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上海集優機械股份有限公司

Shanghai Prime Machinery Company Limited

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

(Stock Code: 02345)

CONNECTED TRANSACTIONS FINANCE LEASE AGREEMENT

The Board is pleased to announce that on 25 December 2017, Nedschroef Kunshan, an indirect wholly owned subsidiary of the Company, has entered into the Finance Lease Agreement with SEG Leasing.

As at the date of this announcement, SEC is the controlling shareholder of the Company, holding approximately 47.18% equity interests of the total issued share capital of the Company; and SEG Leasing is a wholly owned subsidiary of SEC. Therefore, SEG Leasing is a connected person of the Company under Chapter 14A of the Listing Rules. Therefore the transactions contemplated under the Finance Lease Agreement constitute connected transactions of the Company under Chapter 14A of the Listing Rules.

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

FINANCE LEASE AGREEMENT

On 25 December 2017, Nedschroef Kunshan, an indirect wholly owned subsidiary of the Company, has entered into the Finance Lease Agreement with SEG Leasing, pursuant to which, SEG Leasing agrees to purchase the Leased Assets from Nedschroef Kunshan at the consideration of RMB30,000,000.00, and lease back the Leased Assets to Nedschroef Kunshan for a total amount of RMB33,561,019.10 over the term of 36 months.

The principal terms and details of the Finance Lease Agreement are summarised as follows:

Date

25 December 2017

Parties

SEG Leasing, as the lessor; and

Nedschroef Kunshan, as the lessee

Sale and Purchase Arrangements

Pursuant to the Finance Lease Agreement, SEG Leasing shall purchase the Leased Assets from Nedschroef Kunshan at the consideration of RMB30,000,000.00.

The consideration for the purchase of the Leased Assets under the Finance Lease Agreement is determined based on the financing needs of Nedschroef Kunshan with reference to the unaudited the book value of the Leased Assets after arm's length negotiation between the parties.

As at the date of this announcement, the unaudited book value of the Leased Assets contemplated under the Finance Lease Agreement is approximately RMB35,559,404.00.

Lease Back Arrangements

Pursuant to the Finance Lease Agreement, SEG Leasing shall lease back the Leased Assets to Nedschroef Kunshan for a term of 36 months commencing from the date of payment of the consideration for the purchase of the Leased Assets by SEG Leasing.

Rental Payment and Other Fees

Nedschroef Kunshan shall effect the repayment of RMB33,561,019.10 to SEG Leasing, of which the lease principal is RMB30,000,000.00, and lease interest is RMB3,561,019.10 which is calculated based on the interest rate of 5.3125% per annum. Nedschroef Kunshan shall pay a total amount of RMB315,000 commission and notarial fee to SEG Leasing upon payment of the consideration for the purchase of the Leased Assets by SEG Leasing. The relevant lease interest under the Finance Lease Agreement is determined with reference to the cost of SEG Leasing on purchasing the Leased Assets as well as the prevailing interest rates offered by other third-party finance lease service providers in the market for leased

assets similar to the Leased Assets after arm's length negotiations between the parties. Nedschroef Kunshan shall effect the repayment to SEG Leasing in 12 instalments on a quarterly basis.

Ownership of the Leased Assets

From the date of purchase by SEG Leasing until the date of repurchase by Nedschroef Kunshan, SEG Leasing shall own the title of the Leased Assets.

Upon the expiry of the Finance Lease Agreement and the services provided thereunder, SEG Leasing shall return the title of the Leased Assets to Nedschroef Kunshan provided that (i) Nedschroef Kunshan has repaid the last instalment and provided the nominal consideration of RMB1 under the Finance Lease Agreement to SEG Leasing, and (ii) Nedschroef Kunshan has performed all its obligations under the Finance Lease Agreement.

Guarantee

The Group is not required to provide any guarantee for the finance lease services provided by SEG Leasing under the Finance Lease Agreement.

Reasons for and Benefits of Entering into the Finance Lease Agreement

The transactions contemplated under the Finance Lease Agreement are beneficial to Nedschroef Kunshan in expanding its financing channel and reducing finance pressure. Through customised finance lease services solution provided to Nedschroef Kunshan by SEG Leasing, Nedschroef Kunshan can effectively increase the liquidity of its assets and optimise its asset structure. By choosing the services provided by SEG Leasing, Nedschroef Kunshan can manage the repayment schedule on a more flexible basis according to its capital conditions, thereby ensuring its smooth operation and manufacturing.

Listing Rules Implications

As at the date of this announcement, SEC is the controlling shareholder of the Company, holding approximately 47.18% equity interests of the total issued share capital of the Company; and SEG Leasing is a wholly owned subsidiary of SEC. Therefore, SEG Leasing is a connected person of the Company under Chapter 14A of the Listing Rules. Furthermore, the Finance Lease Agreement and the transactions contemplated thereunder constitute connected transactions of the Company under Chapter 14A of the Listing Rules.

As the highest applicable percentage ratio of the transactions contemplated under the Finance 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 Finance Lease Agreement are exempt from circular and independent shareholders' approval requirements, but subject to reporting and announcement requirements under Chapter 14A of the Listing Rules.

Opinions from the Board

Mr. Zhang Jie, being the executive Director of the Company, holds senior management positions in financial group of SEG, of which SEG Leasing is one of the members, and thus has material interests in the transactions contemplated under the Finance Lease Agreement,

and therefore has abstained from voting on the Board resolutions in relation to the Finance Lease Agreement. Save as disclosed above, none of the Directors has a material interest in the transactions contemplated under Finance Lease Agreement and is required to abstain from voting on the Board resolutions in relation to the transactions contemplated thereunder.

The Directors (including independent non-executive Directors) are of the view that the Finance Lease Agreement and transactions contemplated thereunder are conducted after arm's length negotiation and on normal commercial terms or better which are fair and reasonable and in the interests of the Company and its shareholders as a whole.

General Information

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

Nedschroef Kunshan is principally engaged in development, manufacture and production of diversified high precision high strength fasteners and related parts, sales of in house products and provision of related supportive services.

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

SEG Leasing is principally engaged in finance lease service and related business consulting, lease and sale of electro-mechanic equipment, electric/electronic equipment and transportation equipment, import and export of goods and technology.

DEFINITIONS

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

“associate”	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 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;
“Finance Lease Agreement”	a set of agreements entered into between Nedschroef Kunshan and SEG Leasing on 25 December 2017 in relation to the finance lease services provided by SEG Leasing to Nedschroaf Kunshan;

“Group”	the Company and its subsidiaries;
“Leased Assets”	the target assets to be purchased by SEG Leasing and to be leased back to Nedschroef Kunshan under the Finance Lease Agreement, including one integrated screw machine, one NB515, one 500KG heat treatment furnace and one five-position united integrated screw machine;
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange;
“Nedschroef Kunshan”	Nedschroef Fastener (Kunshan) Co., Ltd., a limited liability company incorporated in the PRC, and an indirect wholly indirectly owned subsidiary of the Company as at the date of this announcement;
“percentage ratio(s)”	has the meaning ascribed thereto under Chapter 14 of the Listing Rules;
“PRC or China”	the People’s Republic of China which, for the purpose of this announcement only, does not include the Hong Kong Special Administrative Region, the Macau Special Administrative Region and Taiwan;
“RMB”	Renminbi, the lawful currency of the PRC;
“SEC”	Shanghai Electric Group Company Limited (上海電氣集團股份有限公司), a joint stock limited company incorporated in the PRC, whose A and H shares are listed on the Shanghai Stock Exchange under the stock code 601727 and the Stock Exchange under the stock code 02727, respectively, controlling shareholder of the Company, as at the date of this announcement holding approximately 47.18% equity interests of the total issued share capital of the Company;
“SEG Leasing”	Shanghai Electric Group Leasing Co., Ltd., a limited liability company incorporated in the PRC wholly owned by SEC as at the date of this announcement;
“shareholder(s)”	registered holder(s) of shares of the Company;

“Stock Exchange”

The Stock Exchange of Hong Kong Limited;

“%”

percentage.

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

Shanghai, the PRC, 26 December 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.