the PRC accepted the environmental impact assessments for two nuclear power plants in Fujian and Guangdong provinces.

We further noted that National Development and Reform Commission and National Energy Administration (“NDRC”) jointly issued 《關於積極推進風電、光伏發電無補貼平價上網有關工作的通知》 (the Notice on Active Promotion of the Work on Grid Parity of Wind Power and Photovoltaic Power without Subsidies*) (http://www.ndrc.gov.cn/zcfb/zcfbtz/201901/t20190109_925398.html) in January 2019 to promote subsidy-free grid parity for wind power and photovoltaic power generation. We also noted from 《關於完善風電上網電價政策的通知》 (the Notice on Improving Wind Power On-grid Tariff Policies*) issued by the NDRC in May 2019 that

- in respect of onshore wind power, the benchmarked on-grid tariff for onshore wind power shall be changed to the guidance price. The on-grid tariff of newly approved centralized onshore wind power projects shall be determined by way of competition and shall not be higher than the guidance price of the resource zones where the project is located. For onshore wind power projects approved before the end of 2018, if the grid connection has not been completed by the end of 2020, the state will no longer grant subsidies. For the onshore wind power projects approved from 1 January 2019 to the end of 2020, if the grid connection has not been completed by the end of 2021, no subsidy will be granted by the State. From 1 January 2021, the newly approved onshore wind power projects will fully achieve grid parity, and the State will no longer provide subsidies.
- in respect of offshore wind power, the benchmarked on-grid tariff of offshore wind power shall be changed to the guidance price, and on-grid tariff for all newly approved offshore wind power projects shall be determined by way of competition. For offshore wind power projects

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approved before the end of 2018, if all units are connected to the grid by the end of 2021, the on-grid tariff at the time of approval will be applied. If the units are connected to the grid in 2022 or later, the guidance price at the time when grid connection is completed will be applied.

For our due diligence purpose, we noted from the interim report of SEC (a controlling shareholder of the Company whose controlling shareholder is SEG) for the six months ended 30 June 2019 that SEC and its subsidiaries (“**SEC Group**”) (i) won the bid for the new component loader project at the Xiapu nuclear power plant in Fujian of 中核龍原科技有限公司 (CNNC Longyuan Technology Co., Ltd.*) and the renovation project for the PMC fueling machine of unit 1 at the Ningde nuclear power plant in Fujian of 中廣核研究設計院 (China Nuclear Power Technology Research Institute*); and (ii) won the bid for supplying 29 units of 7.0MW offshore wind turbines for the 200MW wind power project of State Power Investment Corporation in Shenquan, Jieyang, Guangdong. In addition, for the six months ended 30 June 2019, SEC Group (i) received new orders for nuclear island equipment of RMB1.01 billion, representing a year-on-year increase of 12.0%; and (ii) received new orders for wind power equipment of RMB5.72 billion, representing a year-on-year increase of 40.0%.

Therefore, we concur with the Directors’ views that there will be a strong demand for the generating units from SEG and its associates, which may further increase demand of products under the Sale Transactions according to the use of such products as mentioned above.

Based on (i) the historical aggregate sales to SEG and its associates for FY2018; (ii) the average growth rate of the Group’s revenue for the three years ended 31 December 2018 was approximately 8.22%; (iii) that the resumption of approvals of new nuclear power stations in 2019 after three-year halt to approving new nuclear projects and wind power related policies as mentioned above may increase the demand of the Products; and (iv) SEC Group’s projects and the new orders for the six months ended 30 June 2019, we are of the view that the New Sales Caps for the three years ending 31 December 2022, which were set below the existing annual cap for the year ending 31 December 2019 after considering the sale amounts represented less than 20% to the existing annual caps for the year ending 31 December 2019, are fair and reasonable.

Shareholders should note that as the proposed annual caps are relating to future events and were estimated based on assumptions which may or may not remain valid for the entire period up to 31 December 2022, and they do not represent forecasts of revenue/income/cost to be incurred from the transactions contemplated under the Framework Sales Agreement. Consequently, we express no opinion as to how closely the actual revenue/income to be incurred from the transactions contemplated under the Framework Sales Agreement will correspond with the proposed annual caps.

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Listing Rules implication

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

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

RECOMMENDATION

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

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

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

* *For identification purposes only*

1. RESPONSIBILITY STATEMENT

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

2. DISCLOSURE OF INTERESTS

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

Name of director	Class of shares	No. of shares	Capacity	Nature of interests	Approximate	Approximate
					percentage of the total share capital of the Company	percentage of the total share capital of the Company
Zhou Zhiyan	H	156,800	Beneficial owner	Long position	0.02	0.00
Chen Hui	H	87,800	Beneficial owner	Long position	0.01	0.00

Note:

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

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

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

3. DIRECTOR'S SERVICE CONTRACTS

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

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

4. ARRANGEMENT AFFECTING DIRECTORS

As at the Latest Practicable Date:

- (a) None of the Directors is interested, directly or indirectly, in any assets which have, since 31 December 2018, the date to which the latest published audited consolidated financial statements of the Company were made up, been acquired or disposed of by or leased to any member of the Group, or are proposed to be acquired or disposed of by or leased to any member of the Group.
- (b) None of the Directors is materially interested in any contract or arrangement subsisting as entered into by any member of the Group and which is significant in relation to the business of the Group.
- (c) None of the Directors and his/her associates had any competing interests that would be required to be disclosed under Rule 8.10 of the Listing Rules where he was a controlling shareholder.

5. MATERIAL ADVERSE CHANGES

The Directors are not aware of any material adverse change in the financial and trading position of the Group since 31 December 2018, the date to which the latest published audited consolidated financial statements of the Group were made up.

6. LITIGATION

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

7. EXPERT AND CONSENT

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

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

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

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

As at the Latest Practicable Date, Gram Capital had no direct or indirect interest in any assets which had been, since 31 December 2018 (the date to which the latest published audited consolidated financial statements of the Company were made up), acquired, disposed of by, or leased to any member of the Group, or were proposed to be acquired, disposed of by, or leased to any member of the Group.

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

8. MISCELLANEOUS

- (a) The company secretary of the Company is Mr. Ng Kwong, Alexander and he is a member of the Hong Kong Institute of Certified Public Accountants.
- (b) The registered address of the Company is at Room 1501, Jidian Edifice, 600 Heng Feng Road, Shanghai, the PRC.
- (c) The H share registrar and transfer office of the Company in Hong Kong is Tricor Investor Services Limited at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong.

- (d) The English text of this circular shall prevail over the Chinese text in case of any inconsistency.

9. DOCUMENTS AVAILABLE FOR INSPECTION

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

- (a) the Framework Sales Agreement;
- (b) the letter from the Independent Board Committee, the text of which is set out on pages 13 to 14 of this circular;
- (c) the letter of advice from Gram Capital, the text of which is set out on pages 15 to 26 of this circular;
- (d) the written consent referred to in the paragraph headed "Expert and Consent" in this appendix; and
- (e) this circular.