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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 TRANSACTION
DISPOSAL OF 100% EQUITY INTERESTS IN ELECTRIC BEARING

INTRODUCTION

The Board is pleased to announce that on 26 February 2018, the Board has considered and approved a proposal to enter into the Equity Transfer Agreement with SEG, pursuant to which the Company agrees to sell and SEG agrees to purchase 100% equity interests in Electric Bearing, a wholly-owned subsidiary of the Company, for a total consideration of RMB58,848,620.03.

LISTING RULES IMPLICATIONS

As of the date of this announcement, SEG is a controlling shareholder of the Company indirectly holding approximately 47.18% and 4.44% equity interests in the total issued share capital of the Company through SEC and SEG HK, respectively. Therefore, SEG is a connected person of the Company, and the transactions contemplated under the Equity Transfer Agreement constitute connected transactions of the Company under Chapter 14A of the Listing Rules.

As the highest applicable percentage ratio in respect of the Equity Transfer Agreement is more than 0.1% but all percentage ratios are less than 5%, the Equity Transfer Agreement and the transactions contemplated thereunder are therefore subject to reporting and announcement requirements but are exempt from the requirement of Independent Shareholders' approval under Chapter 14A of the Listing Rules.

INTRODUCTION

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EQUITY TRANSFER AGREEMENT

The principal terms of the Equity Transfer Agreement are summarized as follows:

- Parties:** The Company, as the vendor;
SEG, as the purchaser
- Subject matter:** The Company agrees to transfer 100% equity interests in Electric Bearing to SEG.
- In accordance with state-owned assets regulations, the Equity Transfer will be conducted through Shanghai United Assets and Equity Exchange based on the terms as agreed under the Equity Transfer Agreement.
- Consideration:** The total consideration for the Equity Transfer shall be RMB58,848,620.03.
- The total consideration was determined after arm's length negotiation between the parties based on the audited book value and the appraised value of the net assets of Electric Bearing as of 30 November 2017.
- Payment terms:** SEG shall pay the total consideration into the bank account designated by the Company within twenty days after the Equity Transfer Agreement becomes effective.
- Condition precedent:** The Equity Transfer Agreement will become effective only when all of the following conditions have been fulfilled:
1. the Equity Transfer Agreement has been signed by the respective legal representatives or authorized representatives of both parties; and

2. both parties to the Equity Transfer Agreement and Electric Bearing have obtained their respective internal approvals where necessary for the Equity Transfer in accordance with their respective applicable laws, articles of associations and internal policies.

Completion of the
Equity Transfer

The Equity Transfer is completed when all of the following conditions have been fulfilled:

1. the Equity Transfer Agreement has become effective;
2. both parties to the Equity Transfer Agreement have obtained proof of transaction completion (產權交易憑證) from Shanghai United Assets and Equity Exchange; and
3. Electric Bearing has completed its change of registration procedures with industrial and commercial administration authorities, and such authorities have issued updated business license to Electric Bearing.

FINANCIAL INFORMATION AND VALUATION OF ELECTRIC BEARING

Set out below is the financial information of Electric Bearing prepared in accordance with PRC Generally Accepted Accounting Principles:

	For the year ended 31 December 2015 (Audited) (RMB'000)	For the year ended 31 December 2016 (Audited) (RMB'000)	For the eleven months ended 30 November 2017 (Audited) (RMB'000)
Operating revenue	118,507	82,026	— ^{Note}
Net profit/(loss) before tax	10,115	(892)	(2,435)
Net profit/(loss) after tax	10,115	(892)	(2,435)
Net profit after deducting non-recurring items	960	(921)	(2,435)

Note: For the eleven months ended 30 November 2017, the operating revenue of Electric Bearing was nil due to the lack of market competitiveness of Electric Bearing's products.

The audited net assets of Electric Bearing as at 31 December 2015, 31 December 2016 and 30 November 2017 are approximately RMB62,540,000, RMB61,648,000 and 59,213,000, respectively.

The audited total assets of Electric Bearing as at 31 December 2015, 31 December 2016 and 30 November 2017 are RMB97,853,000, RMB79,867,000 and RMB117,935,000, respectively.

The appraised value of the net assets of Electric Bearing as of 30 November 2017 is RMB58,848,620.03 as shown in the valuation report prepared by Shanghai Cai Rui Assets Evaluation Co., Ltd. (上海財瑞資產評估有限公司), an independent valuer. Detailed extracts of the valuation report are set out below:

Asset type	Book value <i>(RMB'000)</i>	Appriased value <i>(RMB'000)</i>	Appreciation amount <i>(RMB'000)</i>	Appreciation ratio %
Current asset	62,299	62,991	692	1.11
Non-current asset	55,636	54,580	(1,056)	(1.90)
Of which, fixed asset	55,636	54,580	(1,056)	(1.90)
Total assets	117,935	117,571	(364)	(0.31)
Current liabilities	58,722	58,722	—	—
Total liabilities	58,722	58,722	—	—
Total equity attributable to shareholders	59,213	58,849	(364)	(0.61)

As of the date of this announcement, Electric Bearing has a payable of approximately RMB7,025,000, resulting from the purchase of certain non-operating machineries from Shanghai United Bearing Company Limited, a 90%-owned subsidiary of the Company. Electric Bearing will settle the aforementioned payable as soon as practicable and has committed to do so not later than the date of completion of the Equity Transfer.

FINANCIAL IMPACT OF THE EQUITY TRANSFER

Immediately after the completion of the Equity Transfer, the Company will no longer hold any equity interest in Electric Bearing.

As a result of the Equity Transfer, the Company is expected to recognise a loss of approximately RMB364,000, calculated with reference to the consideration of the Equity Transfer and the carrying value of 100% equity interests in Electric Bearing. It is intended that the net proceeds from the Equity Transfer, after deducting expenses directly attributable thereto, will be used as general working capital and capital expenditure for the Group and/or to fund new investments of the Group should suitable opportunities arise.

Shareholders should note that the above figures are for illustrative purpose only. The actual loss from the Equity Transfer may be different from the above and will be determined based on the financial position of Electric Bearing on the date of completion of the Equity Transfer and is subject to the review by the Company's independent auditors upon finalisation of the consolidated financial statements of the Group for the year ending 31 December 2018.

REASONS FOR AND BENEFITS OF THE PROPOSED DISPOSALS

As of the date of this announcement, Electric Bearing is principally engaged in manufacture and sale of bearings, bearing parts and semi-finished bearing products etc.

The Board, following a review of the Company's current portfolio of businesses, considers the Equity Transfer as a good opportunity for the Group to realize cash from disposal of Electric Bearing and to enhance profitability of the Group as a whole. The completion of the Equity Transfer will not result in creating commercial competition between the Company and SEG.

OPINION FROM THE BOARD

As (i) Mr. Zhang Jie, holds directorship(s) or acts as senior management in SEG or its associates and (ii) Mr. Chen Hui serves as the Chairman and legal representative of Electric Bearing, Mr. Zhang Jie and Mr. Chen Hui have therefore abstained from voting on the relevant board resolution approving the Equity Transfer Agreement in accordance with the requirements of the Listing Rules. Save as disclosed above, none of the Directors has any material interests in the transactions contemplated under the Equity Transfer Agreement.

The Directors (including the independent non-executive Directors) are of the view that terms of the Equity Transfer Agreement were determined after arm's length negotiation, and the transactions contemplated under Equity Transfer Agreement are conducted in the ordinary and usual course of business of the Company and are on normal commercial terms, fair and reasonable and in the interests of the Company and its shareholders as a whole.

LISTING RULES IMPLICATIONS

SEG is a controlling shareholder of the Company indirectly holding approximately 47.18% and 4.44% equity interests in the total issued share capital of the Company through SEC and SEG HK respectively as of the date of this announcement. Therefore, SEG is a connected person of the Company, and the transactions contemplated under the Equity Transfer Agreement constitute connected transactions of the Company under Chapter 14A of the Listing Rules.

As the highest applicable percentage ratio in respect of the Equity Transfer Agreement is more than 0.1% but all percentage ratios are less than 5%, the Equity Transfer Agreement and the transactions contemplated thereunder are therefore subject to reporting and announcement requirements but are exempt from the requirement of Independent Shareholders' approval under Chapter 14A of the Listing Rules.

INFORMATION ON THE PARTIES

The Group is principally engaged in designing, manufacturing and selling turbine blades, bearings, fasteners and cutting tools.

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

DEFINITIONS

In this announcement, unless the context requires otherwise, the following terms have the meanings as set out below:

“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 (上海集優機械股份有限公司), a joint stock limited company incorporated in the PRC, whose H shares are listed on The Stock Exchange of Hong Kong Limited (stock code: 02345);
“connected person(s)”	has the meaning ascribed thereto under the Listing Rules;

“controlling shareholder”	has the meaning ascribed thereto under the Listing Rules;
“Director(s)”	the director(s) of the Company;
“Electric Bearing”	Shanghai Electric Bearing Co., Ltd. (上海電氣軸承有限公司), a company established in the PRC and the target company under the Equity Transfer Agreement pursuant to which its 100% equity interests are to be transferred from the Company to SEG;
“Equity Transfer”	the proposed disposal of 100% equity interests in Electric Bearing by the Company to SEG under the Equity Transfer Agreement;
“Equity Transfer Agreement”	the proposed equity transfer agreement to be entered into between the Company and SEG in respect of the disposal of the 100% equity interests in Electric Bearing by the Company to SEG;
“Group”	the Company and its subsidiaries;
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC;
“Independent Shareholders”	for the purpose of approving the resolution in respect of the Equity Transfer Agreement, the Shareholders, other than SEG and any of its associates who are legally and/or beneficially interested in the Shares;
“Listing Rules”	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited;
“percentage ratio”	has the meaning ascribed thereto under the Listing Rules;
“PRC”	the People’s Republic of China but excluding, for the purposes of this announcement only, Hong Kong, Macau Special Administrative Region of the PRC 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 of the date of this announcement holding approximately 51.62% equity interests of the total issued share capital of the Company;
“SEG”	Shanghai Electric (Group) Corporation (上海電氣(集團)總公司), the controlling shareholder of the Company holding 47.18% beneficial interest in the total issued share capital of the Company as of the date of this announcement;
“SEG HK”	Shanghai Electric Group Hongkong Company Limited, a limited company incorporated in Hong Kong and a subsidiary of SEG;
“Share(s)”	domestic share(s) and/or H share(s) of the Company; and
“Shareholder(s)”	registered holder(s) of the Share(s) of the Company; and
“%”	<i>per cent.</i>

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

Shanghai, the PRC, 27 February, 2018

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.