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**上海集优**  
SHANGHAI PRIME

**上海集优机械股份有限公司**

**Shanghai Prime Machinery Company Limited**

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

**(Stock Code: 02345)**

## **ANNOUNCEMENT**

### **CONTINUING CONNECTED TRANSACTION**

#### **BACKGROUND**

The Board hereby announces that, on 31 August 2017, the Company entered into the Property Lease Agreement with SEG and SEC for a term from the date of the Property Lease Agreement to 31 December 2017. Pursuant to the Property Lease Agreement, due to the Restructuring, the lessor of the Relevant Properties will change from SEG (or its subsidiaries) to SEC (or its subsidiaries). Therefore, the Group will lease the Relevant Properties from SEC Group following the Transfer of the Relevant Properties so as to use as offices and production sites to facilitate the Group's operational need, subject to terms and conditions under the Property Lease Agreement.

#### **IMPLICATIONS UNDER LISTING RULES**

As at the date of this announcement, as SEG, SEC and their respective associates are connected persons of the Company under Chapter 14A of the Listing Rules, the Property Lease Agreement and the transactions as contemplated thereunder constitute continuing connected transactions for the Company.

As the highest applicable percentage ratio of the transactions contemplated under the Property Lease Agreement is expected to be more than 0.1% but less than 5% as set out under the Listing Rules, the transactions under the Property Lease Agreement are exempt from independent shareholders' approval requirement, but subject to reporting, announcement and annual review requirements under Chapter 14A of the Listing Rules.

## **BACKGROUND**

Reference is made to the continuing connected transaction announcement of the Company dated 14 November 2016 in relation to, inter alia, the Group's leasing from SEG (and its subsidiaries) of properties in various districts in Shanghai to be used as offices and production sites.

The Board hereby announces that, on 31 August 2017, the Company entered into the Property Lease Agreement with SEG and SEC for a term from the date of the Property Lease Agreement to 31 December 2017. Pursuant to the Property Lease Agreement, due to the Restructuring, the lessor of the Relevant Properties will change from SEG (or its subsidiaries) to SEC (or its subsidiaries). Therefore, the Group will lease the Relevant Properties from SEC Group following the Transfer of the Relevant Properties so as to use as offices and production sites to facilitate the Group's operational need, subject to terms and conditions under the Property Lease Agreement.

## **PROPERTY LEASE AGREEMENT**

Key terms of the Property Lease Agreement are set out as follows:

Date: 31 August 2017

Parties:

- the Company, as lessee and on behalf of its subsidiaries;
- SEG, as lessor prior to the Transfer, and on behalf of its subsidiaries; and
- SEC, as lessor after the Transfer, and on behalf of its subsidiaries.

Relevant Properties: The Relevant Properties under the Property Lease Agreement to be used as offices and production sites of the Group are located in various districts in Shanghai, with an aggregate gross floor area of approximately 105,552 square meters.

Term of agreement: From the date of agreement to 31 December 2017

The Company shall discuss with SEC for entering into a new lease agreement in relation to the property lease matters prior to 31 December 2017. The term of the new lease agreement shall commence from 1 January 2018 and the Company will comply with the requirements under Chapter 14A of the Listing Rules in relation to such new lease agreement.

Lease arrangements: (1) Within the term of the Property Lease Agreement, the Company or its subsidiaries shall have the right to continue to use the Relevant Properties pursuant to terms and conditions under the original lease agreement;

- (2) After the Transfer, lessor of the Relevant Properties will be changed to SEC (or its subsidiaries). The rights and obligations of original lessor will be assumed by SEC (or its subsidiaries) and the Company (or its subsidiaries) will continue to assume the rights and obligations of lessee; and
- (3) After the completion of the Transfer, the Company (or its subsidiaries) will pay rent in respect of Relevant Properties to SEC (or its subsidiaries) directly.

## **AMOUNT OF CAP AND ITS BASIS FOR THE TRANSACTIONS UNDER THE PROPERTY LEASE AGREEMENT**

There is no past transaction regarding property lease between the Group and SEC Group. The past transaction amounts in relation to Relevant Properties between the Group and SEG Group for the years ended 31 December 2015 and 2016 and six months ended 30 June 2017 were approximately RMB20.73 million, RMB20.10 million and RMB10.33 million, respectively.

For the year ending 31 December 2017, the cap for the transactions under the Property Lease Agreement shall be RMB6.8304 million. Except for the Relevant Properties, the connected transaction cap in relation to property lease between the Company and SEG shall continue to apply to other properties leased by the Group from SEG Group. For details, please refer to the announcement of the Company dated 14 November 2016.

The above annual cap of the transactions under the Property Lease Agreement is determined based on the rent charged by SEG and its subsidiaries to the Group pursuant to the original property lease agreement in relation to the Relevant Properties. The rent under the original lease agreement was determined based on the prevailing market rates as quoted by real estate agencies in respect of properties of similar nature, conditions and size within the same geographical regions and after arm's length negotiations among the parties.

## **REASONS AND BENEFITS FOR ENTERING INTO CONTINUING CONNECTED TRANSACTIONS UNDER THE PROPERTY LEASE AGREEMENT**

The Directors are of the view that, considering the lessor of Relevant Properties will be changed from SEG (or its subsidiaries) to SEC (or its subsidiaries) after the Restructuring, the Company will be able to continue with its operation within the Relevant Properties immediately after such transfer without interruption of its operation due to possible relocation. In addition, the Relevant Properties to be leased from SEC are close to other production facilities and offices of the Group. Therefore, the continuing connected transactions in relation to the Relevant Properties will facilitate the management and operation of the Company.

The Directors (including independent non-executive Directors) are of the view that, the continuing connected transaction contemplated under the Property Lease Agreement will be carried out in the ordinary and usual course of business; the terms of the Property Lease

Agreement are on normal commercial terms or on terms not less favourable than those of similar transactions with independent third parties; the continuing connected transactions contemplated under the Property Lease Agreement (including the annual cap amount) are fair and reasonable so far as the Shareholders are concerned and in the interest of the Company and its Shareholders as a whole.

## **INFORMATION OF THE GROUP, SEG AND SEC**

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

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

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

## **IMPLICATION UNDER LISTING RULES**

As at the date of this announcement, SEC is the controlling shareholder of the Company holding approximately 47.18% interests in the total issued share capital of the Company. Therefore, SEC is a connected person of the Company under Chapter 14A of the Listing Rules. As at the date of this announcement, SEG holds approximately 60.48% interests in the total issued share capital of SEC. Therefore, SEG and its subsidiaries are also connected persons of the Company under Chapter 14A of the Listing Rules.

As SEG, SEC and their respective associates are connected persons of the Company under Chapter 14A of the Listing Rules, the transactions contemplated under the Property Lease Agreement constitute continuing connected transactions for the Company under Chapter 14A of the Listing Rules.

As the highest applicable percentage ratio of the transactions contemplated under the Property Lease Agreement is expected to be more than 0.1% but less than 5% as set out under the Listing Rules, the transactions under the Property Lease Agreement are exempt from independent shareholders' approval requirement, but subject to reporting, announcement and annual review requirements under Chapter 14A of the Listing Rules.

As none of the Directors has any material interest in the Property Lease Agreement, no Directors abstained from voting on the relevant board resolutions approving the Property Lease Agreement and the transactions contemplated thereunder.

## **DEFINITIONS**

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

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| “associate(s)” | has the meaning ascribed thereto under the Listing Rules; |
| “Board”        | the board of directors of the Company;                    |

“Company”	Shanghai Prime Machinery Company Limited, a joint stock limited company incorporated in the PRC and whose H shares are listed on the main board of Stock Exchange under the stock code 02345;
“connected person”	has the meaning ascribed thereto under the Listing Rules;
“controlling shareholder”	has the meaning ascribed thereto under the Listing Rules;
“Director(s)”	director(s) of the Company;
“Group”	the Company and its subsidiaries;
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange (as amended from time to time);
“percentage ratio(s)”	has the same meaning ascribed thereto under the Listing Rules, as application to a transaction;
“PRC” or “China”	the People’s Republic of China which, for the purpose of this announcement only, does not include the Hong Kong Special Administrative Region, the Macau Special Administrative Region and Taiwan;
“Property Lease Agreement”	the property lease agreement dated 31 August 2017 entered into among the Company (as the lessee), SEC (as the lessor after Transfer) and SEG (as the lessor prior to Transfer) in relation to the leasing of Relevant Properties by the Group from SEC Group;
“Relevant Properties”	the properties under the Property Lease Agreement whose lessor will change from SEG (or its subsidiaries) to SEC (or its subsidiaries) due to the Transfer;
“Restructuring”	acquisition by SEC of certain equity interests and land assets held by SEG by issuance of shares for asset acquisition. Please refer to the relevant announcement of SEC for details;
“RMB”	Renminbi, the lawful currency of the PRC;

“SEC”	Shanghai Electric Group Company Limited (上海電氣集團股份有限公司), a controlling shareholder of the Company whose controlling shareholder is also SEG, and whose A and H shares are listed on the Shanghai Stock Exchange and the Stock Exchange, respectively;
“SEC Group”	SEC and its subsidiaries (excluding the Group);
“SEG”	Shanghai Electric (Group) Corporation (上海電氣(集團)總公司), the indirect controlling shareholder of the Company (as defined in the Listing Rules) holding 60.48% interests in the total issued share capital of SEC as at the date of this announcement;
“SEG Group”	SEG and its subsidiaries (excluding the Group and SEC Group);
“Shareholder(s)”	registered holder(s) of shares of the Company;
“Stock Exchange”	The Stock Exchange of Hong Kong Limited;
“Transfer”	change of ownership or lessor of Relevant Properties from SEG (or its subsidiaries) to SEC (or its subsidiaries) due to the Restructuring;
“%”	percentage

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

Shanghai, the PRC, 31 August 2017

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