

THIS DOCUMENT IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

If you are in any doubt as to any aspect of the Merger, this Composite Document or as to the action to be taken, you should consult a licensed securities dealer or registered institution in securities, a bank manager, solicitor, professional accountant or other professional adviser.

If you have sold or transferred all your securities in SPM, you should at once hand this Composite Document and the accompanying forms of proxy to the purchaser or transferee or to the licensed securities dealer or registered institution in securities or other agent through whom the sale or transfer was effected for transmission to the purchaser or transferee.

Hong Kong Exchanges and Clearing Limited and The Stock Exchange of Hong Kong Limited take no responsibility for the contents of this Composite Document and the accompanying forms of proxy, make no representation as to their accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this Composite Document and the accompanying forms of proxy.



SHANGHAI ELECTRIC GROUP COMPANY LIMITED

上海電氣集團股份有限公司

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

(Stock Code: 02727)



Shanghai Prime Machinery Company Limited

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

(Stock Code: 02345)

**SHANGHAI PRIME MINGYU MACHINERY
TECHNOLOGY CO., LTD.***

上海集優銘宇機械科技有限公司

(a company incorporated in the People's Republic of China with limited liability)

(1) PROPOSED PRIVATISATION OF SPM BY THE OFFEROR BY WAY OF MERGER BY ABSORPTION (2) PROPOSED WITHDRAWAL OF LISTING OF SPM (3) NOTICE OF THE SPM EGM AND (4) NOTICE OF THE SPM H SHAREHOLDERS' CLASS MEETING

Financial Adviser to SEG and the Offeror



BNP PARIBAS

Independent Financial Adviser to the Independent Board Committee



SOMERLEY CAPITAL LIMITED

Capitalised terms used on this cover page shall have the same meanings as those defined in the section headed "Definitions" in this Composite Document.

This Composite Document is jointly issued by SEG, SPM and the Offeror. A letter from the Board is set out on pages 15 to 37 of this Composite Document. A letter from the Independent Board Committee containing its recommendations to the Independent SPM H Shareholders is set out on pages 38 to 39 of this Composite Document. A letter from the Independent Financial Adviser containing its advice to the Independent Board Committee is set out on pages 40 to 82 of this Composite Document.

The notices convening the SPM EGM and the SPM H Shareholders' Class Meeting to be held at Meeting Center, North 6th Floor, 2747 Songhuajiang Road, Hongkou District, Shanghai, PRC on Monday, 11 January 2021 (i) in relation to the SPM EGM, 9:00 a.m., and (ii) in relation to the SPM H Shareholders' Class Meeting, 10:00 a.m., or immediately following the conclusion of the SPM EGM or any adjournment thereof are contained in this Composite Document. SPM Shareholders are advised to read the notices and to complete and return the enclosed forms of proxy for use at the SPM EGM and the SPM H Shareholders' Class Meeting in accordance with the instructions printed thereon. If you intend to attend the SPM EGM and the SPM H Shareholders' Class Meeting, please complete and return the appropriate reply slip in accordance with the instructions printed thereon as soon as possible and in any event by no later than Monday, 21 December 2020. SPM Shareholders who fail to complete and return the relevant reply slips in accordance with the instructions printed thereon will still be able to attend and vote in the relevant meetings so long as a quorum is present to hold the relevant meetings.

Whether or not you are able to attend and vote at the SPM EGM and the SPM H Shareholders' Class Meeting or any adjournment thereof in person, you are requested to complete and return the accompanying forms of proxy in accordance with the instructions printed thereon and return them to the SPM H Share registrar, Tricor Investor Services Limited (for holders of SPM H Shares) or the SPM Board office in the PRC (for holders of SPM Domestic Shares), together with the power of attorney or other authority (if any) under which it is signed (or a notarially certified copy thereof), as soon as possible and in any event not later than 24 hours before the time appointed for holding the SPM EGM and the SPM H Shareholders' Class Meeting or any adjournment thereof (as the case may be).

Completion and return of the forms of proxy will not preclude you from attending and voting in person at the SPM EGM, the SPM H Shareholders' Class Meeting or any adjournment thereof should you so wish and in such event, the forms of proxy shall be deemed to be revoked.

Taking into account the recent development of the epidemic caused by the coronavirus disease (COVID-19), SPM will implement the following prevention and control measures at the SPM EGM and SPM H Shareholders' Class Meeting to protect SPM Shareholders from the risk of infection:

- (i) compulsory body temperature checks will be conducted for every attending SPM Shareholder or proxy at the entrance of the venue. Any person with a body temperature of over 37.5 degrees Celsius will not be admitted to the venue, but will be able to vote by submitting a voting slip to the scrutineer at the entrance of the venue;
- (ii) every attending SPM Shareholder or proxy is required to wear a surgical mask throughout the SPM EGM and the SPM H Shareholders' Class Meeting;
- (iii) no refreshments will be served at the SPM EGM and the SPM H Shareholders' Class Meeting; and
- (iv) no entry will be allowed to any person who is subject to mandatory quarantine order imposed by the PRC Government and/or the Hong Kong Government (as the case may be) and any person who does not comply with the precautionary measures may be denied entry into the meeting venue.

Those being refused entry at the meeting venue would still be allowed to vote by submitting a voting slip to the scrutineer at the entrance of the venue.

Furthermore, SPM wishes to advise all of the SPM Shareholders, particularly any SPM Shareholders who are subject to quarantine in relation to COVID-19, that they may appoint any person or the chairman of the SPM EGM and the SPM H Shareholders' Class Meeting as a proxy to attend and vote on any of the resolutions, instead of attending the SPM EGM and the SPM H Shareholders' Class Meeting in person.

SPM will closely monitor and ascertain the regulations and measures introduced or to be introduced by the PRC Government and/or the Hong Kong government (as the case may be), and if necessary, will make further announcements in case of any update regarding the precautionary measures to be carried out at the SPM EGM and the SPM H Shareholders' Class Meeting.

11 December 2020

CONTENTS

	<i>Page</i>
Expected timetable	1
Important notices	4
Actions to be taken	6
Definitions	8
Letter from the Board	15
Letter from the Independent Board Committee	38
Letter from the Independent Financial Adviser	40
Appendix I — Financial Information of SPM	I-1
Appendix II — General Information	II-1
Notice of SPM EGM	EGM-1
Notice of SPM H Shareholders’ Class Meeting	HSCM-1

EXPECTED TIMETABLE

EXPECTED TIMETABLE

The expected timetable set out below is indicative only and may be subject to changes. Further announcement(s) will be made as and when appropriate. Unless otherwise expressly stated, all references to dates and times contained in this Composite Document refer to Hong Kong dates and times.

Latest date for receiving reply slips for the SPM EGM and
the SPM H Shareholders' Class Meeting..... Monday,
21 December 2020

Latest time for lodging transfers of SPM H Shares in order
to be entitled to attend and vote at the SPM EGM and
the SPM H Shareholders' Class Meeting..... 4:30 p.m. on Tuesday,
5 January 2021

Closure of registers for transfers of SPM Shares for
determination of the SPM Shareholders entitled
to attend and vote at the SPM EGM and
the SPM H Shareholders' Class Meeting..... Wednesday, 6 January 2021 to
Monday, 11 January 2021
(both dates inclusive)

Latest time for lodging proxy forms in respect of
the SPM EGM 9:00 a.m. on Sunday,
10 January 2021

Latest time for lodging proxy forms in respect of
the SPM H Shareholders' Class Meeting..... 10:00 a.m. on Sunday,
10 January 2021

Record date for SPM Shareholders for the SPM EGM and
the SPM H Shareholders for the SPM H Shareholders' Class Meeting..... Monday,
11 January 2021

SPM EGM..... 9:00 a.m. on Monday,
11 January 2021

SPM H Shareholders' Class Meeting 10:00 a.m. on Monday,
11 January 2021
or immediately following the conclusion of
the SPM EGM or any adjournment thereof
on Monday, 11 January 2021

Announcement of the results of the SPM EGM and
the SPM H Shareholders' Class Meeting..... by 7:00 p.m. on Monday,
11 January 2021

EXPECTED TIMETABLE

Expected date for all Effectiveness	
Conditions to be satisfied	Monday, 11 January 2021
Announcement of the satisfaction of all Effectiveness	
Conditions, last day for dealings in SPM H Shares and expected date of withdrawal of listing of SPM H Shares.....	Monday, 11 January 2021
Resumption of registers for transfer of SPM Shares	Tuesday, 12 January 2021
Each of the Offeror and SPM notifies its creditors and makes a public announcement of the Merger pursuant to the PRC Company Law	within 10 days (for the notice to creditors) i.e. by 21 January 2021 and 30 days (for the announcement) i.e. by 10 February 2021 following the SPM EGM and the SPM H Shareholders' Class Meeting
Last day for dealings in SPM H Shares.....	Tuesday, 12 January 2021
Latest time for lodging transfers of SPM H Shares in order to be entitled to receive the Cancellation Price	4:30 p.m. on Thursday, 14 January 2021
Closure of registers of members of SPM (until SPM's deregistration occurs)	from Friday, 15 January 2021 onwards
Expected date and time of withdrawal of listing of SPM H Shares	9:00 a.m. on Wednesday, 20 January 2021
Announcement that all Implementation Conditions are satisfied (or waived, as applicable)	Wednesday, 20 January 2021
Latest date for payment of the Cancellation Price	Friday, 29 January 2021
End of the period during which creditors may request the Offeror and SPM to pay off their respective indebtedness or provide guarantees.....	within 30 days after the receipt of notice by creditors or 45 days after the issue of announcement to creditors (whichever is the latest)

EXPECTED TIMETABLE

Further announcement(s) will be made in respect of the satisfaction or waiver, as appropriate, of the Effectiveness Conditions and the Implementation Conditions as and when appropriate in accordance with the Takeovers Code.

SPM Shareholders and potential investors in the securities of SPM should be aware that the Merger is subject to the Conditions set out in this Composite Document being satisfied or waived, as applicable, and neither the Offeror, SEG nor SPM provides any assurance that any or all of the Conditions can be satisfied, and thus the Merger Agreement may or may not become effective or, if effective, may or may not be implemented or completed. SPM Shareholders and potential investors in the securities of SPM should therefore exercise caution when dealing in the securities of SPM. Persons who are in doubt as to the action they should take should consult their stockbroker, bank manager, solicitor or other professional advisers.

IMPORTANT NOTICES

IMPORTANT NOTICES

NOTICE TO SPM SHAREHOLDERS OUTSIDE OF HONG KONG

IMPORTANT: You must read the following disclaimer before continuing. The following disclaimer applies to this Composite Document as a whole and you are therefore advised to read this disclaimer page carefully before accessing, reading or making any other use of this Composite Document. In, and as a result of, accessing this Composite Document you agree, and you are deemed to agree, to be bound by the following terms and conditions.

The Merger will involve the cancellation of the securities of a company incorporated in the PRC with limited liability by means of a merger by absorption provided for under the laws of the PRC. The Merger is subject to Hong Kong disclosure requirements and other procedural requirements, which are different from those of the United States. In addition, US holders of the SPM Shares should be aware that this Composite Document has been prepared in accordance with Hong Kong format and style, which differs from United States format and style.

The financial information of the SPM Group included in this Composite Document has been extracted from the audited financial statements of SPM for the three years ended 31 December 2017, 31 December 2018 and 31 December 2019 and the unaudited financial statements of SPM for the six months ended 30 June 2020 which have been prepared in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants. Such financial information may not be wholly comparable to financial information of U.S. companies or companies whose financial statements are solely prepared in accordance with Generally Accepted Accounting Principles in the United States.

The receipt of cash pursuant to the Merger by a U.S. holder of the SPM Shares as consideration for the cancellation of its SPM Shares may be a taxable transaction for U.S. federal income tax purposes and under applicable state and local, as well as foreign and other tax laws. Each holder of the SPM Shares is urged to consult his/her/its independent professional adviser immediately regarding the tax consequences of the implementation of the Merger.

It may be difficult for U.S. holders of SPM Shares to enforce their rights and claims arising out of the U.S. federal securities laws, since the Offeror and SPM are located in a country other than the United States, and some or all of their respective officers and directors may be residents of a country other than the United States. In addition, most of the assets of the Offeror and SPM are located outside the United States. U.S. holders of SPM Shares may not be able to sue a non-U.S. company or its officers or directors in a non-U.S. court for violations of the securities laws of the United States. Further, it may be difficult for U.S. holders of SPM Shares to effect service of process within the United States upon the Offeror or SPM or their respective officers or directors, or to enforce against them a judgment of a U.S. court predicated upon the federal or state securities laws of the United States.

IMPORTANT NOTICES

In accordance with normal Hong Kong practice and pursuant to Rule 14e-5(b) of the US Exchange Act, the Offeror hereby discloses that it or its affiliates or its nominees, or their respective brokers (acting as agents), may from time to time make certain purchases of, or arrangements to purchase, SPM Shares outside of the United States, other than pursuant to the Merger, before or during the Merger. These purchases may occur either in the open market at prevailing prices or in private transactions at negotiated prices provided that any such purchase or arrangement complies with applicable law, including but not limited to the Takeovers Code, and is made outside the United States. Any information about such purchases will be reported to the SFC and, to the extent required to be publicly disclosed under the Takeovers Code, will be available on the SFC website at <http://www.sfc.hk/>.

CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

This Composite Document contains forward-looking statements, which may be identified by words such as “believe”, “expect”, “anticipate”, “intend”, “plan”, “seek”, “estimate”, “will”, “would” or words of similar meaning, that involve risks and uncertainties, as well as assumptions. All statements other than statements of historical fact are statements that could be deemed forward-looking statements. These statements reflect SEG’s, the Offeror’s or SPM’s (as the case may be) current expectations, beliefs, hopes, intentions or strategies regarding the future and assumptions in light of currently available information. Such statements are not guarantee of future performance or events and involve known and unknown risks and uncertainties.

SPM Shareholders and potential investors in the securities of SPM should not place undue reliance on such forward-looking statements. Each of SEG, the Offeror and SPM assumes no obligation and does not intend to update these forward-looking statements, except as required pursuant to applicable laws and the Takeovers Code.

ACTIONS TO BE TAKEN

Whether or not they are able to attend the SPM EGM or the SPM H Shareholders' Class Meeting (where applicable) in person, the SPM Shareholders are strongly urged to complete and sign the enclosed form of proxy in respect of the SPM EGM in accordance with the instructions printed thereon and the SPM H Shareholders are strongly urged to complete and sign the enclosed form of proxy in respect of the SPM H Shareholders' Class Meeting in accordance with the instructions printed thereon as soon as possible, but in any case not later than the following respective times:

- (1) in the case of the form of proxy for use at the SPM EGM, the SPM Shareholders are requested to deposit such form of proxy no later than 9:00 a.m. on Sunday, 10 January 2021 at SPM H Shares registrar (in respect of SPM H Shareholders) at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong or at the Board office of SPM (in respect of SPM Domestic Shareholders) at South 4th Floor, 2747 Songhuajiang Road, Hongkou District, Shanghai, PRC; and
- (2) in the case of the form of proxy for use at the SPM H Shareholders' Class Meeting, the SPM H Shareholders are requested to deposit such form of proxy no later than 10:00 a.m. on Sunday, 10 January 2021 at SPM H Shares registrar at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong.

The completion and return of a form of proxy for any of the meetings will not preclude you from attending and voting in person at the relevant meetings or any adjournment thereof, should you so wish. In the event that you attend and vote at any of the meetings or any adjournment thereof after having deposited the relevant form of proxy, that form of proxy will be deemed to have been revoked.

If you are eligible and intend to attend the relevant meetings, please complete and return the relevant reply slips in accordance with the instructions printed thereon. Reply slips should be returned as soon as possible (but in any event not later than 20 days before the scheduled date for holding the relevant meetings or any adjournment thereof). SPM Shareholders who fail to complete and return the relevant reply slips in accordance with the instructions printed thereon will still be able to attend and vote in the relevant meetings so long as a quorum is present to hold the relevant meetings.

In light of the potential travel difficulties and postal delay during the COVID-19 pandemic, postal rule shall apply to the receipt of reply slips to the effect that the despatch dates shown on postal stamps shall serve as concluding evidence as to valid despatch and receipt of the same within the required period (i.e. on or before Monday, 21 December 2020).

For the purpose of determining the entitlements of the SPM Shareholders to attend and vote at the SPM EGM and the SPM H Shareholders to attend and vote at the SPM H Shareholders' Class Meeting, SPM's registers of members will be closed from Wednesday, 6 January 2021 to Monday, 11 January 2021 (both dates inclusive). During such period, no transfer of SPM Shares will be effected.

ACTIONS TO BE TAKEN

Only SPM Shareholders whose names are on SPM's registers of members on Monday, 11 January 2021 are entitled to vote at the relevant meetings. Each SPM Shareholder on SPM's registers of members on Monday, 11 January 2021 is entitled to cast one vote per SPM Share in respect of the Merger in the SPM EGM. Each Independent SPM H Shareholder on SPM's registers of members on Monday, 11 January 2021 is entitled to cast one vote per SPM H Share in respect of the Merger in the SPM H Shareholders' Class Meeting.

An announcement will be made in relation to the results of SPM EGM and the SPM H Shareholders' Class Meeting. Further announcement(s) will be made in respect of the satisfaction or waiver, as appropriate, of the Effectiveness Conditions and the Implementation Conditions as and when appropriate in accordance with the Takeovers Code.

DEFINITIONS

DEFINITIONS

In this Composite Document, the following expressions have the meanings set out below, unless the context requires otherwise:

“2019 SPM Annual Report”	the annual report of SPM for the year ended 31 December 2019 published on 16 April 2020
“2020 SPM Interim Report”	the interim report of SPM for the six months ended 30 June 2020 published on 28 August 2020
“acting in concert”	has the meaning ascribed to it in the Takeovers Code, and “concert parties” shall be construed accordingly
“BNP Paribas”	BNP Paribas Securities (Asia) Limited, the financial adviser to SEG and the Offeror. BNP Paribas is a corporation licensed to carry on Type 1 (dealing in securities), Type 2 (dealing in futures contracts), Type 4 (advising on securities) and Type 6 (advising on corporate finance) regulated activities under the SFO
“business day”	a day on which the Stock Exchange is open for the transaction of business
“Cancellation Price”	the cancellation price of HK\$1.60 per SPM H Share under the Merger Agreement payable to the SPM H Shareholders (other than SEGH and SEHC)
“Composite Document”	this document issued by SEG, the Offeror and SPM to all SPM Shareholders and in accordance with the Takeovers Code containing, amongst others, details of the Merger, as may be revised or supplemented as appropriate
“Conditions”	the Effectiveness Conditions and the Implementation Conditions
“Conditions Longstop Date”	3 June 2021, or such later date as the Offeror and SPM may otherwise agree, subject to the consent of the SFC
“Consenting SPM Shareholder(s)”	has the meaning given to it in the section headed “3. <i>PRINCIPAL TERMS OF THE MERGER AGREEMENT — Rights of Dissenting SPM Shareholders</i> ” as set out in the Letter from the Board of this Composite Document

DEFINITIONS

“Declaration Period”	a period commencing on the Delisting Date and expiring on the fifth (5 th) business day from and including the Delisting Date, during which any Dissenting SPM Shareholder may declare that it exercises its rights to require SPM or the Consenting SPM Shareholders to acquire its SPM Shares at a “fair price”, as detailed in the section headed “3. <i>PRINCIPAL TERMS OF THE MERGER AGREEMENT — Rights of Dissenting SPM Shareholders</i> ” as set out in the Letter from the Board of this Composite Document
“Delisting Date”	the date on which the listing of the SPM H Shares on the Stock Exchange has been withdrawn
“Dissenting SPM Shareholder(s)”	a SPM Shareholder who has validly voted against the resolutions in respect of the Merger at the SPM EGM and the SPM H Shareholders’ Class Meeting and has required SPM or the Consenting SPM Shareholders to acquire its SPM Shares at a “fair price”
“Effectiveness Condition(s)”	has the meaning given to it in the section headed “3. <i>PRINCIPAL TERMS OF THE MERGER AGREEMENT — Conditions to the Merger Agreement becoming effective</i> ” as set out in the Letter from the Board of this Composite Document
“Exchange Rate”	the exchange rate of HK\$1: RMB0.86934, which is the central parity rate of RMB to HK\$ as at the date of the Joint Announcement as announced by the People’s Bank of China
“Executive”	the Executive Director of the Corporate Finance Division of the SFC or any delegate of the Executive Director
“Exercise Date”	the date on which SPM and/or the Consenting SPM Shareholders (or the Offeror, if so elected by SPM and/or the Consenting SPM Shareholders) pays cash consideration to Dissenting SPM Shareholders who exercise their right to require SPM or the Consenting SPM Shareholders to acquire the SPM Shares held and effectively declared by them at “fair price”, which will be decided and announced by SPM
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“Hong Kong”	the Hong Kong Special Administrative Region of the People’s Republic of China

DEFINITIONS

“Implementation Conditions”	has the meaning given to it in the section headed “3. <i>PRINCIPAL TERMS OF THE MERGER AGREEMENT — Conditions to the implementation of the Merger</i> ” as set out in the Letter from the Board of this Composite Document
“Incentive Scheme”	the incentive scheme of SPM as adopted on 17 January 2014 and as amended by the shareholders’ resolutions of SPM on 16 December 2016
“Incentive Scheme Trustee”	TC Capital Management Limited, being the trustee for the time being of the Incentive Scheme
“Independent Board Committee”	the independent board committee established by SPM for the purposes of the Merger, which consists of the non-executive director of SPM, being Mr. Dong Yeshun, and all of the independent non-executive directors of SPM, being Mr. Ling Hong, Mr. Chan Oi Fat and Mr. Sun Zechang
“Independent Financial Adviser”	Somerley Capital Limited, the independent financial adviser appointed by the Independent Board Committee, to advise the Independent Board Committee and the Independent SPM H Shareholders in relation to (amongst others) the Merger
“Independent SEG Shareholder(s)”	SEG Shareholders other than SEGC and its subsidiaries
“Independent SPM H Shareholder(s)”	SPM H Shareholders other than the Offeror and parties acting in concert with it (including SEGH, SEHC and the Incentive Scheme Trustee)
“Joint Announcement”	the announcement jointly published by SEG, the Offeror and SPM dated 15 October 2020, in relation to, amongst other things, the proposal of the Merger in accordance with the Merger Agreement
“Last Trading Date”	9 October 2020, the last trading day prior to the trading halt in the SPM H Shares on the Stock Exchange and the publication of the Joint Announcement. Trading in the SPM H Shares was halted on 9 October 2020 at 10:32 am pending the issue of the Joint Announcement
“Latest Practicable Date”	8 December 2020, being the latest practicable date prior to the printing of this Composite Document for the purpose of ascertaining information contained therein

DEFINITIONS

“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange (as amended, supplemented or otherwise modified from time to time)
“Merger”	the proposed merger by absorption of SPM by the Offeror in accordance with the PRC Company Law and other applicable PRC Laws as contemplated under the Merger Agreement
“Merger Agreement”	the merger agreement entered into between the Offeror and SPM on 15 October 2020 in relation to the Merger
“Offeror”	Shanghai Prime Mingyu Machinery Technology Co., Ltd. (上海集優銘宇機械科技有限公司), a company incorporated in the People’s Republic of China, being a wholly-owned subsidiary of SEG as at the Latest Practicable Date
“Payment Exchange Rate”	the exchange rate of RMB to HK\$, which is the central parity rate of RMB to HK\$ as at the date on which SEG further contributes to the Offeror the amount of registered capital denominated in RMB for the purpose of the Merger, as announced by the People’s Bank of China
“PRC” or “China”	the People’s Republic of China
“PRC Company Law”	the Company Law of the PRC, as amended, supplemented or otherwise modified from time to time
“PRC Laws”	any and all laws, regulations, statutes, rules, decrees, notices, and supreme court’s judicial interpretations as may be in force and publicly available in the PRC from time to time
“Pre-Condition”	has the meaning given to it in the section headed “3. <i>PRINCIPAL TERMS OF THE MERGER AGREEMENT — Pre-Condition to the Merger Agreement</i> ” as set out in the Letter from the Board of this Composite Document
“Pre-Condition Longstop Date”	15 January 2021, or such later date as the Offeror and SPM may otherwise agree, subject to the consent of the SFC
“Relevant Period”	the period commencing from 15 April 2020 (being the date falling six months prior to the date of the Joint Announcement) and ending on the Latest Practicable Date
“RMB”	Renminbi, the lawful currency of the PRC

DEFINITIONS

“SEG”	Shanghai Electric Group Company Limited (上海電氣集團股份有限公司), a joint stock limited company incorporated in the PRC with limited liability, whose H shares are listed and traded on the Stock Exchange (stock code: 2727) and A shares are listed and traded on the Shanghai Stock Exchange (stock code: 601727), and the holding company of the Offeror
“SEG Board”	board of directors of SEG
“SEG EGM”	the extraordinary general meeting of SEG held on 25 November 2020 approving the Merger (including the SEGH Transaction) under the Merger Agreement and the relevant arrangements
“SEG Group”	SEG and its subsidiaries
“SEGC”	Shanghai Electric (Group) Corporation (上海電氣(集團)總公司), a company incorporated in the PRC with limited liability, and a state-owned enterprise controlled by the Shanghai SASAC, and the holding company of SEG (and indirectly the Offeror)
“SEGH”	Shanghai Electric Group Hongkong Company Limited (上海電氣集團香港有限公司), a private company incorporated in Hong Kong with limited liability, and a wholly-owned subsidiary of SEGC
“SEGH Transaction”	has the meaning given to it in the section headed “3. <i>PRINCIPAL TERMS OF THE MERGER AGREEMENT — SPM H Shares held by SEGH and SEHC</i> ” as set out in the Letter from the Board of this Composite Document
“SEHC”	Shanghai Electric Hongkong Co. Limited (上海電氣香港有限公司), a private company incorporated in Hong Kong with limited liability, and a wholly-owned subsidiary of SEG
“SEHC Transaction”	has the meaning given to it in the section headed “3. <i>PRINCIPAL TERMS OF THE MERGER AGREEMENT — SPM H Shares held by SEGH and SEHC</i> ” as set out in the Letter from the Board of this Composite Document
“SFC”	the Securities and Futures Commission of Hong Kong
“Shanghai SASAC”	Shanghai State-owned Assets Supervision and Administration Commission

DEFINITIONS

“SPM”	Shanghai Prime Machinery Company Limited (上海集優機械股份有限公司), a joint stock limited company incorporated in the PRC with limited liability, whose H shares are listed and traded on the Stock Exchange (stock code: 2345)
“SPM Articles”	the articles of association of SPM (including the rules of procedures for shareholders’ general meetings and the rules of procedures for board meetings)
“SPM Board”	board of directors of SPM
“SPM Director(s)”	directors of SPM
“SPM Domestic Share(s)”	the domestic shares of SPM, with a RMB denominated par value of RMB1.00 each, representing approximately 47.18% of all the SPM Shares in issue as at the Latest Practicable Date
“SPM Domestic Shareholder(s)”	the holder(s) of SPM Domestic Shares
“SPM EGM”	the extraordinary general meeting of SPM to be convened at 9:00 a.m. on Monday, 11 January 2021 at Meeting Center, North 6th Floor, 2747 Songhuajiang Road, Hongkou District, Shanghai, PRC, or any adjournment thereof, to consider and, if thought fit, approve, amongst others, the Merger Agreement, the Merger and the relevant arrangements
“SPM Group”	SPM and its subsidiaries
“SPM H Share(s)”	the ordinary shares issued by SPM, with a RMB denominated par value of RMB1.00 each, which are subscribed for and paid up in Hong Kong dollars and are listed and traded on the Stock Exchange, representing approximately 52.82% of all the SPM Shares in issue as at the Latest Practicable Date
“SPM H Shareholder(s)”	the holder(s) of SPM H Shares

DEFINITIONS

“SPM H Shareholders’ Class Meeting”	class meeting of SPM to be convened at 10:00 a.m. on Monday, 11 January 2021 or immediately following the conclusion of the SPM EGM or any adjournment thereof at Meeting Center, North 6th Floor, 2747 Songhua Jiang Road, Hongkou District, Shanghai, PRC for the SPM H Shareholders to consider and, if thought fit, approve, amongst others, the Merger Agreement, the Merger and the relevant arrangements
“SPM Share(s)”	SPM Domestic Shares and SPM H Shares
“SPM Shareholder(s)”	the holder(s) of SPM Shares
“SSE Announcements”	the announcements dated 15 October 2020 published by SEG on the Shanghai Stock Exchange in relation to the Merger (including the SEGH Transaction)
“SSE Listing Rules”	Rules Governing the Listing of Stocks on Shanghai Stock Exchange
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Takeovers Code”	the Code on Takeovers and Mergers published by the SFC (as revised, supplemented or otherwise modified from time to time)
“United States” or “U.S.”	the United States of America

LETTER FROM THE BOARD



上海集优
SHANGHAI PRIME

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. Zhang Mingjie
Mr. Si Wenpei
Mr. Xiao Yuman
Mr. Xia Sicheng

Registered address:

Room 1501, Jidian Edifice
600 Heng Feng Road, Shanghai
The People's Republic of China
Postal Code: 200070

Non-executive Director:

Mr. Dong Yeshun

Principal place of business in Hong Kong:

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

Independent non-executive Directors:

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

11 December 2020

To the SPM Shareholders,

**PROPOSED PRIVATISATION OF SPM
BY THE OFFEROR BY WAY OF MERGER BY ABSORPTION**

1. INTRODUCTION

Reference is made to the Joint Announcement dated 15 October 2020 pursuant to which SEG, the Offeror and SPM jointly announced that the Offeror and SPM agreed to implement the Merger on and subject to the terms and conditions of the Merger Agreement, including the Pre-Condition and the Conditions. Upon the completion of the Merger, SPM will be merged into and absorbed by the Offeror in accordance with the PRC Company Law and other applicable PRC Laws.

This letter forms part of this Composite Document and sets out, amongst other things, certain background information of the Offeror, details of the Merger, the reasons for the Merger and the intentions of the Offeror in relation to the SPM Group.

LETTER FROM THE BOARD

2. PROPOSED MERGER

Pursuant to the Merger Agreement, conditional upon, among others, the fulfilment (or waiver, as applicable) of the Pre-Condition and the Conditions set out in the section headed “PRINCIPAL TERMS OF THE MERGER AGREEMENT” below, the Offeror will pay the Cancellation Price in the amount of HK\$1.60 per SPM H Share to the SPM H Shareholders (other than SEGH and SEHC, as described below).

Upon the completion of the Merger, the Offeror will assume all assets, liabilities, interests, businesses, employees, contracts and all other rights and obligations of SPM, and SPM will be eventually deregistered and dissolved.

On 4 December 2020, SEG, the Offeror and SPM jointly announced that the Pre-Condition had been satisfied.

The Offeror shall, as soon as possible and in any event no later than seven (7) business days after the satisfaction (or waiver, if applicable) of the Pre-Condition and the Conditions, pay the Cancellation Price to all SPM H Shareholders (other than SEGH and SEHC, as described below).

Upon the payment of consideration to the SPM H Shareholders by or on behalf of the Offeror, all rights attaching to such SPM H Shares will cease to have effect and the relevant SPM H Shares will be cancelled, and the share certificates for the SPM H Shares will cease to have effect as documents or evidence of title.

The payment of the Cancellation Price will be financed by internal resources and/or external financing of the SEG Group.

The Offeror will not increase the Cancellation Price as set out above. SPM Shareholders and potential investors should be aware that, following the making of this statement, the Offeror will not be allowed to increase the Cancellation Price and the Offeror does not reserve the right to increase the Cancellation Price.

3. PRINCIPAL TERMS OF THE MERGER AGREEMENT

The principal terms and conditions of the Merger Agreement are summarised as follows:

Parties	(1) the Offeror; and (2) SPM.
----------------	----------------------------------

Overview of the Merger	Subject to the terms and conditions of the Merger Agreement, the Merger will be implemented by the Offeror merging SPM by way of merger by absorption.
-------------------------------	--

Upon the completion of the Merger, the Offeror will assume all assets, liabilities, interests, businesses, employees, contracts and all other rights and obligations of SPM, and SPM will eventually be deregistered and dissolved.

LETTER FROM THE BOARD

Cancellation Price

Pursuant to the Merger Agreement, conditional upon, amongst others, the satisfaction (or waiver, if applicable) of the Pre-Condition, the Effectiveness Conditions and the Implementation Conditions (see the paragraphs headed “Pre-Condition to the Merger Agreement”, “Conditions to Merger Agreement becoming effective” and “Conditions to implementation of the Merger” below), the Offeror will pay the Cancellation Price on the following basis:

For each SPM H Share HK\$1.60 in cash

The Cancellation Price will, subject to the same conditions as stated above, be paid to the SPM H Shareholders (other than SEGH and SEHC, whose SPM H Shares will be cancelled in consideration of the issuance to them of registered capital in the Offeror, as set out in the paragraph headed “SPM H Shares held by SEGH and SEHC” below) whose names appear on the register of SPM H Shareholders on a relevant record date to be announced.

Settlement of the consideration to which SPM H Shareholders (other than SEGH and SEHC) are entitled will be implemented in full in accordance with the terms of the Merger Agreement without regard to any lien, right of set-off, counterclaim or other analogous right to which the Offeror may otherwise be, or claim to be, entitled against such SPM H Shareholders.

Pre-Condition to the Merger Agreement

The Merger Agreement was subject to the satisfaction of a pre-condition (the “**Pre-Condition**”), being the filing, registration or approval, as applicable, with PRC government and/or regulatory authorities including without limitation (1) the National Development and Reform Commission of the PRC; (2) the Ministry of Commerce of the PRC, and (3) the State Administration of Foreign Exchange of the PRC, or their respective local authorities or authorised entities, and such other applicable governmental approvals in respect of the Merger having been obtained or completed.

Save for the governmental approvals as stated in sub-paragraphs (1) to (3) above and, if applicable, sub-paragraph (4) under the paragraph headed “Conditions to the Merger Agreement becoming effective” below, as at the Latest Practicable Date, the Offeror is not aware of any other applicable governmental approvals which are required in respect of the Merger.

On 4 December 2020, SEG, the Offeror and SPM jointly announced that the Pre-Condition had been satisfied.

LETTER FROM THE BOARD

Conditions to the Merger Agreement becoming effective

In light of the fact that the Pre-Condition has been satisfied, the Merger Agreement will become effective upon the satisfaction of a number of conditions (the “**Effectiveness Conditions**”) which are set out as follows:

- (1) the passing of special resolution(s) by a majority of not less than two-thirds of the votes cast by way of poll by the SPM Shareholders present and voting in person or by proxy at the SPM EGM to approve the Merger under the Merger Agreement in accordance with the SPM Articles and the PRC Laws;
- (2) the passing of special resolution(s) by way of poll approving the Merger under the Merger Agreement at the SPM H Shareholders’ Class Meeting to be convened for this purpose, provided that (a) approval is given by at least 75% of the votes attaching to the SPM H Shares held by the Independent SPM H Shareholders that are cast either in person or by proxy; and (b) the number of votes cast against such resolution(s) is not more than 10% of the votes attaching to all SPM H Shares held by the Independent SPM H Shareholders;
- (3) the passing of ordinary resolution(s) by way of poll by the Independent SEG Shareholders present and voting in person or by proxy at the SEG EGM to approve the related party transactions (within the meaning of the SSE Listing Rules) under the Merger Agreement in accordance with the PRC Laws and the SSE Listing Rules; and
- (4) if applicable, the filing, registration or approval, as applicable, with the State-owned Assets Supervision and Administration Commission of the State Council of the PRC, or its local authorities or authorised entities, in respect of the Merger having been obtained or completed.

None of the Effectiveness Conditions is waivable. If the Effectiveness Conditions are not satisfied by the Conditions Longstop Date, the Merger Agreement may be terminated by either party. Please also refer to the paragraph headed “Termination” in this section.

On 25 November 2020, SEG, the Offeror and SPM jointly announced that the Effectiveness Condition as set out in item (3) above had been satisfied. As at the Latest Practicable Date, the approval from the authorised entity of the State-owned Assets Supervision and Administration Commission of the State Council has also been obtained.

LETTER FROM THE BOARD

Conditions to implementation of the Merger

Considering that the Pre-Condition has been satisfied and provided that the Effectiveness Conditions have been satisfied by the Conditions Longstop Date, the implementation of the Merger will be subject to the satisfaction (or waiver, if applicable) of a number of conditions (the “**Implementation Conditions**”), which are set out as follows:

- (1) there being no material breach of the representations, warranties or undertakings given by the Offeror in the Merger Agreement which has a material adverse impact on the Merger;
- (2) there being no material breach of the representations, warranties or undertakings given by SPM in the Merger Agreement which has a material adverse impact on the Merger;
- (3) no relevant government, governmental, quasi-governmental, statutory or regulatory body, court or agency having granted any order or made any decision that would make the Merger void, unenforceable or illegal, or restrict or prohibit the implementation of, or impose any additional material conditions or obligations with respect to, the Merger (other than such order(s) or decision(s) that would not have a material adverse effect on the legal ability of the Offeror to proceed with the Merger);
- (4) no event having occurred which would make the Merger void, unenforceable or illegal or which would prohibit the implementation of the Merger or impose any additional material conditions or obligations with respect to the Merger or any part thereof or otherwise on the SEG Group or the SPM Group (other than such event(s) that would not have a material adverse effect on the legal ability of the Offeror to proceed with the Merger); and
- (5) save in connection with the implementation of the Merger, the listing of the SPM H Shares on the Stock Exchange not having been withdrawn, and no indication having been received from the SFC and/or the Stock Exchange, to the effect that the listing of the SPM H Shares on the Stock Exchange is or is likely to be withdrawn.

LETTER FROM THE BOARD

SPM will be entitled to waive the Implementation Condition in item (1) above and the Offeror will be entitled to waive the Implementation Condition in item (2) above. The Implementation Conditions in items (3), (4) and (5) are not waivable. If the Implementation Conditions are not satisfied (or waived, if applicable) by the Conditions Longstop Date, the Merger Agreement may be terminated by either party.

As at the Latest Practicable Date, none of the Implementation Conditions has been satisfied or waived.

Pursuant to Note 2 to Rule 30.1 of the Takeovers Code, the Offeror may only invoke any or all of the Conditions as a basis for not proceeding with the Merger, or terminate the Merger Agreement in accordance with the paragraph headed “Termination” in this section as a basis for not proceeding with the Merger, if the circumstances which give rise to a right to invoke any such Condition or termination right are of material significance to the Offeror in the context of the Merger.

SPM Shares held by the trustee(s) of the Incentive Scheme

The Incentive Scheme was adopted by SPM on 17 January 2014 and amended on 16 December 2016, pursuant to which SPM paid to the Incentive Scheme Trustee certain amounts in cash to purchase SPM Shares to be held by it on behalf of the eligible participants of the Incentive Scheme.

As at the Latest Practicable Date:

- (1) the Incentive Scheme has expired, and no further share awards will be granted or vested under the Incentive Scheme. Accordingly, no further acquisition of SPM Shares by the Incentive Scheme Trustee will be required under the Incentive Scheme;
- (2) 22,244,170 SPM H Shares (representing approximately 2.44% of all the SPM H Shares in issue and 1.29% of all the SPM Shares in issue) are held by the Incentive Scheme Trustee, and such SPM H Shares remain unawarded.

LETTER FROM THE BOARD

As part of the Merger, conditional upon, amongst others, the satisfaction (or waiver, if applicable) of the Pre-Condition and the Conditions, the SPM H Shares held by the Incentive Scheme Trustee will be cancelled and in consideration therefor the Offeror will pay to the Incentive Scheme Trustee the Cancellation Price for each SPM H Shares held by the Incentive Scheme Trustee so cancelled.

The SPM Board proposes to terminate the Incentive Scheme in accordance with the rules thereof upon completion of the Merger. Upon such termination and in accordance with the rules thereof, all residual cash and funds remaining to be held by the Incentive Scheme Trustee shall be returned to SPM or such other entity of the SPM Group as designated by SPM.

The Incentive Scheme Trustee, in its capacity as trustee of the Incentive Scheme, is a concert party of the Offeror. Accordingly, the Incentive Scheme Trustee is not an Independent SPM H Shareholder, and the SPM H Shares held by the Incentive Scheme Trustee will not be regarded as SPM H Shares held by the Independent SPM H Shareholders.

In addition, the rules of the Incentive Scheme prohibit the Incentive Scheme Trustee from exercising the voting rights attached to the SPM H Shares held by it under the Incentive Scheme. Accordingly, the Incentive Scheme Trustee will be required to abstain from voting at the SPM EGM and the SPM H Shareholders' Class Meeting.

SPM H Shares held by SEGH and SEHC

Pursuant to the Merger Agreement, the SPM H Shares held by SEGH will be cancelled upon the completion of the Merger. In consideration for the cancellation of those shares, SEGH will be issued with such amount of registered capital denominated in RMB in the Offeror which is equivalent to the Cancellation Price for each SPM H Share based on the Payment Exchange Rate, multiplied by each SPM H Share so cancelled (the **"SEGH Transaction"**).

Further, pursuant to the Merger Agreement, the SPM H Shares held by SEHC will be cancelled upon the completion of the Merger. In consideration for the cancellation of those shares, SEHC will be issued with such amount of registered capital denominated in RMB in the Offeror which is equivalent to the Cancellation Price for each SPM H Share based on the Payment Exchange Rate, multiplied by each SPM H Share so cancelled (the **"SEHC Transaction"**).

LETTER FROM THE BOARD

The proposed cancellation of SPM H Shares under each of the SEGH Transaction and the SEHC Transaction is conditional upon the satisfaction of the Pre-Condition and the Conditions as stated above.

The original acquisition cost to SEGH of the SPM H Shares held by it amounted to HK\$92,297,114.19 in aggregate.

**SPM Domestic Shares
held by SEG**

Pursuant to the Merger Agreement, the SPM Domestic Shares held by SEG will be cancelled upon the completion of the Merger. In consideration for the cancellation of those shares, SEG will be issued with such amount of registered capital denominated in RMB in the Offeror which is equivalent to the Cancellation Price for each SPM H Share based on the Payment Exchange Rate, multiplied by each SPM Domestic Share so cancelled.

The proposed cancellation of the SPM Domestic Shares is conditional upon the satisfaction of the Pre-Condition and the Conditions as stated above.

**Payment of
consideration to the
SPM H Shareholders
(other than SEGH
and SEHC)**

The Offeror shall, as soon as possible and in any event no later than seven (7) business days after the satisfaction (or waiver, if applicable) of the Conditions, pay the Cancellation Price to all SPM H Shareholders (other than SEGH and SEHC).

Upon the payment of consideration to the SPM H Shareholders by or on behalf of the Offeror, all rights attaching to such SPM H Shares will cease to have effect and the relevant SPM H Shares will be cancelled, and the share certificates for the SPM H Shares will cease to have effect as documents or evidence of title.

Dividend

SPM shall not declare, make and/or pay any dividend or other distribution from the date of the Merger Agreement up to and including the date of the completion of the Merger or the termination of the Merger Agreement (as the case may be).

LETTER FROM THE BOARD

Right of Dissenting SPM Shareholders

According to the SPM Articles and PRC Company Law, any Dissenting SPM Shareholder may, by written notice, request SPM and/or other SPM Shareholders who have approved the Merger (collectively, the “**Consenting SPM Shareholders**”), to acquire its SPM Shares at a “fair price”. Such written notice should be lodged with the Company Secretary of SPM at 2747 Songhuajiang Road, Hongkou District, Shanghai, PRC or alternatively at SPM’s principal place of business in Hong Kong at Room 901-903, Tower Two, Lippo Centre, 89 Queensway, Hong Kong by hand or by post within the Declaration Period.

In light of the potential travel difficulties and postal delay, postal rule shall apply to the receipt of such written notice to the effect that the despatch dates shown on postal stamps shall serve as evidence to valid despatch and receipt of the written notices within the Declaration Period.

Under the Merger Agreement, if any Dissenting SPM Shareholder exercises such rights, the Offeror may, upon the request by SPM and/or the Consenting SPM Shareholders, assume the obligation which SPM and/or the Consenting SPM Shareholders may have towards such Dissenting SPM Shareholders to acquire the SPM Shares held by such Dissenting SPM Shareholders at a “fair price”.

The provisions in respect of the rights of Dissenting SPM Shareholders to demand SPM and/or the Consenting SPM Shareholders to acquire its SPM Shares at a “fair price” are set out only in the SPM Articles and are not otherwise stipulated in any PRC Laws. There is no written/published administrative guidance on the substantive and procedural rules as to how the “fair price” will be determined under the PRC Laws nor does the SPM Articles set out any guidance or procedures as to how the “fair price” will be determined. Accordingly, no assurance may be given as to (i) the time required for such acquisition process; (ii) any favourable results to the Dissenting SPM Shareholders and/or (iii) the costs which may be incurred by the Dissenting SPM Shareholders in determining the “fair price” for such acquisition process.

In addition, the exercise of such right by a Dissenting SPM Shareholder is subject to the following criteria:

- (1) such Dissenting SPM Shareholder having validly voted against the resolutions in respect of the Merger at the SPM EGM and the SPM H Shareholders’ Class Meeting;

LETTER FROM THE BOARD

- (2) such Dissenting SPM Shareholder having been validly registered as a shareholder on the share register since the record date for the SPM EGM and the SPM H Shareholders' Class Meeting, being Monday, 11 January 2021, and having held such SPM Shares in respect of which it intends to exercise such right until the Exercise Date;
- (3) such Dissenting SPM Shareholder having exercised such right during the Declaration Period; and
- (4) such Dissenting SPM Shareholder having lodged the written notice during the Declaration Period in the manner as set out above.

Beneficial owners of SPM H Shares whose SPM H Shares are deposited in the Central Clearing and Settlement System and registered under the name of HKSCC Nominees Limited will need to arrange for such SPM H Shares to be withdrawn from the Central Clearing and Settlement System and transferred into your own name prior to the record date for the SPM EGM and the SPM H Shareholders' Class Meeting, being Monday, 11 January 2021. The withdrawal process may take some time.

A Dissenting SPM Shareholder is not entitled to exercise such right in respect of such SPM Shares held by it upon occurrence of any one of the following:

- (1) such Dissenting SPM Shareholder has undertaken to SPM to waive its right;
- (2) such Dissenting SPM Shareholder is prohibited from exercising such right in accordance with applicable laws; or
- (3) any SPM Share held by such Dissenting SPM Shareholder is subject to pledge, other third party rights or judicial moratorium, and no written consent or approval has been obtained from the relevant pledgee, third party or competent authority.

For the avoidance of doubt, if the Merger does not proceed as a result of the Conditions not being satisfied (or waived, if applicable) or if the Merger otherwise lapses or does not become unconditional, the Dissenting SPM Shareholders (if any) shall not be entitled to exercise such rights as described above.

LETTER FROM THE BOARD

Termination

The Merger Agreement may be terminated in any of the following circumstances:

- (1) by either the Offeror or SPM, if
 - (i) any competent governmental authority issues any order, decree, ruling or take any other actions which permanently restricts, impedes or otherwise prohibits the Merger and which is final, binding and not capable of being appealed, provided that both the Offeror and SPM shall use reasonable endeavours to procure the withdrawal of such order, decree, ruling or action prior to exercising such rights of termination;
 - (ii) the Pre-Condition has not been satisfied on or before the Pre-Condition Longstop Date;
 - (iii) the Effectiveness Conditions have not been satisfied on or before the Conditions Longstop Date; or
 - (iv) the Implementation Conditions have not been satisfied (or waived, if applicable) on or before the Conditions Longstop Date.
- (2) by the Offeror, if SPM commits a material breach of the representations, warranties or undertakings given by SPM in the Merger Agreement which has a material adverse impact on the Merger; or
- (3) by SPM, if the Offeror commits a material breach of the representations, warranties or undertakings given by the Offeror in the Merger Agreement which has a material adverse impact on the Merger.

Pursuant to Note 2 to Rule 30.1 of the Takeovers Code, the Offeror may only invoke any or all of the Conditions as a basis for not proceeding with the Merger, or terminate the Merger Agreement in accordance with this paragraph as a basis for not proceeding with the Merger, if the circumstances which give rise to a right to invoke any such Condition or termination right are of material significance to the Offeror in the context of the Merger.

LETTER FROM THE BOARD

4. PROPOSED WITHDRAWAL OF LISTING OF SPM H SHARES

An application will be made by SPM to the Stock Exchange for voluntary withdrawal of the listing of the SPM H Shares from the Stock Exchange upon satisfaction of the Conditions, pursuant to Rule 6.15(2) of the Listing Rules.

SPM will issue separate announcements notifying SPM H Shareholders of the proposed withdrawal of listing and the exact dates and relevant arrangements for the last day for dealing in SPM H Shares on the Stock Exchange and when the formal delisting of the SPM H Shares will become effective.

The listing of the SPM H Shares on the Stock Exchange will not be withdrawn if the Merger is not approved or otherwise lapses or does not become unconditional and the SPM H Shares will remain listed on the Stock Exchange. In such cases, no cancellation of SPM Shares will take place pursuant to the Merger Agreement and SPM's public float would not be affected as a result of the Merger not being approved or otherwise lapses or does not become unconditional.

5. CANCELLATION PRICE

The Cancellation Price of HK\$1.60 per SPM H Share was determined by the Offeror and SPM after taking into account, among others, (i) the historical prices of the SPM H Shares traded on the Stock Exchange; (ii) the offer price in other privatisation and merger by way of absorption transactions in Hong Kong in recent years; and (iii) the factors as set out in the section headed "6. REASONS AND BENEFITS OF THE MERGER" in this letter.

Comparison of value

The Cancellation Price of HK\$1.60 per SPM H Share represents:

- (a) a premium of approximately 2.6% over the closing price per SPM H Share of HK\$1.56 as quoted on the Stock Exchange on the Latest Practicable Date;
- (b) a premium of approximately 68.4% over the closing price per SPM H Share of HK\$0.95 as quoted on the Stock Exchange on the Last Trading Date;
- (c) a premium of approximately 107.8% over the closing price per SPM H Share of HK\$0.77 as quoted on the Stock Exchange on 8 October 2020 (being the last complete trading date before the trading halt of SPM on 9 October 2020);
- (d) a premium of approximately 110.5% over the average closing price per SPM H Share of approximately HK\$0.76 as quoted on the Stock Exchange for the 30 consecutive trading days immediately prior to and including the Last Trading Date;
- (e) a premium of approximately 110.5% over the average closing price per SPM H Share of approximately HK\$0.76 as quoted on the Stock Exchange for the 60 consecutive trading days immediately prior to and including the Last Trading Date;

LETTER FROM THE BOARD

- (f) a discount of approximately 42.0% to the audited consolidated net asset value attributable to owners of SPM of approximately HK\$2.76 per SPM Share (based on (i) the audited consolidated net asset value attributable to owners of SPM as stated in the 2019 SPM Annual Report; (ii) 1,725,943,420 SPM Shares in issue as at the date of the Joint Announcement and (iii) the Exchange Rate); and
- (g) a discount of approximately 41.0% to the unaudited consolidated net asset value attributable to owners of SPM of approximately HK\$2.71 per SPM Share (based on (i) the unaudited consolidated net asset value attributable to owners of SPM as stated in the 2020 SPM Interim Report; (ii) 1,725,943,420 SPM Shares in issue as at the date of the Joint Announcement and (iii) the Exchange Rate).

On the basis of (i) the Cancellation Price of HK\$1.60 per SPM H Share; (ii) 698,904,538 SPM H Shares in issue as at the Latest Practicable Date (excluding the SPM H Shares held by SEGH and SEHC); and (iii) assuming there is no change in the number of SPM Shares in issue from the Latest Practicable Date up to the satisfaction (or waiver, if applicable) of the Pre-Condition and the Conditions set out below, the aggregate amount of cash consideration required for the payment of the Cancellation Price to be made by the Offeror under the Merger Agreement is HK\$1,118,247,260.80.

The consideration for the cancellation of the SPM H Shares held by SEGH and SEHC is to be satisfied through the issuance of registered capital in the Offeror as described in the section headed “3. PRINCIPAL TERMS OF THE MERGER AGREEMENT — SPM H Shares held by SEGH and SEHC”.

The consideration for the cancellation of the SPM Domestic Shares held by SEG is to be satisfied through the issuance of registered capital of the Offeror as described in the section headed “3. PRINCIPAL TERMS OF THE MERGER AGREEMENT — SPM Domestic Shares held by SEG” in this letter.

Confirmation of financial resources

The payment of the Cancellation Price will be financed by internal resources and/or external financing of the SEG Group.

BNP Paribas, being the financial adviser to SEG and the Offeror, is satisfied that sufficient financial resources (in the form of banking facilities made available by BNP Paribas, acting through its Hong Kong branch as lender) are available to the Offeror (as undertaken by SEHC, being a wholly-owned subsidiary of SEG to fully fund the Offeror) for the satisfaction of the Offeror’s obligations for paying the Cancellation Price in respect of the full implementation of the Merger (which, for the avoidance of doubt, excludes the cancellation of all SPM H Shares held by each of SEGH and SEHC, and the cancellation of all SPM Domestic Shares held by SEG).

6. REASONS FOR AND BENEFITS OF THE MERGER

The SEG Board observes that the business environment in which SPM operates is uncertain, difficult and challenging. As mentioned in the 2019 SPM Annual Report, 2019 was a year with uncertainties characterized by weaker demand in global car markets especially in Europe and China; unfavorable trade environment underscored by tension in United States-China trade relations; general slow-down in China's macro-economy; as well as continued downturn in demand for coal-fired power equipment in China. Against this backdrop, SPM Group's revenue for the year ended 31 December 2019 declined by 7.0% to approximately RMB8,395 million as compared with RMB9,028 million for the year ended 31 December 2018, primarily due to the contraction in revenue of the fastener business segment especially automotive fastener. As mentioned in the 2020 SPM Interim Report, SPM Group recorded a turnover of RMB3,324 million for the six months ended 30 June 2020, representing a decrease of 25.9% as compared with the corresponding period in 2019. The COVID-19 epidemic has caused disruptions to certain operations of SPM Group in the first half of 2020 and it continues to cause uncertainties to SPM Group in the foreseeable future as the demand of automotive and aviation industries, which are SPM Group's major target markets, remain weak and vulnerable to the development of the epidemic.

The SEG Board also notes that the H share price of SPM is generally at a downward trend since 2018. Further, the trading volume of the SPM H Shares is low with the average daily trading volume at about 1,137,447 SPM H Shares for the past 18 months up to and including the Last Trading Date, representing approximately 0.1% of the total issued SPM H Shares as at the Last Trading Date.

With such an uncertain, difficult and challenging business environment while given the share price performance and low liquidity of the SPM H Shares, the SEG Board believes that SPM's ability to raise funds from the public equity market is currently limited and it is unlikely to expect any significant improvement in the foreseeable future. As such, the SEG Board has reconsidered the need for keeping SPM as a separate listing vehicle within SEG Group. The SEG Board is of the view that the delisting of SPM would reduce the costs and management resources associated with the maintenance of SPM's listing on the Stock Exchange and its publicly listed status and, therefore, the delisting would result in a more cost effective group structure for SEG Group.

To combat the current operating environment, as mentioned in the 2020 SPM Interim Report, SPM is taking various strategies and measures such as (i) strengthening management and enhancing competitiveness through improvement of IT systems; (ii) developing new target markets such as rail transit and robotics; (iii) repositioning its business focus from a manufacturer of mechanical parts to becoming a solution provider; and (iv) promoting synergies among business units and mixed ownership reform. It is intended that SPM will continue to carry out these strategies and measures upon implementation of the Merger with SPM being wholly owned by SEG Group. The SEG Board believes that the delisting would create more flexibility for SEG Group to carry out these strategies and measures in an efficient manner and free from the pressure of market expectations, profit visibility and share price fluctuation associated with being a publicly listed company.

LETTER FROM THE BOARD

The SPM Board and the SEG Board consider that the Merger would provide the SPM H Shareholders (other than SEGH and SEHC) with an attractive opportunity to monetize their investments and interests in the SPM for cash at a premium over the prevailing market price (details of which are set out in the paragraph headed “5. CANCELLATION PRICE — Comparison of value”). The SPM Board has also taken into account that without the Merger, the low trading liquidity of SPM H Shares could make it difficult for the SPM H Shareholders to execute substantial on-market disposals within a reasonable timeframe without facing significant downward pressure on exit prices.

Based on the foregoing and having carefully reviewed and considered the terms and conditions of the Merger, the SPM Directors, including the Independent Board Committee, consider that the terms of the Merger are fair and reasonable and in the interests of SPM and SPM H Shareholders as a whole.

7. INTENTION OF THE OFFEROR ON THE SPM GROUP

After the Merger, SPM will be merged and absorbed into the Offeror with the Offeror as the surviving entity, and SPM will be eventually deregistered and dissolved. It is the intention of the Offeror to continue to carry on the current business of SPM as described in the section headed “8. INFORMATION OF THE PARTIES — (2) Information on SPM” below.

The Offeror does not intend to introduce any major changes to the existing business of SPM (including any redeployment of fixed assets of SPM).

The Offeror does not intend to make any significant changes to the continued employment of the employees of SPM Group. Following completion of the Merger, the employment contracts of all employees of SPM will continue with the Offeror as the surviving entity. The SPM Board is willing to cooperate with the Offeror and act in the best interest of SPM and the SPM Shareholders as a whole.

Even if payment of Cancellation Price is to be financed by external financing of the SEG Group as described in the section headed “Confirmation of financial resources” in this letter, the payment of interests on, repayment of or security for any liability, contingent or otherwise, in connection with such external financing, is not intended to depend on, to any significant extent, business of SPM.

8. INFORMATION OF THE PARTIES

(1) Information on the Offeror and SEG

The Offeror is a company newly incorporated in the PRC with limited liability, and as at the Latest Practicable Date, is a wholly-owned subsidiary of SEG.

SEG is a joint stock company incorporated in the PRC with limited liability, whose A shares are listed on the Shanghai Stock Exchange (stock code: 601727) and H shares are listed on the Main Board of the Stock Exchange (stock code: 2727). The SEG Group is one of the largest industrial equipment manufacturing conglomerates in PRC engaged in the following principal activities: (i) the energy equipment segment: design, manufacture

LETTER FROM THE BOARD

and sale of coal-fired power generation and corollary equipment, gas-fired power generation equipment, wind power equipment, nuclear power equipment, energy storage equipment and high-end vessels for chemical industry; and provision of power grid and industrial intelligent power supply system solutions; (ii) the industrial equipment segment: design, manufacture and sale of elevators, large and medium-size electric motors, intelligent manufacturing equipment, industrial basic parts, environmental protection equipment and construction industrialization equipment; and (iii) the integrated services segment: provision of energy, environmental protection and automation engineering and services, covering traditional and new energy, comprehensive use of solid wastes, sewage treatment, flue gas treatment, rail transit and etc.; provision of industrial internet services; provision of financial services, covering financing leases and insurance brokerage; provision of international trade services; and provision of high-end property services etc.

As at the Latest Practicable Date, SEGC owns 8,794,802,061 shares in SEG (representing 58.03% of all the shares in SEG in issue) and is the controlling shareholder of SEG, and the ultimate beneficial owner of the SEG Group is Shanghai SASAC.

(2) Information on SPM

SPM is a joint stock company incorporated in the PRC with limited liability, whose H shares are listed on the Main Board of the Stock Exchange (stock code: 2345). The principal activities of the SPM Group are design, manufacture and sale of turbine blades, bearings, fasteners, cutting tools and others, the provision of related technical services and investment holding.

Set out below is the financial information of the SPM Group for the six months ended 30 June 2020 (as extracted from the 2020 SPM Interim Report), and the two years ended 31 December 2018 and 2019 (as extracted from the 2019 SPM Annual Report).

	For the six months ended 30 June 2020 (RMB'000) (unaudited)	For the year ended 31 December 2019 (RMB'000) (audited)	For the year ended 31 December 2018 (RMB'000) (audited)
Revenue	3,324,390	8,394,708	9,027,535
(Loss)/Profit for the period/year attributable to owners of SPM	(22,023)	127,371	280,438
Total assets	9,628,370	9,644,284	9,658,220
Total equity attributable to owners of SPM	4,070,684	4,145,726	4,111,396

LETTER FROM THE BOARD

(3) Information on SEGH

SEGH is a private company incorporated in Hong Kong with limited liability, and a wholly-owned subsidiary of SEGC. The principal business activity of SEGH is investment holding.

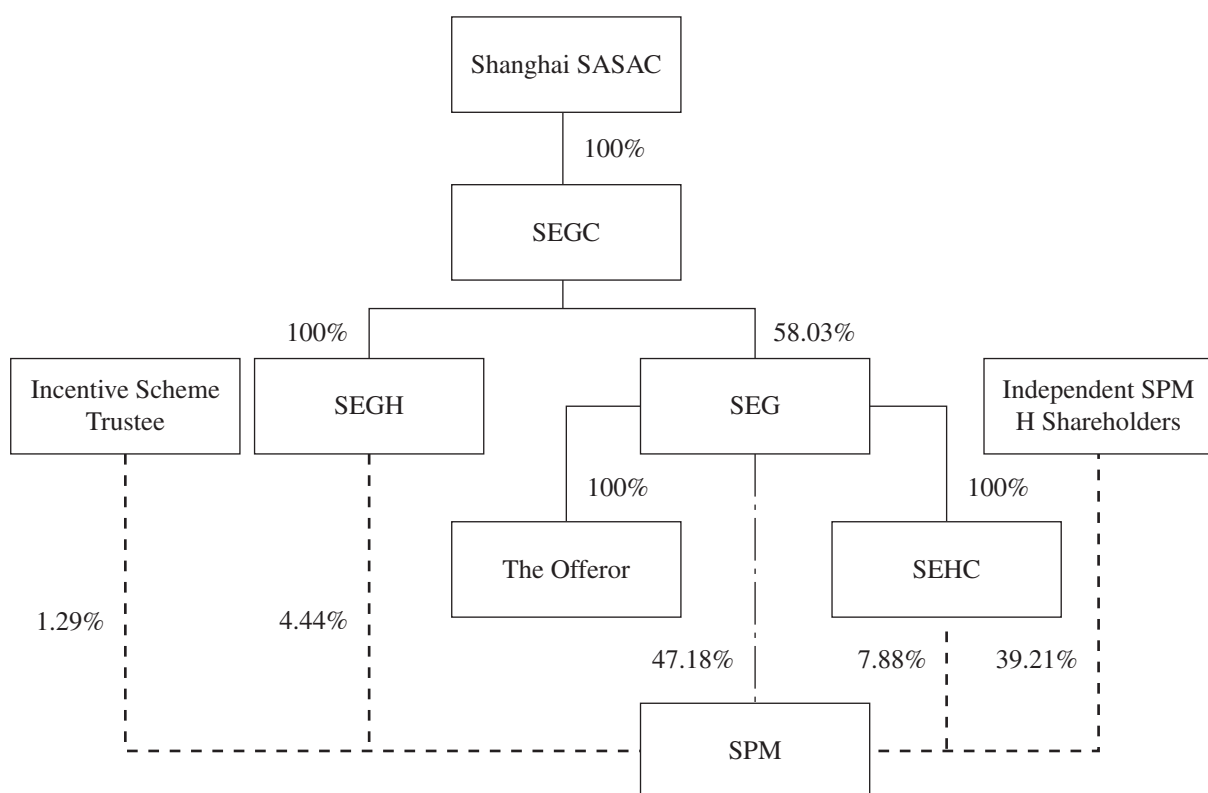
(4) Information on SEHC

SEHC is a private company incorporated in Hong Kong with limited liability, and a wholly-owned subsidiary of SEG. The principal business activity of SEHC is investment holding.

(5) Shareholding in SPM

As at the Latest Practicable Date, the issued share capital of SPM is comprised of 1,725,943,420 SPM Shares, of which there are 814,291,420 SPM Domestic Shares and 911,652,000 SPM H Shares.

Set out below is a simplified shareholding structure of SPM as at the Latest Practicable Date:



Legend (in respect of shareholdings in SPM only):

----- SPM H Shares

———— SPM Domestic Shares

LETTER FROM THE BOARD

Notes:

1. The SPM Shares directly held by SEG are SPM Domestic Shares. The SPM Shares directly held by SEHC, SEGH, the Incentive Scheme Trustee and the Independent SPM H Shareholders are SPM H Shares.
2. The percentages in the diagram above are expressed as percentages of all SPM Shares in issue.
3. Some intermediate holding entities have been omitted to simplify presentation.

As at the Latest Practicable Date,

- (a) SEG owns 814,291,420 SPM Domestic Shares, representing approximately 47.18% of all the SPM Shares in issue;
- (b) SEHC, a wholly-owned subsidiary of SEG, owns 136,089,062 SPM H Shares, representing approximately 7.88% of all the SPM Shares in issue;
- (c) SEGH, a wholly-owned subsidiary of SEGC and a fellow subsidiary of SEG, owns 76,658,400 SPM H Shares, representing approximately 4.44% of all the SPM Shares in issue;
- (d) Incentive Scheme Trustee holds 22,244,170 SPM H Shares, representing approximately 1.29% of all the SPM Shares in issue; and
- (e) SEG, SEHC, SEGH and Incentive Scheme Trustee together hold an aggregate of approximately 60.79% of all the SPM Shares in issue.

LETTER FROM THE BOARD

The table below summarises the shareholding structure of SPM as at the Latest Practicable Date:

Shareholders	Number of SPM H Shares interested	Approximate % of the SPM H Shares in issue	Number of SPM Domestic Shares interested	Approximate % of the SPM Domestic Shares in issue	Number of SPM Shares interested	Approximate % of the SPM Shares in issue
The Offeror and its concert parties	234,991,632	25.78%	814,291,420	100%	1,049,283,052	60.79%
—The Offeror	—	—	—	—	—	—
—SEG	—	—	814,291,420	100%	814,291,420	47.18%
—SEHC	136,089,062	14.93%	—	—	136,089,062	7.88%
—SEGH	76,658,400	8.41%	—	—	76,658,400	4.44%
—Incentive Scheme Trustee	22,244,170	2.44%	—	—	22,244,170	1.29%
Independent SPM H Shareholders	676,660,368	74.22%	—	—	676,660,368	39.21%
—Mr. Zhou Zhiyan (Note 1)	156,800	0.02%	—	—	156,800	0.00%
—Independent SPM H Shareholders other than Mr. Zhou Zhiyan	676,503,568	74.20%	—	—	676,503,568	39.21%
Total number of SPM Shares in issue	911,652,000	100%	814,291,420	100%	1,725,943,420	100%

Note:

1. A director of SPM. As there is no agreement or understanding between Mr. Zhou Zhiyan on the one hand, and the Offeror and SEG on the other, with respect to obtaining or consolidating the control of SPM, Mr. Zhou Zhiyan is an Independent SPM H Shareholder.

As at the Latest Practicable Date, there are no outstanding options, warrants or convertible securities issued by SPM, and SPM has no other relevant securities (as defined in Note 4 to Rule 22 of the Takeovers Code) other than the SPM Shares as disclosed above.

9. ARRANGEMENTS FOR IMPLEMENTATION OF THE MERGER AGREEMENT

The Pre-Condition has been fulfilled on 4 December 2020. Upon satisfaction of all the Effectiveness Conditions, SPM does not intend to retain its listing on the Stock Exchange and will apply to the Stock Exchange for voluntary withdrawal of the listing of the SPM H Shares from the Stock Exchange in accordance with Rule 6.15(2) of the Listing Rules.

SPM will issue separate announcement(s) notifying SPM H Shareholders of the proposed withdrawal of listing and the exact dates and relevant arrangements for the last day for dealing in SPM H Shares on the Stock Exchange as well as when the formal delisting of the SPM H Shares will become effective. The listing of the SPM H Shares on the Stock Exchange will not be withdrawn if the Merger is not approved or lapses or does not become unconditional for any reason. In such cases, no cancellation of SPM Shares will take place pursuant to the Merger Agreement and SPM's public float would not be affected as a result of the Merger not being approved or otherwise lapses or does not become unconditional.

LETTER FROM THE BOARD

10. INDEPENDENT BOARD COMMITTEE AND INDEPENDENT FINANCIAL ADVISER

The SPM Board has established the Independent Board Committee, consisting of the non-executive director, Mr. Dong Yeshun and all of the independent non-executive directors, being Mr. Ling Hong, Mr. Chan Oi Fat and Mr. Sun Zechang. Such committee will advise the Independent SPM H Shareholders as to: (a) whether the terms of the Merger are fair and reasonable for the purpose of the Takeovers Code; and (b) whether to vote in favour of the Merger at the SPM EGM and the SPM H Shareholders' Class Meeting. Please refer to the recommendation of the Independent Board Committee as set out in "2. Recommendation" in the section headed "Letter from the Independent Board Committee" in this Composite Document.

The SPM Board has appointed, and the Independent Board Committee has approved the appointment of, Somerley Capital Limited as its Independent Financial Adviser to provide advice to the Independent Board Committee in respect of the Merger. For the opinions and advice of the Independent Financial Adviser, please refer to section headed "Letter from the Independent Financial Adviser" in this Composite Document.

11. SPM EGM AND SPM H SHAREHOLDERS' CLASS MEETING

SPM will convene the SPM EGM and the SPM H Shareholders' Class Meeting for the SPM Shareholders to consider and, if thought fit, approve matters including the Merger.

In compliance with Rule 2.10 of the Takeovers Code, which is applicable to the Merger, the Merger Agreement and the Merger are conditional on (i) the approval by way of poll by at least 75% of the votes attaching to the SPM H Shares held by the Independent SPM H Shareholders that are cast either in person or by proxy at the SPM H Shareholders' Class Meeting; and (ii) the number of votes cast against the resolution at the SPM H Shareholders' Class Meeting is not more than 10% of the votes attaching to all the SPM H Shares held by the Independent SPM H Shareholders.

The SPM H Shareholders who have been registered as holders of SPM H Shares on the register of members of SPM kept by the registrar of SPM H Shares, Tricor Investor Services Limited, on Monday, 11 January 2021 and who have completed all necessary registration procedures will be entitled to attend the SPM EGM and the SPM H Shareholders' Class Meeting. Only Independent SPM H Shareholders or their duly appointed proxies shall be entitled to vote in the SPM H Shareholders' Class Meeting.

(1) Suspension of registration of SPM Share transfers

The register of members of SPM will be closed from Wednesday, 6 January 2021 to Monday, 11 January 2021 (both dates inclusive), during which no registration of transfers of SPM Shares will be processed. If applicable, the SPM Shareholders and the SPM H Shareholders intending to attend the SPM EGM and the SPM H Shareholders' Class Meeting respectively must lodge their respective transfer documents and relevant share certificates with SPM H Share registrar, Tricor Investor Services Limited, at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong (for SPM H Shareholders) or the

LETTER FROM THE BOARD

Board office of SPM at South 4th Floor, 2747 Songhuajiang Road, Hongkou District, Shanghai, PRC (for SPM Domestic Shareholders) no later than 4:30 p.m. on Tuesday, 5 January 2021.

(2) Proxy forms and reply slips

Whether or not you intend to attend the SPM EGM or the SPM H Shareholders' Class Meeting, you are strongly urged to complete and return the proxy forms in accordance with the instructions printed thereon. The proxy forms should be returned as soon as possible (but in any event not less than 24 hours before the appointed time for holding the relevant meeting or any adjournment thereof). After completion and return of the proxy forms, you may still attend and vote at the relevant meetings should you so wish.

If you are eligible and intend to attend the relevant meetings, please complete and return the relevant reply slips in accordance with the instructions printed thereon. Reply slips should be returned as soon as possible (but in any event not later than 20 days before the scheduled date for holding the relevant meetings or any adjournment thereof). SPM Shareholders who fail to complete and return the relevant reply slips in accordance with the instruction printed thereon will still be able to attend and vote in the relevant meetings so long as a quorum is present to hold the relevant meetings.

In light of the potential travel difficulties and postal delay during the COVID-19 pandemic, postal rule shall apply to the receipt of reply slips to the effect that the despatch dates shown on postal stamps shall serve as concluding evidence as to valid despatch and receipt of the same within the required period (i.e. on or before Monday, 21 December 2020).

(3) Voting at the SPM EGM and the SPM H Shareholders' Class Meeting

Pursuant to Rule 13.39(4) of the Listing Rules, all resolutions will be passed by way of poll at the SPM EGM and the SPM H Shareholders' Class Meeting. All SPM Shareholders or their duly appointed proxies shall be entitled to vote in the SPM EGM, while only Independent SPM H Shareholders or their duly appointed proxies shall be entitled to vote in the SPM H Shareholders' Class Meeting.

(4) To safeguard the health and safety of attending SPM Shareholders and proxies and to reduce the risk of COVID-19 spreading, the following precautionary measures will be taken at the SPM EGM and the SPM H Shareholders' Class Meeting:

- (i) compulsory body temperature check. Any person with a body temperature of over 37.5 degree celsius will not be admitted to the venue;
- (ii) mandatory wearing of surgical face mask;
- (iii) no refreshments will be served; and

LETTER FROM THE BOARD

- (iv) no entry will be allowed to any person who is subject to mandatory quarantine order imposed by the PRC Government and/or the Hong Kong Government (as the case may be) and any person who does not comply with the precautionary measures may be denied entry into the meeting venue.

Those being refused entry at the meeting venue would still be allowed to vote by submitting a voting slip to the scrutineer at the entrance of the venue. In light of the COVID-19 epidemic, all SPM Shareholders and Independent SPM H Shareholders are strongly encouraged to appoint the chairman of the relevant meetings as their proxy to vote according to their indicated voting instructions as an alternative to attending the SPM EGM and/or the SPM H Shareholders' Class Meeting in person.

Subject to the development of COVID-19, SPM may implement further changes and precautionary measures and may issue further announcement(s) on such measures as appropriate.

12. TAXATION

(1) Taxation advice

You should consult your professional adviser to understand the possible tax implications of the Merger or the exercise of the Dissenting SPM Shareholders' rights. None of the Offeror, SPM, SEG, BNP Paribas, or the Independent Financial Adviser, nor their respective directors or any person participating in the Merger, assume any liability in respect of any tax incurred or other implication of any exercise of the Dissenting SPM Shareholders' rights.

(2) Hong Kong stamp duty

When the Cancellation Price is paid, the corresponding SPM H Shares will be cancelled. Therefore, the implementation of the Merger does not involve the sale and purchase of Hong Kong stock, and in this respect only, no stamp duty will be payable pursuant to the Stamp Duty Ordinance, Chapter 117 of the Laws of Hong Kong.

For the Dissenting SPM Shareholders who exercise their right to require acquisition of their SPM H Shares, Hong Kong stamp duty is payable at the rate of 0.1% of the consideration by each of the seller and the buyer. The seller stamp duty payable by the Dissenting SPM Shareholder will be deducted from the cash received by the relevant Dissenting SPM Shareholders who exercise such right and SPM or the Consenting SPM Shareholders or the Offeror will arrange payment of the seller stamp duty on behalf of the Dissenting SPM Shareholder.

13. RECOMMENDATION OF THE BOARD

The SPM Board (other than members of the Independent Board Committee, whose views are given in the section headed "Letter from the Independent Board Committee" in this Composite Document) is of the view that the terms of the Merger Agreement and the proposed Merger are fair and reasonable and in the interests of SPM and the SPM Shareholders as a

LETTER FROM THE BOARD

whole. Therefore, the SPM Board recommends that the SPM Shareholders vote in favour of the resolutions in relation to the Merger at the SPM EGM and (if applicable) the SPM H Shareholders' Class Meeting. SPM Shareholders and Independent SPM H Shareholders are advised to read the "Letter from the Independent Board Committee" and "Letter from the Independent Financial Adviser" as set out in pages 38 to 39 and 40 to 82 of this Composite Document.

14. OTHER INFORMATION

Your attention is also drawn to the additional information set out in the Appendices to this Composite Document, all of which form part of this Composite Document.

In considering what actions to take in connection with the Merger, you should consider your own tax and financial positions and, if you are in doubt, you should consult your own professional advisers.

Yours faithfully,
For and on behalf of
Shanghai Prime Machinery Company Limited
Zhou Zhiyan
Chairman of the SPM Board

LETTER FROM THE INDEPENDENT BOARD COMMITTEE



上海集优
SHANGHAI PRIME

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)

11 December 2020

To the Independent SPM H Shareholders

Dear Sir or Madam,

**(1) PROPOSED PRIVATISATION OF SPM BY
THE OFFEROR BY WAY OF MERGER BY ABSORPTION
(2) PROPOSED WITHDRAWAL OF LISTING
(3) NOTICE OF THE EXTRAORDINARY GENERAL MEETING
AND
(4) NOTICE OF THE H SHAREHOLDERS' CLASS MEETING**

1. INTRODUCTION

We refer to the Composite Document dated 11 December 2020 jointly issued by SEG, the Offeror and SPM to all SPM Shareholders in accordance with the Takeovers Code containing, amongst others, details of the Merger. Capitalised terms used in this letter have the same meanings as those defined in the Composite Document unless the context requires otherwise.

We have been appointed by the SPM Board to form the Independent Board Committee to consider the terms of the Merger and to make a recommendation to you as to whether, in our opinion, the terms of the Merger are fair and reasonable so far as the Independent SPM H Shareholders are concerned, and as to voting thereof.

Somerley Capital Limited has been appointed, and we have approved the appointment of Somerley Capital Limited, as the Independent Financial Adviser to advise us in respect of the terms of the Merger and as to voting and acceptance thereof. Details of its advice and the principal factors considered by it in arriving at its advice and recommendation are set out in the "Letter from the Independent Financial Adviser" on pages 40 to 82 of the Composite Document.

We also wish to draw your attention to the "Letter from the Board" and the additional information set out in the appendices to the Composite Document.

LETTER FROM THE INDEPENDENT BOARD COMMITTEE

2. RECOMMENDATION

Having considered the principal factors and reasons considered by, and the advice of the Independent Financial Adviser as set out in its letter, we concur with the view of the Independent Financial Adviser and consider the terms of Merger to be fair and reasonable so far as the Independent SPM H Shareholders are concerned.

Accordingly, we concur with the recommendation of the Independent Financial Adviser, and would recommend the Independent SPM H Shareholders to vote in favour of the Merger.

Notwithstanding our views and recommendation in respect of the terms of the Merger, the SPM Shareholders are strongly advised that their decision to realise or to hold their investment in SPM depends on their own individual circumstances and investment objectives. If in doubt, the SPM Shareholders should consult their own professional advisers for professional advice.

Yours faithfully,
for and on behalf of

THE INDEPENDENT BOARD COMMITTEE

Dong Yeshun

Non-executive Director

Ling Hong

Independent non-executive Director

Chan Oi Fat

Independent non-executive Director

Sun Zechang

Independent non-executive Director

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Set out below is the letter of advice from the Independent Financial Adviser, Somerley Capital Limited, to the Independent Board Committee, which has been prepared for the purpose of inclusion in this Composite Document.



SOMERLEY CAPITAL LIMITED

20th Floor
China Building
29 Queen's Road Central
Hong Kong

11 December 2020

To: Independent Board Committee

Dear Sirs,

**(1) PROPOSED PRIVATISATION OF SPM BY
THE OFFEROR BY WAY OF MERGER BY ABSORPTION;
AND
(2) PROPOSED WITHDRAWAL OF LISTING OF SPM**

I. INTRODUCTION

We refer to our appointment to advise the Independent Board Committee in connection with the Merger. Details of the Merger Agreement and the Merger are set out in the Composite Document dated 11 December 2020, of which this letter forms part. Capitalised terms used in this letter shall have the same meanings as those defined in the Composite Document unless the context otherwise requires.

On 15 October 2020, the Offeror and SPM entered into the Merger Agreement, pursuant to which the Offeror and SPM agreed to implement the Merger on and subject to the terms and conditions of the Merger Agreement, including the Pre-Condition and the Conditions. Upon the completion of the Merger, SPM will be merged into and absorbed by the Offeror in accordance with the PRC Company Law and other applicable PRC Laws.

The Independent Board Committee comprising the non-executive director of SPM, Mr. Dong Yeshun, and all of the independent non-executive directors of SPM, namely Mr. Ling Hong, Mr. Chan Oi Fat and Mr. Sun Zechang, has been established to advise the Independent Shareholders as to: (a) whether the terms of the Merger are fair and reasonable; and (b) whether to vote in favour of the Merger at the SPM EGM and the SPM H Shareholders' Class Meeting.

We are not associated with SPM, the Offeror, SEGC or their respective substantial shareholders or any party acting, or presumed to be acting, in concert with any of them and, accordingly, are considered eligible to give independent advice on the Merger. Apart from normal professional fees paid or payable to us in connection with this appointment, no

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

arrangement exists whereby we will receive any fees or benefits from SPM, the Offeror, SEGC, their respective substantial shareholders or any party acting, or presumed to be acting, in concert with any of them.

In formulating our opinion, we have reviewed, among other things, (i) the Composite Document; (ii) the Merger Agreement; (iii) the annual reports of SPM for the years ended 31 December 2017, 2018 and 2019 (“**2017 Annual Report**”, “**2018 Annual Report**” and “**2019 Annual Report**”, respectively); (iv) the interim report of SPM for the six months ended 30 June 2020 (“**2020 Interim Report**”); and (v) the material change statement set out in Appendix I to the Composite Document, together with the future prospects of the SPM Group, which we have discussed with the directors and management of the SPM Group (the “**Management**”).

We have relied on the information and facts supplied by SPM and the opinions expressed by the directors of SPM, and have assumed that the information and facts provided and opinions expressed to us are true, accurate and complete in all material aspects as at the Latest Practicable Date. We have further assumed that all representations contained or referred to in the Composite Document were true at the time they were made and at the date of the Composite Document and will continue to be true until the date of the SPM EGM and the SPM H Shareholders’ Class Meeting. Shareholders will be informed as soon as reasonably practicable if we become aware of any material change to such representations during the period from the date of the Joint Announcement to the Delisting Date. We have sought and received confirmation from the directors of SPM that no material facts have been omitted from the information supplied and opinions expressed to us. We consider that the information we have received is sufficient for us to reach our opinion and give the advice and recommendation set out in this letter. We have no reason to believe that any material information has been omitted or withheld, or to doubt the truth or accuracy of the information provided. We have, however, not conducted any independent investigation into the business and affairs of the SPM Group, the Offeror, SEGC or any of their respective associates or any party acting, or presumed to be acting, in concert with any of them, nor have we carried out any independent verification of the information supplied.

We have not considered the tax and regulatory implications on the Independent SPM H Shareholders of the implementation of the Merger since these are particular to their individual circumstances. In particular, the Independent SPM H Shareholders who are overseas residents or subject to overseas taxation or to Hong Kong taxation on securities dealings should consider their own tax position and, if in any doubt, should consult their own professional advisers.

For the purpose of illustration only and unless otherwise stated, amounts denominated in RMB in this letter have been translated into HK\$ at the exchange rate of HK\$1: RMB0.86934, which is the central parity rate of RMB to HK\$ as at the date of the Joint Announcement as announced by the People’s Bank of China.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER
--

II. PRINCIPAL TERMS OF THE MERGER AGREEMENT AND INFORMATION ON THE OFFEROR

1. Principal terms of the Merger Agreement

The proposed Merger will be implemented by the Offeror and SPM pursuant to the terms and conditions of the Merger Agreement, the principal terms of which are summarised as follows:

Date	15 October 2020
Parties	(1) the Offeror; and (2) SPM
Overview of the Merger	<p>Subject to the terms and conditions of the Merger Agreement, the Merger will be implemented by the Offeror merging with SPM by way of merger by absorption.</p> <p>Upon the completion of the Merger, the Offeror will assume all assets, liabilities, interests, businesses, employees, contracts and all other rights and obligations of SPM, and SPM will eventually be deregistered and dissolved.</p>
Cancellation Price	<p>Pursuant to the Merger Agreement, conditional upon, amongst others, the satisfaction (or waiver, if applicable) of the Pre-Condition, the Effectiveness Conditions and the Implementation Conditions (see the paragraphs headed “Pre-Condition to the Merger Agreement”, “Conditions to Merger Agreement becoming effective” and “Conditions to implementation of the Merger” below), the Offeror will pay the Cancellation Price on the following basis:</p>

For each SPM H Share HK\$1.60 each

The Cancellation Price will, subject to the same conditions as stated above, be paid to the SPM H Shareholders (other than SEGH and SEHC, whose SPM H Shares will be cancelled in consideration of the issuance to them of registered capital in the Offeror) whose names appear on the register of SPM H Shareholders on a relevant record date to be announced.

Settlement of the consideration to which SPM H Shareholders (other than SEGH and SEHC) are entitled will be implemented in full in accordance with the terms of the Merger Agreement without regard to any lien, right of set-off, counterclaim or other analogous right to which the Offeror may otherwise be, or claim to be, entitled against such SPM H Shareholders.

SPM Domestic Shares

Pursuant to the Merger Agreement, the SPM Domestic Shares held by SEG will be cancelled upon the completion of the Merger. In consideration for the cancellation of those shares, SEG will be issued with such amount of registered capital denominated in RMB in the Offeror which is equivalent to the Cancellation Price for each SPM H Share based on the Payment Exchange Rate, multiplied by each SPM Domestic Share so cancelled.

**Pre-Condition to the
Merger Agreement**

The Merger Agreement was subject to the satisfaction of a pre-condition (the “**Pre-Condition**”), being the filing, registration or approval, as applicable, with PRC government and/or regulatory authorities including without limitation:

- (1) the National Development and Reform Commission of the PRC;
- (2) the Ministry of Commerce of the PRC; and
- (3) the State Administration of Foreign Exchange of the PRC, or their respective local authorities or authorised entities, and such other applicable governmental approvals in respect of the Merger having been obtained or completed.

On 4 December 2020, SEG, the Offeror and SPM jointly announced that the Pre-Condition had been satisfied.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Conditions to the Merger Agreement becoming effective

In light of the fact that the Pre-Condition has been satisfied, the Merger Agreement will become effective upon the satisfaction of a number of conditions (the “**Effectiveness Conditions**”) which are set out as follows:

- (1) the passing of special resolution(s) by a majority of not less than two-thirds of the votes cast by way of poll by the SPM Shareholders present and voting in person or by proxy at the SPM EGM to approve the Merger under the Merger Agreement in accordance with the SPM Articles and the PRC Laws;
- (2) the passing of special resolution(s) by way of poll approving the Merger under the Merger Agreement at the SPM H Shareholders’ Class Meeting to be convened for this purpose, provided that (a) approval is given by at least 75% of the votes attaching to the SPM H Shares held by the Independent SPM H Shareholders that are cast either in person or by proxy; and (b) the number of votes cast against such resolution(s) is not more than 10% of the votes attaching to all SPM H Shares held by the Independent SPM H Shareholders;
- (3) the passing of ordinary resolution(s) by way of poll by the Independent SEG Shareholders present and voting in person or by proxy at the SEG EGM to approve the related party transactions (within the meaning of the SSE Listing Rules) under the Merger Agreement in accordance with the PRC Laws and the SSE Listing Rules; and
- (4) if applicable, the filing, registration or approval, as applicable, with the State-owned Assets Supervision and Administration Commission of the State Council of the PRC, or its local authorities or authorised entities, in respect of the Merger having been obtained or completed.

None of the Effectiveness Conditions is waivable. If the Effectiveness Conditions are not satisfied by the Conditions Longstop Date, the Merger Agreement may be terminated by either party. Please also refer to the paragraph headed “Termination” in this section.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

On 25 November 2020, SEG, the Offeror and SPM jointly announced that the Effectiveness Condition as set out in item (3) above had been satisfied. As at the Latest Practicable Date, the approval from the authorised entity of the State-owned Assets Supervision and Administration Commission of the State Council has also been obtained.

Conditions to implementation of the Merger

Considering that the Pre-Condition has been satisfied and provided that the Effectiveness Conditions have been satisfied by the Conditions Longstop Date, the implementation of the Merger will be subject to the satisfaction (or waiver, if applicable) of a number of conditions (the “**Implementation Conditions**”), which are set out as follows:

- (1) there being no material breach of the representations, warranties or undertakings given by the Offeror in the Merger Agreement which has a material adverse impact on the Merger;
- (2) there being no material breach of the representations, warranties or undertakings given by SPM in the Merger Agreement which has a material adverse impact on the Merger;
- (3) no relevant government, governmental, quasi-governmental, statutory or regulatory body, court or agency having granted any order or made any decision that would make the Merger void, unenforceable or illegal, or restrict or prohibit the implementation of, or impose any additional material conditions or obligations with respect to, the Merger (other than such order(s) or decision(s) that would not have a material adverse effect on the legal ability of the Offeror to proceed with the Merger);
- (4) no event having occurred which would make the Merger void, unenforceable or illegal or which would prohibit the implementation of the Merger or impose any additional material conditions or obligations with respect to the Merger or any part thereof or otherwise on the SEG Group or the SPM Group (other than such event(s) that would not have a material adverse effect on the legal ability of the Offeror to proceed with the Merger); and

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER
--

- (5) save in connection with the implementation of the Merger, the listing of the SPM H Shares on the Stock Exchange not having been withdrawn, and no indication having been received from the SFC and/or the Stock Exchange, to the effect that the listing of the SPM H Shares on the Stock Exchange is or is likely to be withdrawn.

SPM will be entitled to waive the Implementation Condition in item (1) above and the Offeror will be entitled to waive the Implementation Condition in item (2) above. The Implementation Conditions in items (3), (4) and (5) are not waivable. If the Implementation Conditions are not satisfied (or waived, if applicable) by the Conditions Longstop Date, the Merger Agreement may be terminated by either party.

As at the Latest Practicable Date, none of the Implementation Conditions has been satisfied or waived.

**Payment of
consideration to
the SPM H
Shareholders
(other than SEGH
and SEHC)**

The Offeror shall, as soon as possible and in any event no later than seven (7) business days after the satisfaction (or waiver, if applicable) of the Conditions, pay the Cancellation Price to all SPM H Shareholders (other than SEGH and SEHC).

Upon the payment of consideration to the SPM H Shareholders by or on behalf of the Offeror, all rights attaching to such SPM H Shares will cease to have effect and the relevant SPM H Shares will be cancelled, and the share certificates for the SPM H Shares will cease to have effect as documents or evidence of title.

Dividend

SPM shall not declare, make and/or pay any dividend or other distribution from the date of the Merger Agreement up to and including the date of the completion of the Merger or the termination of the Merger Agreement (as the case may be).

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Right of Dissenting SPM Shareholders

According to the SPM Articles and PRC Company Law, any Dissenting SPM Shareholder may, by written notice, request SPM and/or other SPM Shareholders who have approved the Merger (collectively, the “**Consenting SPM Shareholders**”), to acquire its SPM Shares at a “fair price”. Such written notice should be lodged with the Company Secretary of SPM at 2747 Songhua Jiang Road, Hongkou District, Shanghai, PRC or alternatively at SPM’s principal place of business in Hong Kong at Room 901–903, Tower Two, Lippo Centre, 89 Queensway, Hong Kong by hand or by post within the Declaration Period.

In light of the potential travel difficulties and postal delay, postal rule shall apply to the receipt of such written notice to the effect that the despatch dates shown on postal stamps shall serve as evidence to valid despatch and receipt of the written notices within the Declaration Period.

Under the Merger Agreement, if any Dissenting SPM Shareholder exercises such rights, the Offeror may, upon the request by SPM and/or the Consenting SPM Shareholders, assume the obligation which SPM and/or the Consenting SPM Shareholders may have towards such Dissenting SPM Shareholders to acquire the SPM Shares held by such Dissenting SPM Shareholders at a “fair price”.

The provisions in respect of the rights of Dissenting SPM Shareholders to demand SPM and/or the Consenting SPM Shareholders to acquire its SPM Shares at a “fair price” are set out only in the SPM Articles and are not otherwise stipulated in any PRC Laws. There is no written/published administrative guidance on the substantive and procedural rules as to how the “fair price” will be determined under the PRC Laws nor does the SPM Articles set out any guidance or procedures as to how the “fair price” will be determined. Accordingly, no assurance may be given as to (i) the time required for such acquisition process; (ii) any favourable results to the Dissenting SPM Shareholders and/or (iii) the costs which may be incurred by the Dissenting SPM Shareholders in determining the “fair price” for such acquisition process.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

In addition, the exercise of such right by a Dissenting SPM Shareholder is subject to the following criteria:

- (1) such Dissenting SPM Shareholder having validly voted against the resolutions in respect of the Merger at the SPM EGM and the SPM H Shareholders' Class Meeting;
- (2) such Dissenting SPM Shareholder having been validly registered as a shareholder on the share register since the record date for the SPM EGM and the SPM H Shareholders' Class Meeting, being Monday, 11 January 2021, and having held such SPM Shares in respect of which it intends to exercise such right until the Exercise Date;
- (3) such Dissenting SPM Shareholder having exercised such right during the Declaration Period; and
- (4) such Dissenting SPM Shareholder having lodged the written notice during the Declaration Period in the manner as set out above.

Beneficial owners of SPM H Shares whose SPM H Shares are deposited in the Central Clearing and Settlement System and registered under the name of HKSCC Nominees Limited will need to arrange for such SPM H Shares to be withdrawn from the Central Clearing and Settlement System and transferred into your own name prior to the record date for the SPM EGM and the SPM H Shareholders' Class Meeting, being Monday, 11 January 2021. The withdrawal process may take some time.

A Dissenting SPM Shareholder is not entitled to exercise such right in respect of such SPM Shares held by it upon occurrence of any one of the following:

- (1) such Dissenting SPM Shareholder has undertaken to SPM to waive its right;
- (2) such Dissenting SPM Shareholder is prohibited from exercising such right in accordance with applicable laws; or

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

- (3) any SPM Share held by such Dissenting SPM Shareholder is subject to pledge, other third party rights or judicial moratorium, and no written consent or approval has been obtained from the relevant pledgee, third party or competent authority.

For the avoidance of doubt, if the Merger does not proceed as a result of the Pre-Condition or Conditions not being satisfied (or waived, if applicable) or if the Merger otherwise lapses or does not become unconditional, the Dissenting SPM Shareholders (if any) shall not be entitled to exercise such rights as described above.

Termination

The Merger Agreement may be terminated in any of the following circumstances:

- (1) by either the Offeror or SPM, if
- (i) any competent governmental authority issues any order, decree, ruling or take any other actions which permanently restricts, impedes or otherwise prohibits the Merger and which is final, binding and not capable of being appealed, provided that both the Offeror and SPM shall use reasonable endeavours to procure the withdrawal of such order, decree, ruling or action prior to exercising such rights of termination;
 - (ii) the Pre-Condition has not been satisfied on or before the Pre-Condition Longstop Date;
 - (iii) the Effectiveness Conditions have not been satisfied on or before the Conditions Longstop Date; or
 - (iv) the Implementation Conditions have not been satisfied (or waived, if applicable) on or before the Conditions Longstop Date;
- (2) by the Offeror, if SPM commits a material breach of the representations, warranties or undertakings given by SPM in the Merger Agreement which has a material adverse impact on the Merger; or

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

- (3) by SPM, if the Offeror commits a material breach of the representations, warranties or undertakings given by the Offeror in the Merger Agreement which has a material adverse impact on the Merger.

Further details of the terms and conditions of the Merger Agreement are set out in the letter from the Board contained in the Composite Document.

Upon the completion of the Merger, the Offeror will assume all assets, liabilities, interests, businesses, employees, contracts and all other rights and obligations of SPM, and SPM will be eventually deregistered and dissolved.

Pursuant to Note 2 to Rule 30.1 of the Takeovers Code, the Offeror may only invoke any or all of the Conditions as a basis for not proceeding with the Merger, or terminate the Merger Agreement in accordance with paragraph headed “Termination” above, if the circumstances which give rise to a right to invoke any such Condition or termination right are of material significance to the Offeror in the context of the Merger.

2. Information on the Offeror and SEG and the intention of the Offeror on the SPM Group

The Offeror is a company newly incorporated in the PRC with limited liability, and as at the date of the Latest Practicable Date, is a wholly-owned subsidiary of SEG.

As set out in the letter from the Board contained in the Composite Document, SEG is a joint stock company incorporated in the PRC with limited liability, whose A shares are listed on the Shanghai Stock Exchange (stock code: 601727) and H shares are listed on the Main Board of the Stock Exchange (stock code: 2727). The SEG Group is one of the largest industrial equipment manufacturing conglomerates in PRC engaged in the following principal activities: (i) the energy equipment segment: design, manufacture and sale of coal-fired power generation and corollary equipment, gas-fired power generation equipment, wind power equipment, nuclear power equipment, energy storage equipment and high-end vessels for chemical industry; and provision of power grid and industrial intelligent power supply system solutions; (ii) the industrial equipment segment: design, manufacture and sale of elevators, large and medium-size electric motors, intelligent manufacturing equipment, industrial basic parts, environmental protection equipment and construction industrialization equipment; and (iii) the integrated services segment: provision of energy, environmental protection and automation engineering and services, covering traditional and new energy, comprehensive use of solid wastes, sewage treatment, flue gas treatment, rail transit and etc.; provision of industrial internet services; provision of financial services, covering financing leases and insurance brokerage; provision of international trade services; and provision of high-end property services etc.

As at the Latest Practicable Date, SEGC owns 8,794,802,061 shares in SEG (representing 58.03% of all the shares in SEG in issue) and is the controlling shareholder of SEG, and the ultimate beneficial owner of the SEG Group is Shanghai SASAC.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

After the Merger, SPM will be merged and absorbed into the Offeror with the Offeror as the surviving entity, and SPM will be eventually deregistered and dissolved. It is the intention of the Offeror to continue to carry on the current business of SPM.

As disclosed in the letter from the Board contained in the Composite Document, the Offeror does not intend to introduce any major changes to the existing business of SPM (including any redeployment of fixed assets of SPM). The Offeror does not intend to make any significant changes to the continued employment of the employees of SPM Group. Following completion of the Merger, the employment contracts of all employees of SPM will continue with the Offeror as the surviving entity. The SPM Board is willing to cooperate with the Offeror and act in the best interest of SPM and the SPM Shareholders as a whole.

Even if payment of Cancellation Price is to be financed by external financing of the SEG Group as described in the section headed “Confirmation of financial resources” in the letter from the Board contained in the Composite Document, the payment of interests on, repayment of or security for any liability, contingent or otherwise, in connection with such external financing, is not intended to depend on, to any significant extent, business of SPM.

III. PRINCIPAL FACTORS AND REASONS CONSIDERED

1. Background to and reasons for the Merger

As set out in the section headed “Reasons for and benefits of the Merger” in the Letter from the Board contained in the Composite Document, with an uncertain, difficult and challenging business environment and the poor price performance and low liquidity of the SPM H Shares, the SEG Board believes that SPM’s ability to raise funds from the public equity market is currently limited and it is unlikely to expect any significant improvement in the foreseeable future. As such, the SEG Board has reconsidered the need for keeping SPM as a separate listing vehicle within SEG Group. The SEG Board is of the view that the delisting of SPM would reduce the costs and management resources associated with the maintenance of SPM’s listing on the Stock Exchange and its publicly listed status and, therefore, the delisting would result in a more cost effective group structure for SEG Group.

To combat the current operating environment, as mentioned in the 2020 Interim Report, SPM is taking various strategies and measures such as (i) strengthening management and enhancing competitiveness through improvement of IT systems; (ii) developing new target markets such as rail transit and robotics; (iii) repositioning its business focus from a manufacturer of mechanical parts to becoming a solution provider; and (iv) promoting synergies among business units and mixed ownership reform. It is intended that SPM will continue to carry out these strategies and measures upon

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

implementation of the Merger with SPM being wholly owned by SEG Group. The SEG Board believes that the delisting would create more flexibility for SEG Group to carry out these strategies and measures in an efficient manner and free from the pressure of market expectations, profit visibility and share price fluctuation associated with being a publicly listed company.

The SPM Board and the SEG Board considers that the Merger would provide the SPM H Shareholders (other than SEGH and SEHC) with an attractive opportunity to monetise their investments and interests in the SPM for cash at a premium over the prevailing market price. The SPM Board has also taken into account that the low trading liquidity of SPM H Shares could make it difficult for the SPM H Shareholders to execute substantial on-market disposals within a reasonable timeframe without facing significant downward pressure on exit prices. Further details of our analysis on the Cancellation Price and liquidity of SPM H Share are set out in the sub-section headed “III. 3. Analysis of price performance and trading liquidity of the SPM H Shares” of this letter below.

2. Information and prospects of the SPM Group

(i) *Information on SPM*

SPM is a joint stock company incorporated in the PRC with limited liability, the H shares of which are listed on the Main Board of the Stock Exchange (stock code: 2345). SPM has carried out only one equity financing exercise in the form of the rights issue described below since the listing of its H shares on 27 April 2006.

On 21 June 2018, SPM announced a rights issue on the basis of one new rights share for every five existing shares held by the shareholders at the subscription price of HK\$1.30 per H rights shares (the “**H Share Rights Issue**”) and RMB1.07 (equivalent to approximately HK\$1.30) per domestic rights share (together with the H Share Rights Issue, collectively, the “**Rights Issue**”). The H Share Rights Issue was fully underwritten by SEHC. The subscription price for each H rights share was priced at a premium of approximately 2.36% over the closing price of the SPM H Shares on date of the announcement in respect of the Rights Issue. The H Shares Rights Issue was substantially under-subscribed and had only 10.43% acceptance. Net proceeds raised from the Rights Issue were approximately RMB312.47 million.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

The SPM Group operates internationally with production plants located in the PRC, the Netherlands and Germany. The principal activities of the SPM Group are design, manufacture and sale of fasteners, turbine blades, bearings, cutting tools and others, the provision of related technical services and investment holding. SPM operates four major business segments, namely (i) fastener, (ii) turbine blade, (iii) bearing and (iv) cutting tool. Further details of each of the business segments are set out below.

(a) Fastener

The SPM Group primarily supplies standard and safety-critical fasteners for the automotive industry as well as various fastener products for the aerospace industry and for general industrial applications. In addition, the SPM Group also offers customers services, ranging from testing, logistics and warehousing to ERP and electronic procurement via a proprietary B2B online platform. As mentioned in 2019 Annual Report, SPM Group is a leading global fastener partner for world-renowned automobile manufacturers. Its customer portfolio includes Volkswagen, BMW, Renault, Audi, Daimler, Paccar, Volvo, ZF Group, Adient and SAIC Motor.

(b) Turbine blade

The SPM Group supplies gas turbine blades, steamed turbine blades and forged products for the energy industry, and turbine blades and forged products for the aviation industry. In particular, the SPM Group is also a supplier of large-scale thermal power steam turbine blade for the Chinese market.

(c) Bearing

The SPM Group supplies a portfolio of bearing products ranging from precision micro bearings to standard bearings and specialized large-scale bearings for various industries such as aerospace, automobile, cargo railway as well as for general industrial applications. In addition to this, the SPM Group also provides repair and maintenance services relating to bearings used in the cargo railway industry.

(d) Cutting tool

The SPM Group is a supplier of cutting tools with a sizeable production capacity and a comprehensive product portfolio in China. The SPM Group principally supplies a variety of cutting tool products for general industrial applications.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

(ii) *Financial information of the SPM Group*

(a) *Financial performance*

The following is a summary of the consolidated financial results of SPM Group for (a) the three years ended 31 December 2017, 2018 and 2019 (“FY2017”, “FY2018” and “FY2019”, respectively); and (b) the six months ended 30 June 2019 and 2020 (“1H2019” and “1H2020”, respectively) (collectively, the “Period”) as extracted from 2018 Annual Report, 2019 Annual Report and 2020 Interim Report.

	For the six months ended 30 June		For the year ended 31 December		
	2020	2019	2019	2018	2017
	(Unaudited)	(Unaudited)	(Audited)	(Audited)	(Audited)
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Revenue					
Fastener	2,285,566	3,236,196	6,138,068	6,783,956	6,185,726
Turbine blade	421,078	479,797	896,903	867,367	963,952
Bearing	352,641	454,314	797,001	785,924	758,015
Cutting tool	265,105	314,410	562,736	590,288	571,202
	<u>3,324,390</u>	<u>4,484,717</u>	<u>8,394,708</u>	<u>9,027,535</u>	<u>8,478,895</u>
Cost of sales	<u>(2,743,103)</u>	<u>(3,619,256)</u>	<u>(6,808,810)</u>	<u>(7,247,401)</u>	<u>(6,793,966)</u>
Gross profit	581,287	865,461	1,585,898	1,780,134	1,684,929
(Loss)/profit before tax	<u>(35,836)</u>	<u>147,577</u>	<u>145,238</u>	<u>362,382</u>	<u>351,550</u>
(Loss)/profit for the period/year	<u>(14,088)</u>	<u>117,849</u>	<u>131,928</u>	<u>277,251</u>	<u>252,774</u>
(Loss)/profit for the period/ year attributable to owners of SPM	<u>(22,023)</u>	<u>114,736</u>	<u>127,371</u>	<u>280,438</u>	<u>253,424</u>
Profit/(loss) for the period/ year attributable to non- controlling interests	<u>7,935</u>	<u>3,113</u>	<u>4,557</u>	<u>(3,187)</u>	<u>(650)</u>

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Set out below is information about SPM Group's revenue based on the location of the customers during the Period, as extracted from 2018 Annual Report, 2019 Annual Report and 2020 Interim Report.

	For the six months ended 30 June				For the year ended 31 December					
	2020		2019		2019		2018		2017	
	(Unaudited)		(Unaudited)		(Audited)		(Audited)		(Audited)	
	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%
Geographical markets										
PRC	1,065,684	32.06%	1,252,887	27.94%	2,266,855	27.00%	2,465,091	27.31%	2,428,313	28.64%
Outside PRC	<u>2,258,706</u>	67.94%	<u>3,231,830</u>	72.06%	<u>6,127,853</u>	73.00%	<u>6,562,444</u>	72.69%	<u>6,050,582</u>	71.36%
	<u>3,324,390</u>		<u>4,484,717</u>		<u>8,394,708</u>		<u>9,027,535</u>		<u>8,478,895</u>	

Revenue

The fastener business has been the main source of revenue of the SPM Group, contributing over 65% of the SPM Group's total revenue during the Period. More than 55% of the SPM Group's total revenue in the Period was generated from sales to automotive industry. Over 65% of SPM Group's total revenue during the Period was generated from export sales to customers mainly based in Europe.

SPM Group recorded an increase in total revenue of 6.47% for FY2018 as compared to that for FY2017. Such increase was primarily driven by organic growth in the fastener business and the acquisition of CP Tech GmbH ("CP Tech"), a high-tech engineering company for the automotive and motorsport industry, completed in August 2017. Due to the subdued economic outlook triggered by the United States–China trade tensions, shrinking demand in Europe and China automotive markets and the outbreak of COVID-19 pandemic, the total revenue of the SPM Group has shown a downward trend since 2019. The total revenue decreased by 7.01% for FY2019 as compared to FY2018, which was primarily attributable to the contraction in revenue of the fastener business especially automotive fasteners. The SPM Group recorded a further decrease in total revenue of around 25.87% for 1H2020 as compared to that for 1H2019. During 1H2020, segment revenues decreased across the board with the fastener business being the hardest hit.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

An analysis of the financial performance by different business segments is shown below.

— Fastener

As disclosed in 2018 Annual Report, revenue of fastener business increased by 9.67% for FY2018 as compared to FY2017, which was mainly due to higher average fastener selling prices, increased sale of cold-forging machineries, additional contribution from CP Tech and the appreciation of Euro. In 2019, the revenue generated from the fastener business dropped by 9.52% as compared to FY2018, primarily driven by the diminished demand witnessed in the automotive markets, the elimination of certain outdated yet higher-margin products and the decrease in export sales. As most of the SPM Group's automotive customers suspended their production facilities in China and Europe amidst the COVID-19 pandemic, the revenue of fastener business dropped in 1H2020 as compared to the same period in 2019 from RMB3,236.20 million to RMB2,285.57 million, representing a decrease of 29.37%.

— Turbine blade

Revenue generated from the turbine blade business decreased by 10.02% in FY2018 and picked up slightly in FY2019, representing an increase of 3.41% in FY2019 as compared to FY2018. During 1H2020, a decrease of 12.24% in revenue was recorded as compared to the same period in 2019. As disclosed in 2018 Annual Report, the decline in revenue of the turbine blade business was primarily due to the reduction in market demand for energy products in both the domestic and overseas markets, partly offset by the growth in the sales of aviation products. The decrease in revenue of turbine blade business for 1H2020 as compared with 1H2019 was mainly attributable to contraction in demand for coal-fired power equipment in China and customers delaying sales orders for aviation products owing to COVID-19.

— Bearing

Revenue of the bearing business remained steady during the three years ended 31 December 2019, recording as increases of 3.68% for FY2018 as compared to that for FY2017 and a slightly growth of 1.41% for FY2019 as compared to that for FY2018. The segment revenue dropped significantly by 22.38% for 1H2020 as compared to the same period in 2019 as a consequence of the intensifying price competition in cargo railway products market and the widespread economic disruption resulting from the pandemic.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

— Cutting tool

Revenue of the cutting tool business increased by 3.34% for FY2018 as compared that for FY2017, primarily driven by higher average selling prices. The segment revenue dropped by 4.67% for FY2019 as compared with FY2018 as a result of general slow-down in industrial production during 2019. The cutting tool recorded a decrease of 15.68% during 1H2020 as compared to the same period in 2019, primarily attributable to a drastic cut in industrial production while product prices remained stable in 2020.

Gross profit and gross profit margin

The variation in gross profit of the SPM Group throughout the Period was generally in line with the changes in revenue. The gross profit increased from RMB1,684.93 million for FY2017 to RMB1,780.13 million for FY2018 then decreased to RMB1,585.90 million for FY2019. The gross profit dropped significantly from RMB865.46 million for 1H2019 to RMB581.29 million for 1H2020. As the fastener business is the main revenue contributor of the SPM Group, the overall profit margin of the SPM Group were mostly correlated with the gross profit of this business segment. In particular, the narrowing margin of the fastener business had led to a relatively higher percentage decrease in SPM's overall gross profit for 1H2020 by around 32.83% as compared to approximately 25.87% drop in the SPM Group's total revenue.

The following tables set out the gross profit margin by business segments of the SPM Group extracted from 2018 Annual Report, 2019 Annual Report and 2020 Interim Report.

	For the six months		For the year ended 31 December		
	ended 30 June				
	2020	2019	2019	2018	2017
Gross profit margin	17.49%	19.30%	18.89%	19.72%	19.87%
Fastener	12.7%	16.7%	16.2%	17.9%	18.6%
Turbine blade	21.8%	19.7%	20.4%	20.6%	22.2%
Bearing	30.6%	27.8%	26.2%	27.0%	22.0%
Cutting tools	34.5%	33.7%	35.2%	30.1%	27.2%

Gross profit margin of the SPM Group has shown a gradual downward trend during the Period. Given that the revenue derived from the fastener business has contributed most of the revenue of the SPM Group during the Period, SPM Group's overall gross profit margin was more correlated with the gross profit margin recorded in the fastener business.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

The gross profit margin of the fastener business dropped from 18.6% for FY2017 to 17.9% for FY2018, which was mainly due to the increased outsourcing spending and higher raw material prices. The fastener business' s gross profit margin decrease to 16.2% for FY2019 due to under-absorption of overhead as a consequence of lower production rate; and the elimination of certain outdated yet higher-margin products. Against the backdrop of a drastic cut in industrial production following the COVID-19 outbreak, the gross profit margin of the fastener business suffered from a significant drop to 12.7% for 1H2020 as compared to 16.7% for 1H2019 due to under-absorption of fixed costs and overhead.

The decrease in gross profit margin of the turbine blade business from 22.2% for FY2017 to 20.6% for FY2018 was mainly attributable to the decrease in the portion of revenue generated from the higher margin products for the energy industry. In 2019, the margin remained steady at around 20.4%. As a result of cost saving initiative that was taken by the SPM Group, the segment gross profit margin improved in 1H2020 to 21.8%.

The gross profit margin of the bearing business recorded a growth from 22.0% for FY2017 to 27.0% for FY2018 and followed by a slight decrease to 26.2% for FY2019. In 1H2020, the gross profit margin increased to 30.6% mainly due to increasing portion of revenue generated from aerospace products which offered a higher margin.

The gross profit margin of the cutting tools business recorded growth in each of the three financial years ended 2017 to 2019 except for a modest decrease in 1H2020. The general increasing trend was mainly driven by the rise in selling price, the lower sales rebate paid and the reduction of staff costs.

(Loss)/profit for the period attributable to owners of SPM

Profit attributable to owners of SPM increased by 10.66% to RMB280.44 million for FY2018 as compared with RMB253.42 million for FY2017. Such increase was mainly attributable to the increase in overall revenue and gross profit, the reduction in finance costs and the higher net foreign exchange gains (after taking into account the gain from hedging instruments).

Profit attributable to owners of SPM dropped significantly from RMB280.43 million for FY2018 to RMB127.37 million for FY2019, representing a decrease of 54.58%. Such decrease was mainly due to the decrease in total revenue. While the SPM Group recorded a decrease in revenue, it continued incurring expenditures which were generally fixed in nature regardless of the decreasing scale of operation, such as certain staff costs and depreciation, and this further affected its profitability in FY2019. During that year, the SPM Group also incurred non-recurrent or non-

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

operating expenses amounting to RMB75.9 million which were mainly the restructuring costs and compensation expenses in relation to its European operation and certain non-recurrent professional expenses.

The SPM Group recorded a loss attributable to owners of SPM of RMB22.02 million for 1H2020 against a profit of RMB114.74 million for 1H2019. Given the economic activities in China and Europe both being severely curtailed by the COVID-19, this has inevitably affected the operation and financial performance of the SPM Group as a whole, resulting in a loss position in 1H2020. In addition, the SPM Group incurred non-recurrent expenses amounting to RMB14.5 million, mainly being the restructuring costs for its European operation.

(b) Financial position

Set out below is a summary of the financial position of the SPM Group as at 31 December 2017, 2018 and 2019, and as at 30 June 2020 based on information set out in the 2018 Annual Report, the 2019 Annual Report and the 2020 Interim Report.

	As at 30 June 2020	As at 31 December		
	(Unaudited)	2019	2018	2017
	<i>RMB'000</i>	<i>(Audited) RMB'000</i>	<i>(Audited) RMB'000</i>	<i>(Audited) RMB'000</i>
Non-current assets				
Property, plant and equipment	2,226,347	2,241,323	2,302,620	2,343,766
Right-of-use-assets	317,683	330,657	—	—
Goodwill	1,543,607	1,515,852	1,521,918	1,513,334
Intangible assets	95,525	88,690	33,556	32,400
Interests in associates	63,216	64,839	78,378	144,349
Other non-current assets	214,981	171,114	261,566	263,252
	<u>4,461,359</u>	<u>4,412,475</u>	<u>4,198,038</u>	<u>4,297,101</u>
Current assets				
Inventories	1,758,169	1,775,498	1,863,522	1,742,302
Trade receivables	1,254,565	1,135,911	1,210,677	1,264,452
Bills receivables	—	—	—	716,854
Debt instruments at fair value through other comprehensive income	538,922	545,506	719,278	—
Prepayment, deposits and other receivables	185,750	273,217	300,333	298,050
Bank balances and cash	1,157,652	1,276,341	1,150,582	804,956
Other current assets	271,953	225,336	215,790	139,458
	<u>5,167,011</u>	<u>5,231,809</u>	<u>5,460,182</u>	<u>4,966,072</u>
Total assets	<u>9,628,370</u>	<u>9,644,284</u>	<u>9,658,220</u>	<u>9,263,173</u>

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

	As at 30 June 2020 (Unaudited) RMB'000	As at 31 December 2019 (Audited) RMB'000	As at 31 December 2018 (Audited) RMB'000	2017 (Audited) RMB'000
Current liabilities				
Trade payables	982,288	1,266,783	1,424,870	1,569,335
Bills payable	345,764	357,030	408,124	363,961
Other payables and accruals	575,755	492,766	464,860	478,672
Bank borrowings	392,982	294,303	202,484	171,383
Shareholder's loans	—	781,550	944,311	203,900
Other current liabilities	298,998	234,296	171,530	92,895
	<u>2,595,787</u>	<u>3,426,728</u>	<u>3,616,179</u>	<u>2,880,146</u>
Non-current liabilities				
Bank borrowings	1,506,698	1,477,005	606,128	679,417
Shareholders' loans	826,100	30,000	814,730	1,675,446
Deferred income — government grants	209,678	216,757	227,876	245,900
Other non-current liabilities	309,254	309,439	236,427	219,239
	<u>2,851,730</u>	<u>2,033,201</u>	<u>1,885,161</u>	<u>2,820,002</u>
Total liabilities	<u><u>5,447,517</u></u>	<u><u>5,459,929</u></u>	<u><u>5,501,340</u></u>	<u><u>5,700,148</u></u>
Net current assets	2,571,224	1,805,081	1,844,003	2,085,926
Net assets	4,180,853	4,184,355	4,156,880	3,563,025
Net assets value attributable to owners of SPM (“NAV”)	4,070,684	4,145,726	4,111,396	3,517,759
Net tangible assets value attributable to owners of SPM (“NTAV”) ^(Note)	2,431,552	2,541,184	2,555,922	1,972,025

Note: Calculated based on the NAV less goodwill and intangible assets as at the same period/year end as shown in the above table.

Among non-current assets, most of the goodwill was derived from the acquisition of Nedfast Investment B.V., a supplier of automotive fasteners and special parts, which took place in 2014. Intangible assets were mainly software, development expenditure in progress and deferred development costs. Balance of total non-current assets dropped slightly from approximately RMB4,297.10 million as at 31 December 2017 to approximately RMB4,198.04 million as at 31 December 2018, which was mainly due to the decrease in interests in associates as a consequence of the disposal of the SPM Group's equity interest in Shanghai General Bearing Company Limited in 2018. As at 31 December 2019, the balance of non-current assets increased to RMB4,412.48 million

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

primarily due to the recognition of right-of-use assets following the application of the new Hong Kong Financial Reporting Standards 16 Leases in 2019. As at 30 June 2020, the carrying amount of non-current assets remained stable at RMB4,461.36 million.

Current assets comprised mainly inventories, trade receivables, debt instruments at fair value through other comprehensive income, prepayments, deposits and other receivables, and bank balances and cash. The debt instruments at fair value through other comprehensive income represent bills receivables of the SPM Group. Balance of current assets increased from approximately RMB4,966.07 million as at 31 December 2017 to approximately RMB5,460.18 million as at 31 December 2018, which was mainly due to the increase in bank balances and cash from the proceeds raised from the Rights Issue which was completed in 2018. As at 31 December 2019 and 30 June 2020, the balance of current assets remained stable at RMB5,231.81 million and RMB5,167.01 million, respectively.

The balance for total current liabilities increased by around 25.56% from approximately RMB2,880.15 million as at 31 December 2017 to approximately RMB3,616.18 million as at 31 December 2018. Such increment was mainly due to the increase in the bank borrowings and shareholders' loans which were due within one year. The balance of current liabilities remained stable at RMB3,426.73 million as at 31 December 2019 and subsequently decreased to RMB2,595.79 million as at 30 June 2020. The decrease was mainly due to the renewal of the shareholders' loan upon the expiry during 1H2020 classified as a non-current liability as at 30 June 2020.

The balance for total non-current liabilities of the SPM Group as at 31 December 2018 decreased from approximately RMB2,820.00 million as at 31 December 2017 to approximately RMB1,885.16 million as at 31 December 2018, mainly attributable to the decrease in the non-current portion of the shareholders' loans which were due in more than one year. As at 31 December 2019 and 30 June 2020, the balance of non-current liabilities increased to RMB2,033.20 million and RMB2,851.73 million, respectively. The increase in non-current liabilities as at 31 December 2019 was primarily attributable to the increase in bank borrowings which was partly offset by the decrease in the non-current portion of the shareholders' loans. The increase in non-current liabilities as at 30 June 2020 was primarily due to renewal of the shareholders' loan which took place in 1H2020.

As at 31 December 2018, the NAV and NTAV amounted to approximately RMB4,111.40 million and approximately RMB2,555.92 million respectively, representing an increase of approximately RMB593.64 million and approximately RMB583.90 million, respectively, as compared to the beginning of the year. The increase was mainly attributable to (i) the profit attributable to owners of SPM amounting to RMB280.44 million during the year and (ii) the proceeds of RMB312.47 million from Rights Issues which took place in 2018.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

The NAV and NTAV remained relatively stable as at 31 December 2019 and 30 June 2020. Based on (i) the unaudited consolidated NAV/NTAV as at 30 June 2020 and (ii) 1,725,943,420 SPM Shares in issue as at the Latest Practicable Date, the unaudited NAV per SPM Share (“NAV per Share”) and unaudited NTAV per SPM Share (“NTAV per Share”) were approximately HK\$2.71 and HK\$1.62 respectively.

The SPM Group recorded a net debt position (i.e. total interest-bearing borrowings less cash and bank balances is a positive figure) throughout the Period. The gearing ratios (calculated based on net debts divided by NAV) were approximately 54.73%, 34.47%, 31.51% and 38.52% as at 31 December 2017, 2018 and 2019 and 30 June 2020 respectively. The decreases in gearing ratio as at 31 December 2018 were principally attributable to the increase in equity as a result of the Rights Issues. The increase in the gearing ratio as at 30 June 2020 was mainly due the increase in interest-bearing borrowings as at 30 June 2020 as compared to that of 31 December 2019.

(c) Annual dividend

	For the year ended 31 December		
	2019	2018	2017
Basic earnings			
per share (RMB cents)	7.48	19.88	18.21
Dividend (RMB cents)	3.80	4.10	nil
Dividend payout	51%	21%	N/A

For the years ended 31 December 2017, 2018 and 2019, SPM declared a final dividend of nil, RMB4.10 cents and RMB3.80 cents respectively for ordinary shareholders of SPM. Despite SPM Group’s basic earnings per share dropping by 62.37% for FY2019 as compared with FY2018, the final dividend decreased only slightly by 7.3% to RMB3.80 cents for FY2019, which led to a significant increase in dividend payout ratio from 21% for FY2018 to 51% for FY2019.

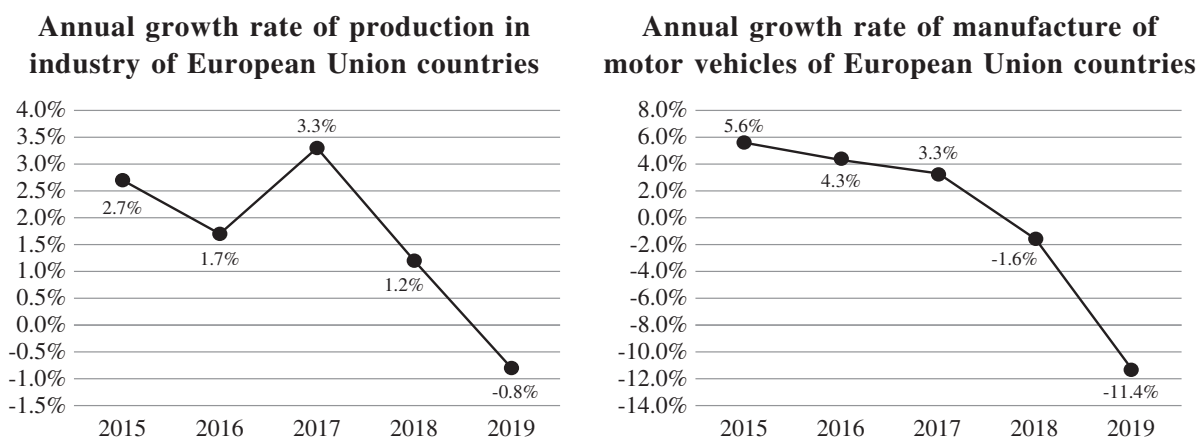
(iii) Prospects of the SPM Group

With the increasing global economic uncertainties, the SPM Group is expected to face difficulties such as a downturn in the global market and shrinking trade volume in the longer term. Competition has become more intense under the impact of the COVID-19 pandemic. In view of the impact from the economic downturn and the intensifying competition, as disclosed in 2020 Interim Report, the SPM Group has strived to preserve cash by limiting unnecessary capital expenditure, project spending and certain business activities. Further cost-saving initiatives including restructuring are also being contemplated to be implemented as and when appropriate. In the long run, the SPM Group will seek to shift from products to solutions, improve the establishment of technological innovation systems and

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

promote intelligent manufacturing. It will continue optimising shared domestic and overseas customer resource among different market segments to initiate business collaboration and stimulate the development of existing businesses. In addition, the proportion of SPM Group will carry out risk management and control and continue to capture innovation in mechanism.

As set out under the sub-section headed “III. 2(ii) Financial information of the SPM Group” above, the SPM Group’s total revenue derived from the customers outside the PRC, which are mainly based in Europe, represented approximately 71.36%, 72.69%, 73.00% and 67.94% for each of FY2017, FY2018, FY2019 and 1H2020, respectively. SPM Group also operates several production plants in the Netherlands and Germany. Furthermore, more than 55% of SPM Group’s total revenue in the Period was generated from the sales to automotive industry. Having considered the above, the near term outlook of the SPM Group’s business largely depends on, among others, the economic prospects of Europe and the PRC and the outlook of automotive industry in Europe and the PRC.



Source: Extracted from Eurostat, the statistical office of the European Union, on 15 October 2020

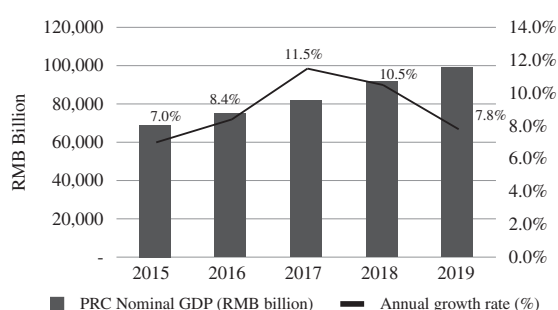
The diagram above on the left shows the annual growth rate of the production in industries of the European Union countries between 2015 and 2019. The production growth in Europe has slowed down since 2018 due to overall global economic downturn. In 2019, the overall production dropped by 0.8%.

The diagram above on the right shows that the decrease in motor vehicle production has outpaced the decrease in the overall industrial production. The annual growth rate of manufacture of motor vehicles of European Union countries experienced a downward trend in the last five years from a growth of 5.6% in 2015 to a negative growth of 11.4% in 2019.

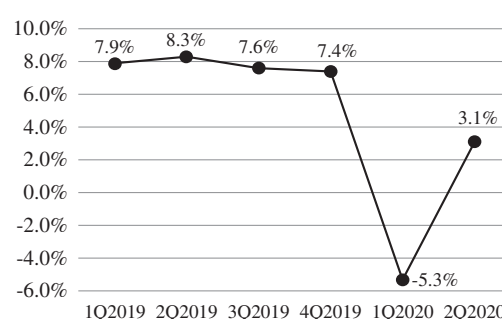
LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

In 2020, measures taken during the pandemic outbreak such as factory shutdowns, travel ban, and social distancing has created tremendous challenge on the overall industrial and manufacturing market in Europe. According to a news release by the Eurostat in August 2020, the total industrial production of the European Union countries experienced a significant decline in the first half of 2020. Social distancing measures were relaxed by some European countries from May 2020. However, concerns have been raised about the next wave of pandemic in view of the recent soaring cases of infection are causing European governments to re-launch more stringent lock-down measures.

PRC Nominal GDP and its annual growth rate



PRC quarterly growth rate of nominal GDP (as compared to same quarter in previous year)



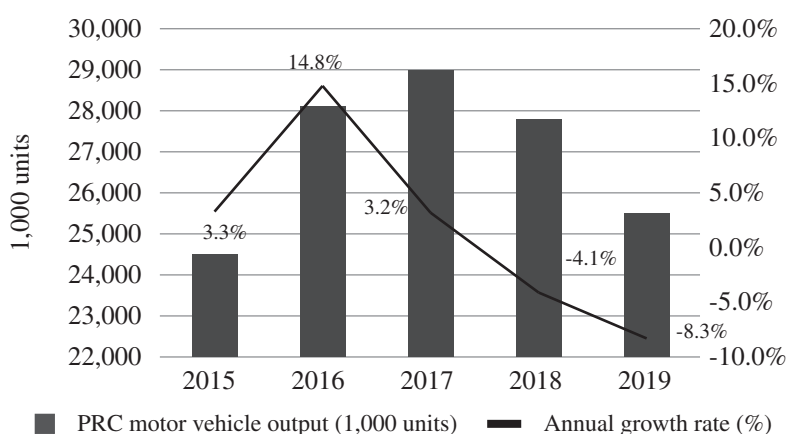
Source: National Bureau of Statistics of the PRC

As shown in the above diagrams, the PRC nominal gross domestic product (“GDP”) increased from RMB91,928 billion in 2018 to RMB99,087 billion in 2019, representing a growth of 7.8% which is the lowest growth in nominal GDP since 2016. As a consequence of economic slowdown under the impact of pandemic outbreak, the growth in nominal GDP ceased in the first half of 2020. Based on the statistics released by the National Bureau of Statistics of the PRC, negative GDP growth of 5.3% was recorded in the first quarter of 2020. The pandemic outbreak in 2020 along with the slowing economic growth in the PRC has caused challenges to the development of SPM Group’s business in the first quarter of 2020. Following the decreasing number of new infection cases in the PRC, the overall PRC economy recorded a quarterly growth of 3.1% in the second quarter of 2020. In addition, we note from the latest statistics published by the National Bureau of Statistics of the PRC that in August 2020, the export value of China turned around from negative growth in the first quarter to positive growth of about 0.8% as compared with the same period in 2019. Despite the aforesaid turnaround in the growth rate in China’s

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

GDP and export value shows positive signs of economic recovery, the PRC economic outlook and the SPM Group's business operation are still subject to challenges and uncertainties.

PRC output of motor vehicles and its annual growth rate



Source: National Bureau of Statistics of the PRC

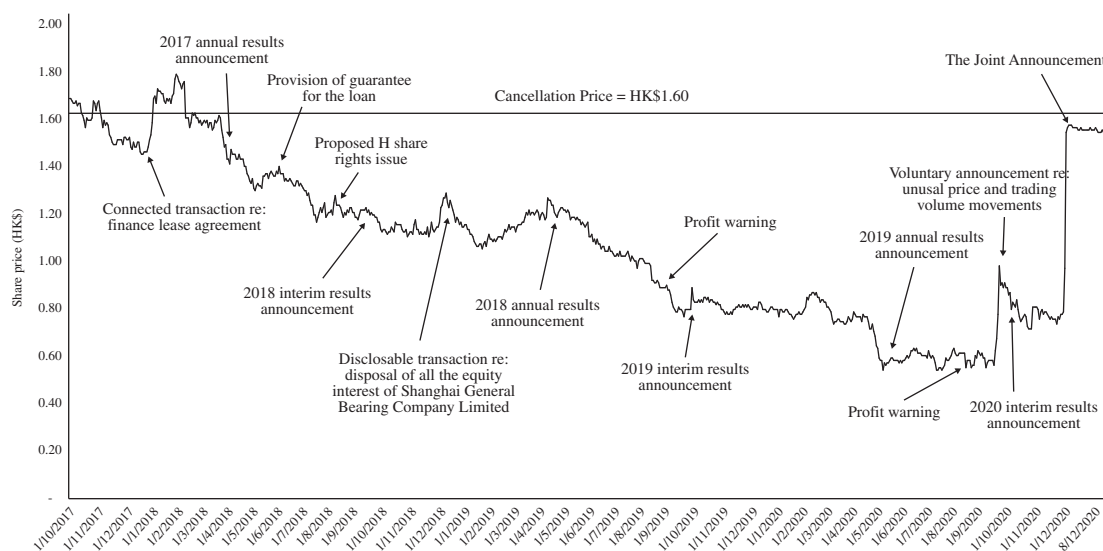
The above diagram shows the output of motor vehicle of the PRC and its annual growth rate between 2015 to 2019. The yearly output of number of motor vehicles in PRC has shrank from its peak in 2017 at around 29.0 million to around 25.5 million in 2019, representing a negative growth of 4.1% and 8.3% in 2018 and 2019.

Overall, the Management is of the view, and we concur, that industry activity continues to decline, and the demand in automotive markets in Europe and China continues to slow down. The COVID-19 epidemic continues to cause uncertainties in the foreseeable future as the market demand of automotive and other industries remains vulnerable to the development of the epidemic. The business outlook of the SPM Group is dependent on overall market conditions and its ability to adapt to market changes, and the overall operating environment of the SPM Group is considered to be mixed and challenging and there remains uncertainty on the growth prospects of core business of SPM Group in the short to medium term as reflected by the latest performance of SPM Group.

3. Analysis of price performance and trading liquidity of the SPM H Shares

(i) Historical price performance of the SPM H Shares

The following figures set out the daily closing prices of the SPM H Shares on the Stock Exchange for the period from 3 October 2017, being three years prior to the date of the Joint Announcement up to and including the Latest Practicable Date (the “**Review Period**”). The Review Period, which covers a period of over 36 months, is considered to represent a sufficient period of time to provide a general overview of the recent market performance of the SPM H Shares for the purpose of this analysis.



Source: Bloomberg

As shown in the chart above, the SPM H Shares price closed below the Cancellation Price of HK\$1.60 per SPM H Share in 746 trading days out of a total 782 trading days during the Review Period. The closing prices per SPM H Share have been below the Cancellation Price on all days since 6 February 2018.

From 3 October 2017 to 31 January 2018, the SPM H shares closed between HK\$1.42 and HK\$1.75. During such period, the closing SPM H Shares price dropped to HK\$1.42 on 18 December 2017 and regained its upward momentum after SPM released a connected transaction announcement on 26 December 2017 regarding finance lease agreement. The SPM H Share price reached its highest during the Review Period at HK\$1.75 on 26 January 2018, following which it entered into a prolonged downward trend.

From 1 February 2018 to 31 December 2019, the closing SPM H Share price demonstrated a decreasing trend in general. The SPM H Shares closed between HK\$0.74 and HK\$1.72, with its highest recorded on 5 February 2018 and lowest recorded on 12 December 2019. The SPM H Share closing price remained around approximately HK\$1.27 after SPM announced the Rights Issue on 21 June 2018.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Following the publication of the announcement regarding the disposal of all the equity interest of Shanghai General Bearing Company Limited on 27 November 2018, the SPM H Share price decreased from HK\$1.23 to HK\$1.05 on the last trading day in 2018.

The SPM H share closing prices gradually recovered in early 2019 but resumed a downward trend in April 2019. On 12 July 2019, SPM released a profit warning announcement of a decrease of net profit in the range of RMB108 million to RMB115 million for 1H2019, as compared to a net profit of RMB186 million for the six months ended 30 June 2018 due to the weaker customer demand in car markets in Europe and China and the United States-China trade relations remain uncertain. The SPM H Share price dropped further from HK\$0.96 on 12 July 2019 to HK\$0.75 on 16 August 2019 following the profit warning announcement. The closing prices recovered somewhat after SPM published the interim results announcement for 1H2019 on 16 August 2019 and closed at HK\$0.82 on the last trading day in 2019.

In 2020, the SPM H Share closing prices fluctuated within a range of HK\$0.53 and HK\$0.85 between 1 January 2020 to 28 July 2020. The SPM H share closing price rose sharply from HK\$0.66 on 28 July 2020 to HK\$0.96 on 30 July 2020. SPM issued a voluntary announcement on 30 July 2020 that it was not aware of any reasons for the recent significant increase in the SPM H Share price and trading volume. The SPM H Share closing prices then fluctuated in a range between HK\$0.70 and HK\$0.89 during 31 July 2020 to 8 October 2020. The trading of the SPM H Share surged sharply from HK\$0.77 on 8 October 2020 to HK\$0.95 on 9 October 2020, being the Last Trading Date.

The trading in the SPM H Shares was suspended from 9 October 2020 to 15 October 2020 pending the release of the Joint Announcement. Following the publication of the Joint Announcement after the trading hours on 15 October 2020 and the resumption of trading on 16 October 2020, the SPM H Share closing price increased by around 58.95% to HK\$1.51 on 16 October 2020. Since then the SPM H Share closing price fluctuated in a narrow range between HK\$1.51 and HK\$1.56, and the SPM H Share closing price as at Latest Practicable Date was HK\$1.56.

(ii) Cancellation Price comparisons

As set out in the letter from the Board contained in the Composite Document, the Cancellation Price of HK\$1.60 per SPM H Share was determined by the Offeror and SPM after taking into account, among others, (i) the historical prices of the SPM H Shares traded on the Stock Exchange; and (ii) the offer price in other privatisation and merger by way of absorption transactions in Hong Kong in recent years. The Cancellation Price of HK\$1.60 per SPM H Share in cash represents substantial premium to recent historical closing price as follows:

- (a) a premium of approximately 68.42% over the closing price of HK\$0.95 per SPM H Share as quoted on the Stock Exchange on the Last Trading Date;

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

- (b) a premium of approximately 100.00% over HK\$0.80 which is the average closing price per SPM H Share as quoted on the Stock Exchange for the five consecutive trading days up to and including the Last Trading Date;
- (c) a premium of approximately 107.79% over HK\$0.77 which is the average closing price per SPM H Share as quoted on the Stock Exchange for the 10 consecutive trading days up to and including the Last Trading Date;
- (d) a premium of approximately 110.53% over HK\$0.76 which is the average closing price per SPM H Share as quoted on the Stock Exchange for the 30 consecutive trading days up to and including the Last Trading Date;
- (e) a premium of approximately 113.33% over HK\$0.75 which is the average closing price per SPM H Share as quoted on the Stock Exchange for the 60 consecutive trading days up to and including the Last Trading Date;
- (f) a premium of approximately 138.81% over HK\$0.67 which is the average closing price per SPM H Share as quoted on the Stock Exchange for the 180 consecutive trading days up to and including the Last Trading Date;
- (g) a discount of approximately 40.96% to the unaudited NAV per Share of approximately HK\$2.71 (based on (i) the unaudited consolidated NAV as stated in the 2020 Interim Report; (ii) 1,725,943,420 SPM Shares in issue as at the Latest Practicable Date); and
- (h) a discount of approximately 1.23% to the unaudited NTAV per Share of approximately HK\$1.62 (based on (i) the unaudited consolidated NTAV as at 30 June 2020; (ii) 1,725,943,420 SPM Shares in issue as at the Latest Practicable Date).

In summary, although reflecting a discount to the unaudited NAV and NTAV per SPM Share, the Cancellation Price of HK\$1.60 per SPM H Share represents substantial premia in a range of approximately 68.42% to 138.81% over the closing SPM H Share prices for different periods before the Last Trading Date. As at the Latest Practicable Date, the SPM H Share price closed at HK1.56 per share, represent a discount of approximately 2.50% to the Cancellation Price of HK\$1.60 per SPM H Share, which in our view is mostly influenced by the Merger. As such, we consider that there is no assurance that the SPM H Share price will remain at the current levels in the short term if the Merger does not take place or lapses.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

(iii) Trading liquidity

Set out below in the table are the average daily trading volume of the SPM H Shares and the percentages of the average daily trading volume to the total issued SPM H Shares and the public float of SPM, respectively during the Review Period:

	Average daily trading volume of the SPM H Shares	Approximate % of average daily trading volume to the total issued SPM H Shares (Note 1)	Approximate % of average daily trading volume to the public float of SPM (Note 2)
2017			
October	2,257,333	0.30%	0.33%
November	1,602,840	0.21%	0.24%
December	822,421	0.11%	0.12%
2018			
January	3,325,136	0.44%	0.49%
February	2,193,111	0.29%	0.33%
March	1,881,810	0.25%	0.28%
April	818,316	0.11%	0.12%
May	915,238	0.12%	0.14%
June	1,339,905	0.18%	0.20%
July	748,286	0.10%	0.11%
August	697,630	0.09%	0.10%
September	710,770	0.09%	0.11%
October	684,541	0.09%	0.10%
November	1,294,000	0.17%	0.19%
December	1,004,368	0.11%	0.15%
2019			
January	527,560	0.06%	0.08%
February	1,016,588	0.11%	0.15%
March	944,324	0.10%	0.14%
April	658,842	0.07%	0.10%
May	716,952	0.08%	0.11%
June	530,737	0.06%	0.08%
July	630,273	0.07%	0.09%
August	800,818	0.09%	0.12%
September	333,553	0.04%	0.05%
October	369,905	0.04%	0.05%
November	634,990	0.07%	0.09%
December	931,390	0.10%	0.14%

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

	Average daily trading volume of the SPM H Shares	Approximate % of average daily trading volume to the total issued SPM H Shares (Note 1)	Approximate % of average daily trading volume to the public float of SPM (Note 2)
2020			
January	656,420	0.07%	0.10%
February	984,800	0.11%	0.15%
March	1,176,818	0.13%	0.17%
April	1,010,316	0.11%	0.15%
May	1,243,400	0.14%	0.18%
June	1,557,964	0.17%	0.23%
July	4,832,055	0.53%	0.71%
August	2,156,666	0.24%	0.32%
September	797,818	0.09%	0.12%
From 1 October to 9 October 2020 (being the Last Trading Date)	3,707,200	0.41%	0.55%
Average during the Pre-announcement period (Note 3)	1,257,165	0.14%	0.18%
From 16 October 2020 up to the Latest Practicable Date (Note 4)	10,443,827	1.15%	1.54%

Source: Website of the Stock Exchange

Notes:

1. The calculation is based on the average daily trading volumes of the SPM H Shares divided by the total issued SPM H Shares as at the end of each month, the Last Trading Date or the Latest Practicable Date, as applicable.
2. The total number of SPM H Shares held by the public is calculated based on the total number of issued SPM H Shares excluding those held by the Offeror and its concert parties, as at the end of each month, the Last Trading Date or the Latest Practicable Date, as applicable.
3. Being the period from 3 October 2017 to up to and including the Last Trading Date.
4. 16 October 2020, is the first trading day immediately following the publication of the Joint Announcement.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

From the table above, in general, we note that the average daily trading volume of the SPM H Shares (as a percentage to the total issued SPM H Shares and as a percentage of the public float of SPM H Shares) has been generally thin from 1 October 2017 up to and including the Last Trading Day (the “**Pre-announcement Period**”). The average daily trading volume of the SPM H Shares during the Pre-announcement Period was 1,257,165 SPM H Shares, representing around 0.14% of the total issued SPM H Share capital of SPM and around 0.18% of the public float of SPM H Shares. We have discussed with the Management the surge in turnover of the SPM H Share in July 2020 and they are unaware of the reasons for such fluctuation in the trading volume of the SPM H Shares. Trading volume of the SPM H Shares increased after publication of the Joint Announcement on 15 October 2020 with the average daily trading volume of SPM H Shares increased to 10,443,827 SPM H Shares (representing approximately 1.15% and 1.54% of the total issued SPM H Shares and the SPM H Share held by public respectively) in the period from 16 October 2020 up to and including the Latest Practicable Date. Independent SPM H Shareholders should note that the improvement in liquidity of the SPM H Shares subsequent to the publication of the Joint Announcement may not be sustainable if the Merger does not take place or lapses.

Given the historical thin trading volume of the SPM H Shares, it is uncertain whether there would be sufficient liquidity in the SPM H Shares for the Independent SPM H Shareholders to dispose of a significant number of the SPM H Shares in the open market without causing an adverse impact on the market price of the SPM H Shares. The Merger, therefore, represents an opportunity for the Independent SPM H Shareholders, particularly for those who hold a large volume of SPM H Shares, to dispose of their entire holdings at the Cancellation Price if they so wish.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

(iv) Discount of the SPM H Share price to NAV per Share and NTAV per Share

In assessing the reasonableness of the discount to the NAV per Share represented by the Cancellation Price, we have looked at the performance of the SPM H Shares against the NAV per Share since 21 August 2017 (being the date of the first trading day after SPM released on 18 August 2017 its unaudited interim results for the six months ended 30 June 2017) which we consider to be a reasonably sufficient period of time to provide a general overview of the recent market performance of the SPM H Shares as compared to the NAV per Share for the purpose of this analysis:

	Published consolidated NAV per Share	Closing price per SPM H Share			Discount to NAV per Share		
	HK\$	Highest HK\$	Lowest HK\$	Average HK\$	Highest Approx. %	Lowest Approx. %	Average Approx. %
21 Aug 2017 ⁽¹⁾ to 16 Mar 2018	2.74 ⁽²⁾	1.75	1.42	1.57	35.77	48.18	41.87
19 Mar 2018 ⁽¹⁾ to 17 Aug 2018	2.81 ⁽²⁾	1.52	1.14	1.29	45.91	59.43	54.22
20 Aug 2018 ⁽¹⁾ to 15 Mar 2019	3.01 ⁽²⁾	1.26	1.03	1.13	58.14	65.78	62.56
18 Mar 2018 ⁽¹⁾ to 16 Aug 2019	2.74 ⁽²⁾	1.24	0.75	1.02	54.74	72.63	62.84
19 Aug 2019 ⁽¹⁾ to 27 Mar 2020	2.76 ⁽²⁾	0.87	0.53	0.77	68.48	80.80	72.26
30 Mar 2020 ⁽¹⁾ to 14 Aug 2020	2.76 ⁽²⁾	0.96	0.53	0.62	65.22	80.80	77.62
17 Aug 2020 ⁽¹⁾ to 9 Oct 2020 ⁽³⁾	2.71 ⁽²⁾	0.95	0.70	0.76	64.94	74.17	71.96
					Simple average		63.33

Notes:

1. The first trading day immediately after SPM released its full year or interim results announcements.
2. Based on the NAV as extracted from SPM's annual reports for the year ended 31 December 2017, 2018 and 2019 or interim reports for the six months ended 30 June 2017, 2018, 2019 and 2020, divided by the total number of SPM Shares in issue as at the respective period-end date.
3. Being the Last Trading Date.

Based on the analysis set out above, we note that, during the period from 21 August 2017 up to and including the Last Trading Date, the SPM H Shares traded at a discount between approximately 35.77% to 80.80% to the then NAV per Share. The average discount represented by the closing prices of the SPM H Shares to the then NAV per Shares (“**Average Discounts**”) ranged from approximately 41.87% to approximately 77.62%.

The discount represented by the Cancellation Price of approximately 40.96% to the NAV per Share as at 30 June 2020. Such discount is significantly less than the average of approximately 63.33% and slightly below the low end of the range of the Average Discounts.

We note that SPM's acquisition of Nedfast Investment B.V. in 2014 led to a substantial amount of goodwill being recorded in the accounts of the SPM Group. The aggregate amount of goodwill and other intangible assets accounted for

approximately 16.69%, 16.11%, 16.64% and 17.02% of total assets as at 31 December 2017, 2018, 2019 and 30 June 2020, respectively. This proportion of goodwill and intangible assets to total assets is not common in the industry. The Comparable Companies (as defined below) identified and discussed under the sub-section headed “III. 4. Comparable companies analysis” below have a ratio of not more than 4.22% goodwill and intangible assets to their respective total assets. In view of the above, we consider analysis on the price to the net assets minus any intangible assets will provide a further indicator to assess the fairness and reasonableness of the Cancellation Price. Price to NTAV ratio (“**PNTAV**”) is considered to be a benchmark for assessing the valuation placed by the market to the physical assets of an entity. The Cancellation Price of HK\$1.60 is slightly below SPM’s NTAV per Share of HK\$1.62 as at 30 June 2020, which represents a discount of around 1.23% or PNTAV of 0.99 times.

4. Comparable companies analysis

As discussed under the sub-section headed “III. 2(ii) Financial information of the SPM Group” above, the fastener business has been the main source of revenue for the SPM Group, contributing over 65% of the SPM Group’s total revenue during the Period. In addition, more than 55% of SPM Group’s total revenue in the Period was generated from the sales to automotive industry. We have conducted an exercise to identify entities whose shares are listed on the Stock Exchange which (i) are primarily engaged in the manufacture and sale of automotive parts and components with over 50% of its total revenue generated from such businesses in their respective latest financial year; and (ii) had a closing market capitalisation below HK\$8 billion (about 5 times the closing market capitalisation of SPM as at the Last Trading Date) as at the Latest Practicable Date, which, in our view, excludes those companies operating in the industry with much larger scale. Based on the said criteria, we have identified six comparable entities (the “**Comparable Companies**”). These Comparable Companies, based on the above selection criteria, so far as we are aware of, are exhaustive, and are considered to be fair and representative samples.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

In conducting our analysis, we compared the price to earnings ratio (“**PER**”), price to book ratio (“**PBR**”) and PNTAV of SPM implied by the Cancellation Price and those of Comparable Companies using the latest publicly available financial information.

	Market capitalisation as at the Latest Practicable Date (approx. HK\$ million)	PER as at the Latest Practicable Date (times) (Note 1)	PBR as at the Latest Practicable Date (times) (Note 1)	PNTAV as at the Latest Practicable Date (times) (Note 2)
IPE Group Limited (Stock code: 929)	736.58	18.26	0.44	0.45
Zhejiang Shibao Company Limited (Stock code: 1057)	821.23	N/A (Note 3)	0.54	0.58
Xin Point Holdings Limited (Stock Code: 1571)	3,460.02	14.64	1.27	1.27
Ruifeng Power Group Limited (Stock Code: 2025)	880.00	25.40	0.81	0.81
China Tianrui Automotive Interiors Company Limited (Stock Code: 6162)	240.00	4.65	0.83	0.83
Huazhong In-Vehicle Holdings Company Limited (Stock Code: 6830)	1,061.52	10.97	0.89	0.89
	Average	14.79	0.80	0.81
	Maximum	25.40	1.27	1.27
	Minimum	4.65	0.44	0.45
SPM	2,761.51 (Note 4)	18.85	0.59	0.99

Source: website of the Stock Exchange

Notes:

1. The PERs of the Comparable Companies are calculated based on their respective latest audited consolidated profits attributable to owners for FY2019, while the PBRs are calculated based on their respective net assets attributable to owners as of 30 June 2020.
2. The PNTAVs of the Comparable Companies are calculated based on their respective net assets attributable to owners less intangible assets and goodwill as of 30 June 2020.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

3. PER ratio is not applicable as Zhejiang Shibao Company Limited recorded a loss attributable to equity holders for its latest full financial year.
4. Market capitalisation of SPM is calculated based on the Cancellation Price and the number of total issued SPM Shares as at the Latest Practicable Date.
5. We have taken out BeijingWest Industries International Limited (Stock Code 2339) (“**BWI Int’l**”), from our original findings because of the unusual upsurge in its trading volume and trading price starting from 9 September 2020 and up to the Latest Practicable Date, resulting in a PER of over 70 times as at the Latest Practicable Date. We noted that BWI Int’l published an announcement on 9 September 2020 in relation to, amongst others, the intention to carry out a “mixed ownership” reform by the controlling shareholder of BWI Int’l (the “**Matter**”). Accordingly, we are of the view that the recent price rally of the share of BWI Int’l, to a large extent, may likely be due to market speculation towards the Matter being materialised instead of the fundamental factors relating to the business and operation of BWI Int’l. As such, BWI Int’l was excluded from the above analysis.

As shown in table above, we noted that the PERs of the Comparable Companies ranged from around 4.65 times to 25.40 times with an average of around 14.79 times. The PER of SPM as represented by the Cancellation Price of around 18.85 times is above the average PER, which is considered favourable to the Independent SPM H Shareholders.

The PBRs of the Comparable Companies range from around 0.44 times to around 1.27 times with an average of around 0.80 times. The PBR of SPM as represented by the Cancellation Price of around 0.59 times falls within the range of those of the Comparable Companies, while being somewhat below the average of around 0.80 times. Despite this, we note that the historical prices of the SPM H Shares represented a significantly deeper discount to NAV as illustrated under the sub-sectioned headed “III. 3(iv) Discount of the SPM H Share price to NAV per Share and NTAV per Share” above.

As also mentioned under the sub-section headed “III. 3(iv) Discount of the SPM H Share price to NAV per Share and NTAV per Share” above, goodwill and intangible assets accounted for approximately 17.02% of the SPM’s total assets as 30 June 2020. This contrast with the portion of goodwill and intangible assets to total assets of the Comparable Companies of not more than 4.22% as at 30 June 2020. Consequently, we consider the comparison of SPM’s PNTAV implied by the Cancellation Price to the PNTAVs of the Comparable Companies is also relevant. The PNTAVs of the Comparable Companies range from around 0.45 times to around 1.27 times with an average of around 0.81 times. We observed that the PNTAV of SPM implied by Cancellation Price of around 0.99 times is above the average of PNTAVs of the Comparable Companies of around 0.81 times, which is considered also favourable to the Independent SPM H Shareholders.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

5. Privatisation precedents

We have compared the Merger with privatisation proposals of other companies listed on the Main Board of the Stock Exchange announced during the Review Period, excluding privatisation proposals which were not or are yet to be approved or completed (or, where applicable, required acceptance level were not or yet to be achieved) (the “**Privatisation Precedents**”). Based on the said criteria, we have identified 35 Privatisation Precedents, is considered a sufficient and representative size of references to reflect the pricings of successful privatisation proposals. The Privatisation Precedents, in our view, not only provide the premium over market price that an offeror is willing to pay for taking the listed companies private but also the premium that most of the independent shareholders (subject to the required thresholds as stipulated under the Takeovers Code) are willing to accept for tendering their shares to the offeror. The Privatisation Precedents represent an exhaustive list of privatisation proposals meeting the said criteria and reflect the pricing of recent transactions of this type.

The following table is the comparison of premiums over the then market prices at which the Privatisation Precedents were priced, although the business nature and scale of each company vary and some aspects of pricing may be industry-specific.

Date of Rule 3.5 announcement	Company (stock code)	Method of privatisation	Form of Consideration	Premium of offer price/cancellation price over closing share price/average share price on/over ⁽¹⁾					
				Last trading day ⁽²⁾⁽³⁾	5 trading days ⁽²⁾⁽³⁾	30 trading days ⁽²⁾⁽³⁾	60 trading days ⁽²⁾⁽³⁾	90 trading days ⁽²⁾⁽³⁾	180 trading days ⁽²⁾⁽³⁾
7-Sep-20	Changshouhua Food Company Ltd. (1006)	Scheme of arrangement	Cash	16.39%	22.16%	43.23%	64.10%	65.78%	59.10%
29-Jul-20	Xinhua Port Holdings Ltd. (1990)	Voluntary general offer	Cash	23.67%	31.29%	52.67%	89.12%	120.62%	143.14%
8-Jul-20	O-Net Technologies (Group) Ltd. (877)	Scheme of arrangement	Cash	23.57%	25.29%	24.71%	27.84%	33.02%	42.09%
6-Jul-20	Huarong Investment Stock Corporation Ltd. (2277)	Scheme of arrangement	Cash	35.55%	53.92%	61.28%	54.78%	54.04%	51.75%
2-Jul-20	Vantage International (Holdings) Limited (15)	Scheme of arrangement	Cash	80.00%	90.68%	119.51%	113.69%	106.24%	80.75%
22-Jun-20	EVOC Intelligent Technology Company Ltd. (2308)	Voluntary general offer	Cash	70.45%	83.82%	100.53%	104.36%	101.52%	89.37%
21-Jun-20	China Baofeng (International) Limited (3966)	Scheme of arrangement	Cash	27.45%	57.77%	52.34%	42.49%	38.91%	30.72%
17-Jun-20	Golden Meditech Holdings Ltd. (801)	Scheme of arrangement	Cash	41.94%	48.65%	61.86%	59.52%	41.58%	22.69%
12-Jun-20	Jinmao Hotel and Jinmao (China) Hotel Investments and Management Ltd. (6139)	Scheme of arrangement	Cash	30.43%	57.79%	82.32%	88.22%	67.88%	39.53%
5-Jun-20	Capxon International Electronic Company Ltd. (469)	Scheme of arrangement	Cash	79.10%	89.27%	88.09%	90.48%	78.10%	56.28%
1-Jun-20	Huadian Fuxin Energy Corporation Ltd. (816)	Merge by absorption	Cash	65.56%	82.22%	87.45%	89.54%	86.41%	75.63%

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Date of Rule 3.5 announcement	Company (stock code)	Method of privatisation	Form of Consideration	Premium of offer price/cancellation price over closing share price/average share price on/over ⁽¹⁾					
				Last trading day ⁽²⁾⁽³⁾	5 trading days ⁽²⁾⁽³⁾	30 trading days ⁽²⁾⁽³⁾	60 trading days ⁽²⁾⁽³⁾	90 trading days ⁽²⁾⁽³⁾	180 trading days ⁽²⁾⁽³⁾
4-May-20	Easy One Financial Group Limited (221)	Scheme of arrangement	Share exchange with cash element ⁽⁴⁾	44.38%	80.47%	90.19%	98.28%	103.13%	107.76%
20-Apr-20	Allied Properties (H.K.) Limited (56)	Scheme of arrangement	Cash	34.27%	36.56%	39.53%	33.53%	30.05%	22.70%
3-Apr-20	Elec & Eltek International Company Limited (1151.HK and E16.S1)	Voluntary general offer	Cash	67.55% ⁽⁵⁾	46.53% ⁽⁵⁾	39.05% ⁽⁵⁾	38.72% ⁽⁵⁾	42.51% ⁽⁵⁾	51.84% ⁽⁵⁾
20-Mar-20	Li & Fung Ltd. (494)	Scheme of arrangement	Cash	150.00%	157.73%	95.16%	72.67%	62.12%	43.34%
27-Feb-20	Wheelock and Company Ltd. (20)	Scheme of arrangement	Cash offer coupled with a distribution in specie ⁽⁶⁾	52.17%	49.11%	45.85%	43.41%	45.09%	45.57%
20-Jan-20	BBi Life Sciences Corporation (1035)	Scheme of arrangement	Cash	16.28%	23.76%	42.45%	46.10%	47.92%	56.68%
12-Dec-19	Joyce Boutique Group Limited (647)	Scheme of arrangement	Cash	91.78%	91.26%	82.17%	62.70%	50.05%	32.21%
27-Nov-19	China Agri-Industries Holdings Limited (606)	Scheme of arrangement	Cash	34.07%	35.61%	53.17%	64.73%	72.49%	69.96%
1-Nov-19	Springland International Holdings Limited (1700)	Scheme of arrangement	Cash	63.12%	67.88%	56.82%	55.39%	53.22%	48.59%
20-Oct-19	Dah Chong Hong Holdings Limited (1828)	Scheme of arrangement	Cash	37.55%	37.34%	54.85%	55.93%	54.22%	41.49%
3-Oct-19	Huaneng Renewables Corporation Limited (958)	Voluntary general offer	Cash	46.08% ⁽⁷⁾	50.95% ⁽⁷⁾	55.72% ⁽⁷⁾	51.17% ⁽⁷⁾	51.28% ⁽⁷⁾	45.32% ⁽⁷⁾
2-Oct-19	AVIC International Holdings Ltd. (161)	Voluntary general offer & merger by absorption	Cash	29.12%	43.82%	81.31%	88.63%	100.17%	92.08%
12-Aug-19	TPV Technology Limited (903)	Scheme of arrangement	Cash	41.39%	46.77%	54.50%	75.04%	87.41%	138.79%
27-Jun-19	Asia Satellite Telecommunications Holdings Ltd. (1135)	Scheme of arrangement	Cash	23.43%	31.46%	44.44%	50.44%	56.52%	70.96%
18-Jun-19	C.P. Lotus Corporation (121)	Scheme of arrangement	Cash	10.00%	10.22%	29.36%	30.33%	26.50%	21.92%
14-Jun-19	China Automation Group Limited (569)	Scheme of arrangement	Cash	23.97% ⁽⁷⁾	27.33% ⁽⁷⁾	47.78% ⁽⁷⁾	47.44% ⁽⁷⁾	46.63% ⁽⁷⁾	42.46% ⁽⁷⁾
4-Apr-19	China Hengshi Foundation Company Ltd. (1197)	Scheme of arrangement	Cash	10.62%	14.57%	17.50%	19.03%	24.39%	27.51%
28-Mar-19	China Power Clean Energy Development Company Ltd. (735)	Scheme of arrangement	Share exchange with cash alternative ⁽⁸⁾	41.93%	54.92%	78.36%	94.07%	101.76%	88.77%
5-Dec-18	Hopewell Holdings Limited (54)	Scheme of arrangement	Cash	46.69%	48.83%	55.52%	54.09%	49.62%	43.68%
30-Oct-18	Advanced Semiconductor Manufacturing Corporation Limited (3355)	Merger by absorption	Cash	66.67%	85.64%	99.29%	93.38%	90.19%	84.21%
27-Sep-18	Sinotrans Shipping Ltd. (368)	Scheme of arrangement	Cash	50.00%	54.82%	43.11%	37.43%	32.64%	27.91%

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Date of Rule 3.5 announcement	Company (stock code)	Method of privatisation	Form of Consideration	Last trading day ⁽²⁾⁽³⁾	Premium of offer price/cancellation price over closing share price/average share price on/over ⁽¹⁾				
					5 trading days ⁽²⁾⁽³⁾	30 trading days ⁽²⁾⁽³⁾	60 trading days ⁽²⁾⁽³⁾	90 trading days ⁽²⁾⁽³⁾	180 trading days ⁽²⁾⁽³⁾
10-Jun-18	Hong Kong Aircraft Engineering Company Limited (44)	Scheme of arrangement	Cash	63.20%	63.24%	62.44%	60.24%	56.96%	49.97%
7-Jun-18	Portico International Holdings Ltd. (589)	Scheme of arrangement	Cash	50.18%	51.63%	49.18%	45.18%	45.82%	49.88%
10-Nov-17	Welling Holding Ltd. (382)	Scheme of arrangement	Cash	30.38%	30.38%	34.20%	35.84%	28.81%	22.75%
<i>Calculated based on the last trading price prior to the earlier of publication of the Rule 3.5 announcement or initial Rule 3.7 announcement (if any):</i>									
Maximum				150.00%	157.73%	119.51%	113.69%	120.62%	143.14%
Minimum				10.00%	10.22%	17.50%	19.03%	24.39%	21.92%
Average				46.26%	53.82%	60.74%	62.23%	61.53%	57.64%
Cancellation Price of HK\$1.60 per H Share				68.42%	100.00%	110.53%	113.33%	128.57%	138.81%

Source: Bloomberg and the Stock Exchange website

Notes:

- (1) Unless otherwise stated, the above premium of the offer/cancellation price over the last trading price and average closing price per share (up to and including the relevant last trading day) are calculated based on the last trading price prior to the commencement of the offer period.
- (2) Subject to rounding differences.
- (3) Up to and including the last trading day of the shares prior to the publication of the Rule 3.5 announcement or Rule 3.7 announcement (where applicable).
- (4) Cancellation price is calculated based on the share price of the listed share exchanged on the last trading day after applying the applicable share exchange ratio plus the cash element as disclosed based on the respective privatisation/merger documents.
- (5) The relevant premiums of Elec & Eltek International Company Limited are calculated based on the ex-dividend offer price.
- (6) Cancellation price is calculated based on the sum of (i) the cash consideration of HK\$12.00; and (ii) the value of one share of Wharf Real Estate Investment Company Limited (Stock code: 1997) and one share of Wharf (Holdings) Limited (Stock Code: 4) being received by the scheme shareholders by way of distribution in specie.
- (7) The premium is calculated based on the share offer price over the last trading day and the average of the respective trading days (up to and including the relevant last trading day) prior to the publication of the initial Rule 3.7 announcement.
- (8) Cancellation price is based on the cash alternative as disclosed on the privatisation document.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

The premiums of the above Privatisation Precedents represented by the offer or cancellation price over/to their respective share closing price on the last trading day prior to the earlier of publication of the Rule 3.5 announcement or initial Rule 3.7 announcement (if any) and 5-, 30-, 60-, 90- and 180-trading day average share price (up to and including the last trading day) ranged from 10.00% to 150.00%, 10.22% to 157.73%, 17.50% to 119.51%, 19.03% to 113.69%, 24.39% to 120.62% and 21.92% to 143.14% with averages of 46.26%, 53.82%, 60.74%, 62.23%, 61.53% and 57.64%, respectively.

The premiums represented by the Cancellation Price over the closing SPM H Share price on the Last Trading Date and 5-, 30-, 60-, 90-, and 180-trading day average SPM H Share price (up to and including the Last Trading Date) are 68.42%, 100.00%, 110.53%, 113.33%, 128.57% and 138.81%, respectively, which are all well above the average of the respective premiums of the Privatisation Precedents and therefore, is considered favourable to the Independent SPM H Shareholders.

DISCUSSION

In forming our opinion and recommendation below, we have taken into account the factors set out under the section headed “III. Principal factors and reasons considered” above, none of which can be considered in isolation. We would like to draw the attention of the Independent SPM H Shareholders in particular to the points summarised below:

(i) Recent results and prospects

As discussed under the sub-section headed “III. 2(ii) Financial information of the SPM Group” and “III. 2(iii) Prospects of the SPM Group” above, with weakening demand from the overseas as well as the domestic market, the overall financial performance of the SPM Group has been deteriorated since 2019. The SPM Group’s revenue decreased in 2019, which led to a significant decline in profit attributable to owners of SPM for FY2019. The COVID-19 pandemic outbreak in 2020, along with slowdown in the general economic environment, has affected the SPM Group’s profitability significantly. For 1H2020, the SPM Group recorded a loss of RMB22.02 million attributable to the owners of SPM. As industry activity continues to decline and market demand remains vulnerable to the development of the pandemic, the overall operating environment for the SPM Group is considered to be challenging. There is no guarantee that the financial performance of the SPM Group will turnaround in the near future.

(ii) Premium over market prices of the SPM H Shares

The premium of the Cancellation Price over recent SPM H Share prices is substantial. The Cancellation Price is higher than the closing SPM H Share prices in all trading days after 6 February 2018 following which the market price of the SPM H Shares has been on a largely declining trend. Based on the summaries as set out in the sub-section headed “III. 3(ii) Cancellation Price comparisons” above, the Cancellation Price compares favourably to the closing SPM H Share prices, with a range of premium of approximately 68.42% to 138.81% over different periods before the Last Trading Date.

(iii) The Merger presents an opportunity to realise the SPM H Shares without affecting the share price given the low trading volume

As illustrated under the sub-section headed “III. 3(iii) Trading liquidity” above, the average daily trading volume of the SPM H Shares has been generally thin during the Pre-announcement Period with an average daily trading volume of approximately 0.14% of the total issued SPM H Shares. The increased trading volume of the SPM H Shares following the publication of the Joint Announcement was, in our view, not sustainable if the Merger does not take place or lapses. Given the historical thin trading volume of the SPM H Shares, it could be difficult for the Independent SPM H Shareholders to dispose SPM H Shares on the market within a reasonable timeframe without significant downward pressure on exit prices. Based on the above, we are of the view that the Merger provides an exit opportunity for the Independent SPM H Shareholders who would like to realise their investments in the H Shares at a fixed cash price without disturbing the market price.

(iv) NAV and NTAV per SPM Share

As set out under the sub-section headed “III. 3(iv) Discount of the SPM H Share price to NAV per Share and NTAV per Share” above, the Cancellation Price represents a discount of approximately 40.96% to the NAV per Share as at 30 June 2020. This is a substantial discount but significantly lower than the Average Discount of approximately 63.33% observed during period from 21 August 2017 up to and including the Last Trading Date. In addition, we note that the acquisition of Nedfast Investment B.V. by SPM in 2014 led to substantial goodwill being recorded in the accounts of the SPM Group and resulted in a much higher portion of goodwill and intangible assets to total assets compared with the Comparable Companies. If we compare the Cancellation Price to the NTAV, the Cancellation Price of HK\$1.60 is just slightly below the NTAV of SPM of HK\$1.62 per SPM Share as at 30 June 2020, representing a discount of around 1.23%.

(v) Cross check against Comparable Companies

As discussed under the sub-section headed “III. 4. Comparable companies analysis”, the PER and PNTAV of SPM implied by the Cancellation Price are above the average of PERs and PNTAVs of the Comparable Companies, which suggests that the Cancellation Price is reasonable as far as the Independent SPM H Shareholders are concerned.

(vi) Privatisation precedents

As set out under the sub-section headed “III. 5. Privatisation precedents” above, the premiums represented by the Cancellation Price over the closing SPM H Share price on the Last Trading Date and average SPM H Share price across all periods are considerably higher than the respective averages of the Privatisation Precedents, which suggests the basis of the Cancellation Price is favourable to the Independent SPM H Shareholders compared with market averages.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

(vii) Dividend yield

As at the Latest Practicable Date, the dividend yield of the Hang Seng Index was approximately 3.29%, which is higher than the SPM's implied dividend yield of approximately 2.95% and 2.73% for 2018 and 2019 based on the Cancellation Price. On this basis, the Independent SPM H Shareholders who support the Merger could, if they wished, reinvest the proceeds from the Merger in other listed companies to achieve a higher dividend return.

(viii) An attractive proposal from another source is unlikely

An alternative general offer or other proposal to acquire the SPM H Shares is unlikely as the Offeror and parties acting in concert with it hold over 50% of the issued shares of SPM.

OPINION AND RECOMMENDATIONS

Based on the above principal factors and reasons, we consider the terms of the Merger are fair and reasonable so far as the Independent SPM H Shareholders are concerned. Accordingly, we advise the Independent Board Committee to recommend the Independent SPM H Shareholders to vote in favour of the Merger at the SPM EGM and the SPM H Shareholders' Class Meeting.

The SPM H Share price is HK\$1.56 per share as at the Latest Practicable Date. Independent H SPM Shareholders are advised to monitor the SPM H Share price performance and liquidity of the SPM H Shares before the SPM EGM and the SPM H Shareholders' Class Meeting or the trading halt for its delisting. Since the Joint Announcement, the market price of the SPM H Shares has been chiefly governed, in our view, by the terms of Merger. Independent SPM H Shareholders are reminded of the risk, in our view, of a fall in the SPM H Share price towards its previous level before the Joint Announcement of around HK\$0.53 to HK\$0.96 per SPM H Share, at least in the short term, if the Merger is not approved. Independent SPM H Shareholders who are sensitive to this risk may consider selling in the market prior to the SPM EGM and the SPM H Shareholders' Class Meeting if the SPM H Share price is close to the Cancellation Price.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER
--

There is also a possibility that the SPM H Share price may exceed the Cancellation Price before the SPM EGM and the SPM H Shareholders' Class Meeting, although based on recent price movements we consider this unlikely. In the event that the market price of the SPM H Shares exceeds the Cancellation Price so that the sale proceeds, net of all transaction costs, exceed the amount receivable under the Merger, the Independent SPM H Shareholders should consider selling their SPM H Shares in the market.

Yours faithfully,
for and on behalf of
SOMERLEY CAPITAL LIMITED
Felix Chau
Director

Mr. Felix Chau is a licensed person registered with the SFC and a responsible officer of Somerley Capital Limited to carry out Type 6 (advising on corporate finance) regulated activity under the SFO. He has over ten years' experience in the corporate finance industry.

1. SUMMARY OF FINANCIAL INFORMATION OF SPM FOR THE THREE YEARS ENDED 31 DECEMBER 2017, 2018 AND 2019 AND THE SIX MONTHS ENDED 30 JUNE 2020

The following is a summary of the financial results of SPM for (i) each of the three years ended 31 December 2017, 2018 and 2019 as extracted from the annual reports for the years ended 31 December 2017, 2018 and 2019 and (ii) the six months ended 30 June 2020 as extracted from the 2020 SPM Interim Report published by SPM in accordance with the Listing Rules.

	For the six months ended 30 June 2020 <i>RMB'000</i> <i>(Unaudited)</i>	For the year ended 31 December 2019 <i>RMB'000</i> <i>(Audited)</i>	For the year ended 31 December 2018 <i>RMB'000</i> <i>(Audited)</i>	For the year ended 31 December 2017 <i>RMB'000</i> <i>(Audited)</i>
Revenue	3,324,390	8,394,708	9,027,535	8,478,895
Profit/(loss) before taxation	(35,836)	145,238	362,382	351,550
Income tax expenses	21,748	(13,310)	(85,131)	(98,776)
Profit/(loss) for the period/year	(14,088)	131,928	277,251	252,774
Attributable to:				
Owners of the Company	(22,023)	127,371	280,438	253,424
Non-controlling interests	7,935	4,557	(3,187)	(650)
Other comprehensive income/(loss)	10,028	(19,747)	2,965	11,828
Items that may be reclassified subsequently to profit or loss:				
Exchange differences on translation of foreign operations	7,816	(8,365)	3,585	6,184
Fair value adjustment on interest rate swap contracts designated as hedging instruments	—	—	—	2,134
Income tax relating to items that may be reclassified subsequently	—	—	—	(533)
Total comprehensive profit/(loss) for the period/year	(4,060)	112,181	280,216	264,602
Attributable to:				
Owners of the Company	(11,896)	107,104	284,227	265,147
Non-controlling interests	7,836	5,077	(4,011)	(545)
Earnings/(loss) per share attributable				
Basic (RMB cents)	(1.29)	7.48	19.88	17.96
Diluted (RMB cents)	(1.29)	7.48	19.86	17.89
Dividend payable	—	65,586	70,764	—
Dividend per share (RMB cents)	—	3.8	4.1	—

Save as disclosed above, there was no item of any income or expense which was material in respect of the consolidated financial results of SPM for each of the three years ended 31 December 2017, 2018 and 2019 and the six months ended 30 June 2020.

The consolidated financial statements of SPM for the three years ended 31 December 2017, 2018 and 2019 and for the six months ended 30 June 2020 were audited by Deloitte Touche Tohmatsu. No modified opinion, emphasis of matter or material uncertainty related to going concern was given by the auditors of SPM in respect of SPM's audited consolidated financial statements for the financial years ended 31 December 2017, 2018 and 2019 and the unaudited consolidated financial statements for the six months ended 30 June 2020.

2. AUDITED CONSOLIDATED FINANCIAL STATEMENTS OF SPM FOR THE THREE YEARS ENDED 31 DECEMBER 2017, 2018 AND 2019

SPM is required to set out or refer to in this Composite Document the consolidated statement of profit or loss, the consolidated statement of financial position, the consolidated cash flow statement, the consolidated statement of changes of equity and any other primary statement as shown in (i) the audited consolidated financial statements of SPM for the year ended 31 December 2017 (the “**2017 SPM Financial Statements**”); (ii) the audited consolidated financial statements of SPM for the year ended 31 December 2018 (the “**2018 SPM Financial Statements**”); and (iii) the audited consolidated financial statements of SPM for the year ended 31 December 2019 (the “**2019 SPM Financial Statements**”), and significant accounting policies together with the notes to the relevant published accounts which are of major relevance to the appreciation of the above financial information.

The 2017 SPM Financial Statements are set out from pages 77 to 184 in the annual report of SPM for the year ended 31 December 2017 (the “**2017 SPM Annual Report**”) which was published on 19 April 2018 on the websites of SPM (<https://www.pmcsh.com/upload/1524118976002.pdf>) and the Stock Exchange (<https://www1.hkexnews.hk/listedco/listconews/sehk/2018/0419/ltn20180419335.pdf>).

The 2018 SPM Financial Statements are set out from pages 89 to 220 in the annual report of SPM for the year ended 31 December 2018 (the “**2018 SPM Annual Report**”) which was published on 11 April 2019 on the websites of SPM (<https://www.pmcsh.com/upload/1554973168760.pdf>) and the Stock Exchange (<https://www1.hkexnews.hk/listedco/listconews/sehk/2019/0411/ltn20190411719.pdf>).

The 2019 SPM Financial Statements are set out from pages 87 to 212 in the 2019 SPM Annual Report which was published on 16 April 2020 on the websites of SPM (<https://www.pmcsh.com/upload/1587021170117.pdf>) and the Stock Exchange (<https://www1.hkexnews.hk/listedco/listconews/sehk/2020/0416/2020041600918.pdf>).

The 2017 SPM Financial Statements, the 2018 SPM Financial Statements and the 2019 SPM Financial Statements (but not any other part of the 2017 SPM Annual Report, the 2018 SPM Annual Report and the 2019 SPM Annual Report in which they respectively appear) are incorporated by reference into this Composite Document and form part of this Composite Document.

3. UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS OF SPM FOR THE SIX MONTHS ENDED 30 JUNE 2020

SPM is required to set out or refer to in this Composite Document the consolidated statement of profit or loss, the consolidated statement of financial position, the consolidated cash flow statement, the consolidated statement of changes of equity and any other primary statement as shown in the unaudited consolidated financial statements of SPM for the year ended 30 June 2020 (the “**2020 SPM Interim Financial Statements**”), and significant accounting policies together with the notes to the relevant published accounts which are of major relevance to the appreciation of the above financial information.

The 2020 SPM Interim Financial Statements are set out from pages 28 to 62 in the 2020 SPM Interim Report which was published on 28 August 2020 on the websites of SPM (<https://www.pmcsh.com/upload/1598579600889.pdf>) and the Stock Exchange (<https://www1.hkexnews.hk/listedco/listconews/sehk/2020/0828/2020082800619.pdf>)

4. INDEBTEDNESS STATEMENT

Bank borrowings and other borrowings and charges

As at 31 October 2020, being the latest practicable date for the purpose of this indebtedness statement prior to the printing of this Composite Document, the SPM Group had bank borrowings of approximately RMB1.7 billion and other borrowings of approximately RMB817.6 million. Certain bank borrowings were secured by a legal charge over an industrial property held for own use in Germany with a net book value amounting to approximately RMB52.8 million as at 31 October 2020.

Contingent liabilities

As at 31 October 2020, being the latest practicable date for the purpose of this indebtedness statement prior to the printing of this Composite Document, the SPM Group had no contingent liabilities.

Lease liabilities

As at 31 October 2020, being the latest practicable date for the purpose of this indebtedness statement prior to the printing of this Composite Document, the SPM Group had recognised lease liabilities of approximately RMB187.1 million.

5. MATERIAL CHANGE

Save as

- (i) set out in this Composite Document as regards the Merger;

- (ii) as disclosed in SPM's interim results for the six months ended 30 June 2020 ("1H2020") as disclosed in the 2020 SPM Interim Report;
- (a) the decrease in revenue by around 25.87% for 1H2020 as compared to the corresponding period in 2019 ("1H2019"), attributable to the revenue decrease in all business segments and, in particular, the drop in revenue generated from the fastener business;
 - (b) the decrease in gross profit by around 32.83% for 1H2020 as compared to 1H2019 mainly attributable to the decrease in revenue and the drop in the gross profit margin of the fastener business;
 - (c) the decrease in net profit from a profit attributable to owners of SPM of around RMB114.74 million for 1H2019 to a loss of around RMB22.02 million for 1H2020, which was mainly due to the decrease in revenue and gross profit with reasons as mentioned above;
- (iii) as disclosed in the 2020 SPM Interim Report, under the COVID-19 pandemic, the overall operation of the industry continues to decline, and the demand in automotive markets in Europe and China continues to slow down, the SPM Group was inevitably affected. As work and production have begun to resume orderly in China, the SPM Group's domestic business is recovering gradually, while the trend of economic recovery in Europe is still difficult to predict. In response to the uncertainties and disruptions brought by the on-going pandemic, the SPM Group has strived to preserve cash by limiting unnecessary capital expenditure, project spending and certain business activities; and has also taken advantage of certain government assistance and subsidies to enhance liquidity and recover costs during 1H2020 and beyond. Further cost-saving initiatives including restructuring are also being contemplated and implemented as and when appropriate,

the SPM Directors confirm that there had been no other material change in the financial or trading position or outlook of the SPM Group since 31 December 2019 (the date to which the latest audited consolidated financial statements of the SPM Group were made up) and up to and including the Latest Practicable Date.

1. RESPONSIBILITY STATEMENT

The directors of SEG and the Offeror jointly and severally accept full responsibility for the accuracy of the information contained in this Composite Document (other than that relating to SPM) and confirm, having made all reasonable inquiries, that to the best of their knowledge, opinions expressed in this Composite Document (other than those expressed by the SPM Directors) have been arrived at after due and careful consideration and there are no other facts not contained in this Composite Document, the omission of which would make any statement in this Composite Document misleading.

The SPM Directors jointly and severally accept full responsibility for the accuracy of the information contained in this Composite Document (other than that relating to the Offeror and SEG) and confirm, having made all reasonable inquiries, that to the best of their knowledge, opinions expressed in this Composite Document (other than those expressed by the directors of the Offeror and SEG) have been arrived at after due and careful consideration and there are no other facts not contained in this Composite Document, the omission of which would make any statement in this Composite Document misleading.

2. SHARE CAPITAL OF SPM

(a) Registered share capital

SPM does not have an authorised share capital. As at the Latest Practicable Date, the registered share capital of SPM were as follows:

	<i>RMB</i>
814,291,420 SPM Domestic Shares of RMB1.00 each	814,291,420
911,652,000 SPM H Shares of RMB1.00 each	911,652,000

All of the SPM Shares currently in issue rank *pari passu* in all respects with each other, including, in particular, as to dividends, voting rights and capital.

Since 31 December 2019, being the date on which SPM's previous financial year ends, up to the Latest Practicable Date, SPM has not issued any SPM Shares.

As at the Latest Practicable Date, there are no outstanding options, warrants or convertible securities issued by SPM, and SPM has no other relevant securities (as defined in Note 4 to Rule 22 of the Takeovers Code) other than the SPM Shares.

(b) Listing

The SPM Shares are listed and traded on the Main Board of the Stock Exchange. No part of the SPM Shares is listed or dealt in, nor is any listing or permission to deal in the Shares being or proposed to be sought, on any other stock exchange.

3. MARKET PRICES

During the Relevant Period, the highest closing price of the SPM H Shares as quoted on the Stock Exchange was HK\$1.56 on 7 and 8 December 2020 and the lowest closing price of the SPM H Shares as quoted on the Stock Exchange was HK\$0.53 on 22, 25 and 28 May 2020.

The table below shows the closing prices of the SPM H Shares as quoted on the Stock Exchange (i) on the Latest Practicable Date; (ii) on the Last Trading Date; and (iii) on the last business day of each of the six calendar months immediately before the date of the Joint Announcement and ending on the Latest Practicable Date:

Date	Price per SPM H Share HK\$
29 April 2020	0.62
29 May 2020	0.54
30 June 2020	0.54
31 July 2020	0.88
31 August 2020	0.70
30 September 2020	0.75
9 October 2020 (Last Trading Date)	0.95
30 October 2020	1.52
30 November 2020	1.52
8 December 2020 (Latest Practicable Date)	1.56

4. DISCLOSURE OF INTERESTS IN THE SHARES BY SPM

(a) Interests of directors, supervisors and chief executives of SPM in the securities of SPM and the securities of the associated corporations of SPM

As at the Latest Practicable Date, save as disclosed below, none of the directors, supervisors or chief executives of SPM had any interests or short positions in the shares, underlying shares and debentures of SPM or any of its associated corporations (within the meaning of Part XV of the SFO) which were required (i) to be notified to SPM and the Stock Exchange pursuant to the Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO); or (ii) to be entered in the register required to be kept pursuant to

section 352 of the SFO; or (iii) to be notified to SPM and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules or (iv) to be disclosed in accordance with the Takeovers Code:

Name of director	Class of shares	Number of shares	Capacity/Nature of interests	Approximate percentage of the relevant class of shares	Approximate percentage of the total share capital of the SPM
Zhou Zhiyan	SPM H Shares	156,800	Beneficial owner/ Long position	0.02	0.00

(b) Interests of substantial shareholders in the securities of SPM

As at the Latest Practicable Date, save as disclosed below, so far as was known to the SPM Board, no persons (not being a director, supervisor or chief executive of SPM) had an interest or a short position in the Shares or underlying shares and debentures of SPM which would fall to be disclosed to SPM and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which were recorded in the register required to be kept under section 336 of the SFO, or as otherwise notified to SPM and the Stock Exchange:

Name of SPM Shareholders	Class of SPM shares	Number of SPM shares	Capacity/Nature of interests	Approximate percentage of the relevant class of SPM shares	Approximate percentage of the total share capital of SPM
Shanghai SASAC	SPM Domestic Shares ^{Note 1}	814,291,420	Interest of controlled corporation	100.00	47.18
	SPM H Shares ^{Note 1/Note 2/Note 3}	212,747,462	Interest of controlled corporation	23.33	12.33
	Sub-total	1,027,038,882			59.51
SEGC	SPM Domestic Shares ^{Note 1}	814,291,420	Interest of controlled corporation	100.00	47.18
	SPM H Shares ^{Note 1/Note 2/Note 3}	212,747,462	Interest of controlled corporation	23.33	12.33
	Sub-total	1,027,038,882			59.51
SEG	SPM Domestic Shares ^{Note 1}	814,291,420	Beneficial owner	100.00	47.18
	SPM H Shares ^{Note 2}	136,089,062	Interest of controlled corporation	14.93	7.88
	Sub-total	950,380,482			55.06

Name of SPM Shareholders	Class of SPM shares	Number of SPM shares	Capacity/Nature of interests	Approximate percentage of the relevant class of SPM shares	Approximate percentage of the total share capital of SPM
SEHC	SPM H Shares ^{Note 2}	136,089,062	Beneficial owner	14.93	7.88
SEGH	SPM H Shares ^{Note 3}	76,658,400	Beneficial owner	8.41	4.44

Notes:

- (1) Shanghai SASAC and SEGC were deemed to be interested in both SPM Domestic Shares and SPM H Shares by virtue of SFO because:
 - a. SEG is 58.03% owned by SEGC; and
 - b. SEGC is 100% owned by Shanghai SASAC.
- (2) SEG held interest in SPM H Shares through its wholly-owned subsidiary (SEHC).
- (3) SEGC held interests in SPM H Shares through its wholly-owned subsidiary (SEGH).

(c) Additional disclosure of interests

As at the Latest Practicable Date:

- (i) save as disclosed in the paragraph headed “4. DISCLOSURE OF INTERESTS IN THE SHARES BY SPM” in this appendix, none of the SPM Directors was interested within the meaning of Part XV of the SFO in the SPM Shares or any warrants, options, convertible securities or derivatives in respect of any Shares;
- (ii) none of the subsidiaries of SPM, pension funds of SPM or of a subsidiary of SPM, or any person who is presumed to be acting in concert with SPM by virtue of class (5) of the definition of “acting in concert” in the Takeovers Code or who is an associate of SPM by virtue of class (2) of the definition of “associate” in the Takeovers Code but excluding any exempt principal trader and exempt fund managers, owned or controlled any Shares or any convertible securities, warrants, options or derivatives in respect of any Shares;
- (iii) there was no arrangement of the kind referred to in Note 8 to Rule 22 of the Takeovers Code which existed between SPM, or any person who is presumed to be acting in concert with SPM by virtue of classes (1), (2), (3) and (5) of the definition of “acting in concert”, or any of SPM’s associates by virtue of classes (2), (3) or (4) of the definition of “associate” under the Takeovers Code, and any other person;
- (iv) no fund managers (other than exempt fund managers) connected with SPM had managed any Shares or any convertible securities, warrants, options or derivatives in respect of any Shares on a discretionary basis;

- (v) save for Mr. Zhou Zhiyan who held 156,800 SPM H Shares and intends, in respect of his own beneficial shareholdings in SPM, to vote in favour of the Merger at the SPM EGM and SPM H Shareholders' Class Meeting, none of the SPM Directors held any beneficial shareholdings in SPM which would otherwise entitle them to vote in favour of or against the Merger; and
- (vi) none of SPM or the SPM Directors had borrowed or lent any Shares or any convertible securities, warrants, options or derivatives or relevant securities (as defined in Note 4 to Rule 22 of the Takeovers Code) in respect of any Shares.

5. DISCLOSURE OF INTERESTS IN THE SECURITIES OF THE OFFEROR BY SPM

As at the Latest Practicable Date:

- (a) SPM did not own any shares, convertible securities, warrants, options or derivatives in respect of any shares in the Offeror; and
- (b) none of the SPM Directors had any interest (within the meaning of Part XV of the SFO) in the shares, convertible securities, warrants, options, or derivatives in respect of any shares in the Offeror.

6. DEALINGS IN THE SPM SHARES BY SPM

- (a) During the Relevant Period, none of the SPM Directors had dealt for value in any SPM H Share, convertible securities, warrants, options, or derivatives in respect of any SPM Shares;
- (b) during the period beginning from the date of the Joint Announcement up to the Latest Practicable Date, none of the subsidiaries of SPM, or pension funds of SPM or of a subsidiary of SPM, or any person who is presumed to be acting in concert with SPM by virtue of class (5) of the definition of "acting in concert" in the Takeovers Code or who is an associate of SPM by virtue of class (2) of the definition of "associate" in the Takeovers Code but excluding exempt principal traders and exempt fund managers had dealt for value in any Shares or any convertible securities, warrants, options or derivatives in respect of any SPM H Shares;
- (c) during the period beginning from the date of the Joint Announcement up to the Latest Practicable Date, no fund managers connected with SPM (other than exempt fund managers) who managed funds on a discretionary basis had dealt for value in any SPM Shares or any other convertible securities, warrants, options or derivatives in respect of any Shares; and
- (d) during the period beginning from the date of the Joint Announcement up to the Latest Practicable Date, no person between whom there is arrangement of the kind referred to in Note 8 to Rule 22 of the Takeovers Code and SPM, or any person who is presumed to be acting in concert with SPM virtue of classes (1), (2), (3) and (5) of

the definition of “acting in concert”, or any of SPM’s associates by virtue of classes, (2), (3) or (4) of the definition of “associate” under the Takeovers Code had dealt for value in any Shares or any convertible securities, warrants, options or derivatives in respect of any SPM H Shares.

7. DEALINGS IN THE SECURITIES OF THE OFFEROR BY SPM

During the Relevant Period, neither SPM nor any of the SPM Directors had dealt for value in any shares, convertible securities, warrants, options or derivatives in respect of any shares in the Offeror.

8. DISCLOSURE OF INTERESTS IN THE SPM SHARES BY THE OFFEROR

The Offeror confirms that, as at the Latest Practicable Date:

- (a) the sole director of the Offeror was not interested (within the meaning of Part XV of the SFO) in any SPM Shares or any convertible securities, warrants, options or derivatives in respect of the SPM Shares;
- (b) save as disclosed in the section headed “8. INFORMATION OF THE PARTIES — (5) Shareholding in SPM” as set out in the Letter from the Board of this Composite Document, none of the Offeror or its concert parties owns or has control or direction over any SPM Shares or voting rights of SPM;
- (c) none of the Offeror or its concert parties has entered into any outstanding derivative in respect of securities of SPM;
- (d) none of the Offeror or its concert parties holds convertible securities, warrants or options in respect of securities of SPM;
- (e) save for the Merger Agreement and the transactions contemplated thereunder, there is no arrangement (whether by way of option, indemnity or otherwise) of the kind referred to in Note 8 to Rule 22 of the Takeovers Code in relation to the registered capital of the Offeror or the SPM Shares;
- (f) there is no agreement or arrangement (other than the Merger and the transactions contemplated thereunder) to which the Offeror is a party which relates to the circumstances in which the Offeror may or may not invoke or seek to invoke a condition of the Merger;
- (g) there are no relevant securities (as defined in Note 4 to Rule 22 of the Takeovers Code) in SPM which the Offeror or its concert parties have borrowed or lent; and
- (h) there is no special deal (as defined under Rule 25 of the Takeovers Code) between (i) any SPM Shareholder; and (ii)(a) the Offeror and its concert parties or (b) the SPM Group or its associated companies.

9. DEALINGS IN THE SPM SHARES BY THE OFFEROR

None of the Offeror or the sole director of the Offeror, or any of its concert parties had dealt for value in any SPM Shares or any convertible securities, warrants, options or derivatives in respect of the SPM Shares (except in respect of SPM Shares held by exempt principal traders or exempt fund managers, in each case recognised by the Executive as such for the purposes of the Takeovers Code and also excluding SPM Shares held on behalf of non-discretionary investment clients of the BNP Paribas group) during the Relevant Period.

10. ARRANGEMENTS IN CONNECTION WITH THE MERGER**(a) Arrangements affecting the Directors**

As at the Latest Practicable Date:

- (i) no benefit (save for statutory compensation required under applicable laws) would be given to any SPM Director as compensation for loss of office or otherwise in connection with the Merger;
- (ii) save for the Merger, there were no agreements or arrangements between any SPM Director and any other person which was conditional on or dependent upon the outcome of the Merger or otherwise connected with the Merger; and
- (iii) there were no material contracts entered into by the Offeror in which any SPM Director had a material personal interest.

(b) Arrangements with SPM in connection with the Merger

As at the Latest Practicable Date, none of the Offeror or its concert parties has received any irrevocable commitment in relation to voting of the resolutions in respect of the Merger.

(c) Arrangement with the Offeror in connection with the Merger

As at the Latest Practicable Date,

- (i) the Offeror did not have any intention to transfer, charge or pledge any SPM Shares acquired pursuant to the Merger to any other person;
- (ii) save as disclosed in the paragraph headed “3. Principal Terms of the Merger Agreement” in the section headed “LETTER FROM THE BOARD”, there is no agreement, arrangement or understanding (including any compensation arrangement) between the Offeror or any person acting in concert with it on the one hand and any of the SPM Directors, recent directors of SPM, SPM Shareholders or recent shareholders of SPM on the other hand having any connection with or dependence with the Merger;

- (iii) there were no arrangements of the kind referred to in Note 8 to Rule 22 of the Takeovers Code which existed between the Offeror or any person acting in concert with the Offeror and any other person; and
- (iv) there is no special deal (as defined under Rule 25 of the Takeovers Code) between (i) any SPM Shareholder; and (ii)(a) the Offeror and its concert parties or (b) the SPM Group or its associated companies.

11. MATERIAL CONTRACTS

The following contracts (being the contracts not entered into in the ordinary course of business carried on or intended to be carried on by SPM or any of its subsidiaries) have been entered into by SPM or any of its subsidiaries within two years before the date of the Joint Announcement up to and including the Latest Practicable Date, which are or may be material:

- (i) a framework sales agreement entered into between SPM 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 SPM Group to SEG and its associates with annual caps at RMB304 million, RMB354 million and RMB352 million for the years ending 31 December 2020, 2021 and 2022 respectively;
- (ii) a framework purchase agreement entered into between SPM 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 SPM Group from SEG and its associates with annual caps at RMB8 million, RMB12 million and RMB14 million for the years ending 31 December 2020, 2021 and 2022 respectively;
- (iii) a framework property lease agreement entered into between SPM 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 SPM Group from SEG and its associates for an annual rent at RMB59 million for the years ending 31 December 2020, 2021 and 2022;
- (iv) a framework comprehensive service agreement entered into between SPM 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 SPM Group from SEG and its associates with annual caps at RMB13 million, RMB22 million and RMB24 million for the years ending 31 December 2020, 2021 and 2022 respectively; and
- (v) the Merger Agreement.

12. MATERIAL LITIGATION

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

13. EXPERTS' QUALIFICATIONS AND CONSENT

The following are the names and qualifications of the experts whose letter, opinions or advice are contained or referred to in this Composite Document:

Name	Qualifications
BNP Paribas	the financial adviser to SEG and the Offeror in relation to the Merger, a corporation licensed to carry on Type 1 (dealing in securities), Type 2 (dealing in futures contracts), Type 4 (advising on securities) and Type 6 (advising on corporate finance) regulated activities under the SFO
Somerley Capital Limited	the Independent Financial Adviser, a corporation licensed to carry out Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities under the SFO

Each of the above experts has given and has not withdrawn its written consent to the issue of this Composite Document with the inclusion therein of its opinions, and the references to its name and opinions in the form and context in which it respectively appears.

14. SERVICE CONTRACTS

Each of the SPM Directors has entered into a service agreement/letters of appointment with SPM. The service agreements/letters of appointments are for a term of three years and may be renewed thereafter in accordance to the then effective SPM Articles and relevant provisions in the Listing Rules. Particulars of the service agreements/letters of appointment are set out below:

Directors	Title	Commencement/ renewal date of the service contract	Expiry date of the service contract	Notice period	Fixed remuneration payable (per annum)
Zhou Zhiyan	Executive Director	19 June 2020	18 June 2023	Three months	RMB809,000
Zhang Mingjie	Executive Director	19 June 2020	18 June 2023	Three months	RMB876,500
Si Wenpei	Executive Director	19 June 2020	18 June 2023	Three months	RMB876,500
Xiao Yuman	Executive Director	19 June 2020	18 June 2023	Three months	RMB766,000
Xia Sicheng	Executive Director	19 June 2020	18 June 2023	Three months	RMB876,500
Dong Yeshun	Non-executive Director	19 June 2020	18 June 2023	Three months	RMB160,788
Ling Hong	Independent non- executive Director	19 June 2020	18 June 2023	Three months	RMB160,730
Chan Oi Fat	Independent non- executive Director	19 June 2020	18 June 2023	Three months	RMB159,860
Sun Zechang	Independent non- executive Director	19 June 2020	18 June 2023	Three months	RMB160,788

The service agreements and letters of appointment of the SPM Directors do not contain any clauses for variable remuneration. There was no arrangement under which the SPM Directors may waive or agree to waive any remuneration during the year. The remuneration of SPM Directors is determined with reference to the business performance and profitability of the SPM Group as well as remuneration benchmarks from other domestic and overseas companies and prevailing market conditions.

Save as disclosed aforesaid, as at the Latest Practicable Date, none of the SPM Directors had entered into any service agreement or letter of appointment with SPM or any of its subsidiaries or associated companies which (i) (including both continuous and fixed-term contracts) had been entered into, or amended within six months before the date of commencement of the Relevant Period; (ii) was a continuous contract with a notice period of 12 months or more; (iii) was a fixed term contract with more than 12 months to run irrespective of the notice period; or (iv) was not determinable by SPM within one year without payment of compensation (other than statutory compensation).

15. OTHER INFORMATION

- (a) The registered address of the Offeror is No. 188, Yitian Road, Lingang New Area, Shanghai Pilot Free Trade Zone, Shanghai, PRC.
- (b) BNP Paribas is the financial adviser to SEG and the Offeror in relation to the Merger and its address is 59/F–63/F Two International Finance Centre, 8 Finance Street, Central, Hong Kong.
- (c) The principal members of the Offeror's concert group are (i) SEG; (ii) SEGH; (iii) SEHC; and (iv) SEGC. Details of the principal members of the Offeror's concert group are as follows:

**Name of the
principal
member**

Address

Director(s)

SEG

Registered office: 30/F, Maxdo Centre,
8 Xingyi Road, Shanghai,
PRC 200336

Executive directors:

(1) Mr. Zheng Jianhua

Principal place of business in Hong
Kong: Room 901–903, Tower Two,
Lippo Centre, No. 89, Queensway,
Hong Kong

(2) Mr. Huang Ou

(3) Mr. Zhu Zhaokai

(4) Mr. Zhu Bin

Non-executive directors:

(1) Ms. Yao Minfang

(2) Ms. Li An

Independent non-executive
directors:

(1) Dr. Xi Juntong

(2) Dr. Xu Jianxin

(3) Dr. Liu Yunhong

Name of the principal member	Address	Director(s)
SEGH	Room 901–903, Tower Two, Lippo Centre, No. 89, Queensway, Hong Kong	Zhang Jie
SEHC	Room 901–903, Tower Two, Lippo Centre, No. 89, Queensway, Hong Kong	(1) Zhang Jie (2) Hu Kang (3) Song Guoning (4) Yang Haoyi (5) Chiu Ming Wah
SEGC	110 Middle Sichuan Road, Shanghai, PRC 200002	(1) Zheng Jianhua (2) Zhu Bin (3) Dong Jianhua

- (d) The principal place of business in the PRC of SPM is at South 4th Floor, 2747 Songhuajiang Road, Hongkou District, Shanghai, PRC and the principal place of business in Hong Kong is at Room 901–903, Tower Two, Lippo Centre, 89 Queensway, Hong Kong.
- (e) The share registrar of SPM is Tricor Investor Services Limited, which is situated at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong.
- (f) As at the Latest Practicable Date, the SPM Board comprises Mr. Zhou Zhiyan, Mr. Xiao Yuman, Mr. Zhang Mingjie, Mr. Si Wenpei, Mr. Xia Sicheng, Mr. Dong Yeshun, Mr. Ling Hong, Mr. Chan Oi Fat and Mr. Sun Zechang.
- (g) The address of Somerley Capital Limited is at 20/F., China Building, 29 Queen's Road Central, Hong Kong.
- (h) The English text of this Composite Document, the notice of SPM EGM and the notice of SPM H Shareholders' Class Meeting shall prevail over the Chinese text.

16. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents are available for inspection (1) on the website of SPM at www.pmcsh.com; (2) on the website of the SFC at www.sfc.hk; and (3) at the principal place of business of SPM in Hong Kong at Room 901–903, Tower Two, Lippo Centre, 89 Queensway, Hong Kong during normal business hours from 9:00 a.m. to 5:00 p.m. on any weekday (public holidays excepted) until the expected date for all Effectiveness Conditions to be satisfied, being Monday, 11 January 2021 or the date on which the Merger is withdrawn or lapse, whichever is the earliest:

- (1) the SPM Articles;
- (2) the articles of association of the Offeror;
- (3) the annual reports of SPM for each of the three years ended 31 December 2017, 2018 and 2019;
- (4) the interim report of SPM for the six months ended 30 June 2020;
- (5) the letter from the Board, the text of which is set out from pages 15 to 37 of this Composite Document;
- (6) the letter from the Independent Board Committee, the text of which is set out from pages 38 to 39 of this Composite Document;
- (7) the letter from the Independent Financial Adviser, the text of which is set out from pages 40 to 82 of this Composite Document;
- (8) the material contract(s) referred to in the section headed “11. Material Contracts” in this Appendix II;
- (9) the written consents referred to in the sections headed “13. Experts Qualifications and Consent” in this Appendix II;
- (10) Directors’ service contracts/letters of appointment referred to in the section headed “14. Service Contracts” of this Appendix II; and
- (11) this Composite Document.

NOTICE OF SPM EGM



上海集優機械股份有限公司

Shanghai Prime Machinery Company Limited

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

(Stock Code: 02345)

NOTICE OF EXTRAORDINARY GENERAL MEETING

NOTICE IS HEREBY GIVEN that an extraordinary general meeting (the “**SPM EGM**”) of Shanghai Prime Machinery Company Limited (“**SPM**”) will be held at 9:00 a.m. on Monday, 11 January 2021 at Meeting Center, North 6th Floor, 2747 Songhuajiang Road, Hongkou District, Shanghai, PRC, for the purpose of considering and, if thought fit, passing the following resolution. Unless otherwise stated, capitalised terms used herein shall have the same meanings as defined in the composite document jointly issued by SEG, SPM and Shanghai Prime Mingyu Machinery Technology Co., Ltd.* (上海集優銘宇機械科技有限公司) (the “**Offeror**”) dated 11 December 2020.

AS SPECIAL RESOLUTION

- (1) (a) To consider and, if thought fit, to approve, confirm and ratify the Merger Agreement dated 15 October 2020 entered into between SPM and the Offeror and the Merger and the transactions contemplated under the Merger Agreement.
- (b) To consider and, if thought fit, to approve that any director and/or Company Secretary of SPM be authorised to do all such acts and things, to sign and execute all such other documents, deeds and instruments, to make applications to the relevant regulatory authorities and to take such steps as he may consider necessary, appropriate, expedient and in the interest of SPM to give effect to and in connection with any transactions contemplated under the Merger Agreement.

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

Shanghai, the PRC
11 December 2020

* for identification purpose only

NOTICE OF SPM EGM

As at the date of this notice, the Board consists of executive directors, namely Mr. Zhou Zhiyan, Mr. Zhang Mingjie, Mr. Si Wenpei, Mr. Xiao Yuman and Mr. Xia Sicheng; non-executive director, namely Mr. Dong Yeshun; and independent non-executive directors, namely Mr. Ling Hong, Mr. Chan Oi Fat and Mr. Sun Zechang.

Notes:

1. As set out in the Composite Document, it is one of the conditions to the effectiveness of the Merger Agreement that the special resolution in the SPM EGM approving the Merger under the Merger Agreement is passed by not less than two-thirds of the votes cast by way of poll by the SPM Shareholders present and voting in person or by proxy at the SPM EGM.
2. The register of members of SPM will be closed from Wednesday, 6 January 2021 to Monday, 11 January 2021 (both dates inclusive), during which no registration of transfers of SPM shares will be processed. If applicable, the SPM shareholders and the SPM H Shareholders intending to attend the SPM EGM and the SPM H shareholders' class meeting respectively must lodge their respective transfer documents and relevant share certificates with SPM H share registrar, Tricor Investor Services Limited, at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong (for the holders of H shares) or the Board office of SPM at South 4th Floor, 2747 Songhuajiang Road, Hongkou District, Shanghai, PRC (for the holders of domestic shares) no later than 4:30 p.m. on Tuesday, 5 January 2021.
3. A shareholder entitled to attend and vote at the SPM EGM may appoint one or more proxies (whether he/she is a shareholder) to attend and vote at the SPM EGM on his or her behalf. The form of proxy shall contain the number of the shares to be represented by the proxy. If several persons are authorised as the proxies of a shareholder, the form of proxy shall specify the number and class of shares to be represented by each proxy.
4. The form of proxy shall be signed by the appointer or his attorney duly authorised in writing or, in the case of a legal person, must be either executed under its common seal or under the hand of its directors or attorney duly authorised.
5. To be valid, the form of proxy must be lodged with SPM H share registrar, Tricor Investor Services Limited, at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong (for the holders of H shares), or to the Board office of SPM at South 4th Floor, 2747 Songhuajiang Road, Hongkou District, Shanghai, PRC (for the holders of domestic shares) not less than 24 hours prior to the holding of the SPM EGM. If the form of proxy is signed by another person under a power of attorney or other authorisation documents given by the appointer, such power of attorney or other authorisation documents shall be notarised. The notarised power of attorney or other authorisation documents shall, together with the form of proxy, be deposited at the specified place at the time set out in the form of proxy.
6. If the appointer is a legal person, its legal representative or any person authorised by resolutions of the board of directors or other governing bodies may attend the SPM EGM on behalf of the appointer.
7. SPM has the right to request a proxy who attends the SPM EGM on behalf of a shareholder to provide proof of identity. If a legal person shareholder appoints its representative to attend the meeting, SPM is entitled to require the representative to present his own identification document and a notarially certified copy of the resolution or power of attorney authorised by the board of directors or other competent body of such legal person shareholder (except for a recognised clearing house as defined by relevant ordinances in force from time to time in accordance with Hong Kong laws or its proxies).
8. SPM Shareholders intending to attend the SPM EGM must return the reply slip to SPM H Share registrar, Tricor Investor Services Limited at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong (for the holders of SPM H Shares) by hand or by post, or to the SPM Board office at South 4th Floor, 2747 Songhuajiang Road, Hongkou District, Shanghai, PRC (for the holders of SPM Domestic Shares) by hand or by post on or before Monday, 21 December 2020.

NOTICE OF SPM EGM

9. Contact details of the SPM Board office in the PRC are as follows:

Address : South 4th Floor, 2747 Songhuajiang Road, Hongkou District, Shanghai, PRC

Telephone number : (+86 21) 6472 9900-8111

Fax number : (+86 21) 6472 9889

NOTICE OF SPM H SHAREHOLDERS' CLASS MEETING



上海集優機械股份有限公司

Shanghai Prime Machinery Company Limited

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

(Stock Code: 02345)

NOTICE OF H SHAREHOLDERS' CLASS MEETING

NOTICE IS HEREBY GIVEN that an H shareholders' class meeting (the **"SPM H Shareholders' Class Meeting"**) of Shanghai Prime Machinery Company Limited (**"SPM"**) will be held at 10:00 a.m. or immediately following the conclusion of the SPM EGM or any adjournment thereof on Monday, 11 January 2021 at Meeting Center, North 6th Floor, 2747 Songhuajiang Road, Hongkou District, Shanghai, PRC, for the purpose of considering and, if thought fit, passing the following resolution. Unless otherwise stated, capitalised terms used herein shall have the same meanings as defined in the composite document jointly issued by SEG, SPM and Shanghai Prime Mingyu Machinery Technology Co., Ltd.* (上海集優銘宇機械科技有限公司) (the **"Offeror"**) dated 11 December 2020.

AS SPECIAL RESOLUTION

- (1) (a) To consider and, if thought fit, to approve, confirm and ratify the Merger Agreement dated 15 October 2020 entered into between SPM and the Offeror and the Merger and the transactions contemplated under the Merger Agreement.
- (b) To consider and, if thought fit, to approve that any SPM Director and/or Company Secretary be authorised to do all such acts and things, to sign and execute all such other documents, deeds and instruments, to make applications to the relevant regulatory authorities and to take such steps as he may consider necessary, appropriate, expedient and in the interest of SPM to give effect to and in connection with any transactions contemplated under the Merger Agreement.

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

Shanghai, the PRC
11 December 2020

* for identification purpose only

NOTICE OF SPM H SHAREHOLDERS' CLASS MEETING

As at the date of this notice, the Board consists of executive directors, namely Mr. Zhou Zhiyan, Mr. Zhang Mingjie, Mr. Si Wenpei, Mr. Xiao Yuman and Mr. Xia Sicheng; non-executive director, namely Mr. Dong Yeshun; and independent non-executive directors, namely Mr. Ling Hong, Mr. Chan Oi Fat and Mr. Sun Zechang.

Notes:

1. As set out in the Composite Document, it is one of the conditions to the effectiveness of the Merger Agreement that (a) the special resolution in the SPM H Shareholders' Class Meeting approving the Merger under the Merger Agreement is approved by at least 75% of the votes attaching to the SPM H Shares held by the Independent SPM H Shareholders (as defined in the composite document) that are cast either in person or by proxy; (b) the number of votes cast against such resolution is not more than 10% of the votes attaching to all SPM H Shares held by the Independent SPM H Shareholders (as defined in the composite document).
2. The register of members of SPM will be closed from Wednesday, 6 January 2021 to Monday 11 January 2021 (both dates inclusive), during which no registration of transfers of SPM Shares will be processed. If applicable, the SPM Shareholders and the SPM H Shareholders intending to attend the SPM EGM and the SPM H Shareholders' Class Meeting respectively must lodge their respective transfer documents and relevant share certificates with SPM H Share registrar, Tricor Investor Services Limited, at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong (for the holders of H shares) or the Board office of SPM at South 4th Floor, 2747 Songhuajiang Road, Hongkou District, Shanghai, PRC (for the holders of domestic shares) no later than 4:30 p.m. on Tuesday, 5 January 2021.
3. A shareholder entitled to attend and vote at the SPM H Shareholders' Class Meeting may appoint one or more proxies (whether he/she is a shareholder) to attend and vote at the SPM H Shareholders' Class Meeting on his or her behalf. The form of proxy shall contain the number of the shares to be represented by the proxy. If several persons are authorised as the proxies of a shareholder, the form of proxy shall specify the number and class of shares to be represented by each proxy.
4. The form of proxy shall be signed by the appointer or his attorney duly authorised in writing or, in the case of a legal person, must be either executed under its common seal or under the hand of its directors or attorney duly authorised.
5. To be valid, the form of proxy must be lodged with SPM H Share registrar, Tricor Investor Services Limited, at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong not less than 24 hours prior to the holding of the SPM H Shareholders' Class Meeting. If the form of proxy is signed by another person under a power of attorney or other authorisation documents given by the appointer, such power of attorney or other authorisation documents shall be notarised. The notarised power of attorney or other authorisation documents shall, together with the form of proxy, be deposited at the specified place at the time set out in the form of proxy.
6. If the appointer is a legal person, its legal representative or any person authorised by resolutions of the board of directors or other governing bodies may attend the SPM H Shareholders' Class Meeting on behalf of the appointer.
7. SPM has the right to request a proxy who attends the SPM H Shareholders' Class Meeting on behalf of a shareholder to provide proof of identity. If a legal person shareholder appoints its representative to attend the meeting, SPM is entitled to require the representative to present his own identification document and a notarially certified copy of the resolution or power of attorney authorised by the board of directors or other competent body of such legal person shareholder (except for a recognised clearing house as defined by relevant ordinances in force from time to time in accordance with Hong Kong laws or its proxies).
8. SPM H Shareholders intending to attend the SPM H Shareholders' Class Meeting must return the reply slip to SPM H Share registrar, Tricor Investor Services Limited (for holders of SPM H Shares), at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong by hand or by post on or before Monday, 21 December 2020.

NOTICE OF SPM H SHAREHOLDERS' CLASS MEETING

9. Contact details of the SPM Board office in the PRC are as follows:

Address : South 4th Floor, 2747 Songhuajiang Road, Hongkou District, Shanghai, PRC

Telephone number : (+86 21) 64729900-8111

Fax number : (+86 21) 64729889