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

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

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上海集優機械股份有限公司

Shanghai Prime Machinery Company Limited

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

(Stock Code: 02345)

**(I) MAJOR TRANSACTION AND
CONTINUING CONNECTED TRANSACTIONS;
AND
(II) NOTICE OF EXTRAORDINARY GENERAL MEETING**

Financial Adviser to the Company



TC Capital
天財資本

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



BRIDGE PARTNERS

BRIDGE PARTNERS CAPITAL LIMITED

All capitalised terms used in this circular have the meanings set out in the section headed "Definitions" of this circular. A letter from the Board is set out on pages 5 to 21 of this circular and a letter from the Independent Board Committee (as defined herein) to the independent Shareholders (as defined herein) is set out on pages 22 to 23 of this circular. A letter of advice from Bridge Partners to the Independent Board Committee and the independent Shareholders is set out on pages 24 to 41 of this circular.

A supplemental notice convening the EGM to be held at 1:00 p.m. on Friday, 17 January 2014 at No. 1 Meeting Room, Hotel Nikko Shanghai, 488 West Yan An Road, Shanghai, the PRC, is set out as pages 49 to 51 of this circular. A revised proxy form for use at the EGM is enclosed with this circular. Whether or not you are able to attend the EGM in person, you are requested to complete and return the revised proxy form in accordance with the instructions printed thereon, and deposit it with the Company's branch share registrar and transfer office in Hong Kong, Tricor Investor Services Limited, at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wan Chai, Hong Kong as soon as possible and in any event not less than 24 hours before the time appointed for holding the EGM or any adjournment thereof. Completion and return of the revised proxy form shall not preclude you from attending and voting in person at the EGM or any adjourned meeting (as the case may be) should you so wish.

2 December 2013

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DEFINITIONS

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

“associate(s)”	has the meaning ascribed thereto under the Listing Rules;
“Board”	the board of Directors;
“Business Day(s)”	a day on which banks in Hong Kong are open for normal banking business (excluding Saturdays, Sundays and public holidays);
“CBRC”	China Bank Regulatory Commission* (中國銀行業監督管理委員會);
“Company”	Shanghai Prime Machinery Company Limited, a joint stock company with limited liability incorporated in the PRC and whose H shares are listed on the main board of the Stock Exchange under the stock code 02345;
“connected person(s)”	has the meaning ascribed thereto under the Listing Rules;
“controlling shareholder(s)”	has the meaning ascribed thereto under the Listing Rules;
“Director(s)”	the director(s) of the Company;
“EGM”	an extraordinary general meeting of the Company to be convened at 1:00 p.m. on Friday, 17 January 2014 or any adjournment thereof (as case may be), for the purpose of the Shareholders considering, and if though fit, approving, among other matters, the Framework Agreements, the transactions contemplated thereunder and the respective proposed annual cap amounts for the three years ending 31 December 2016, supplemental notice of which is set out on pages 49 to 51 of this circular;
“Framework Agreements”	the SEG Framework Sales Agreement, the SEC Framework Sales Agreement and the deposit services under the Framework Financial Services Agreement, which are non-exempt from independent shareholders’ approval requirement under the Listing Rules;

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“Framework Financial Services Agreement”	the framework financial services agreement entered into between the Company and SE Finance dated 30 October 2013 in relation to the provision of certain financial services, in particular the deposit services, by SE Finance to the Company and its associates;
“Group”	the Company and its subsidiaries;
“Hong Kong”	Hong Kong Special Administrative Region of the PRC;
“Independent Board Committee”	an independent board committee of the Company comprising the independent non-executive Directors, which has been formed by the Board to advise the independent Shareholders in respect of the terms of the Framework Agreements, the transactions contemplated thereunder and the respective proposed annual cap amounts for the three years ending 31 December 2016;
“Independent Financial Adviser” or “ Bridge Partners”	Bridge Partners Capital Limited, a licensed corporation to carry on type 1 (dealing in securities) and type 6 (advising on corporate finance) regulated activities under the SFO, being the independent financial adviser to the Independent Board Committee and the independent Shareholders in relation to the Framework Agreements, the transactions contemplated thereunder, and the respective proposed annual cap amounts for the three years ending 31 December 2016;
“Latest Practicable Date”	27 November 2013, being the latest practicable date prior to the printing of this circular for ascertaining information contained herein;
“Listing Rules”	the Rules Governing the Listing of Securities on Stock Exchange (as amended from time to time);
“PBOC”	the People’s Bank of China (中國人民銀行), the central bank of the PRC;
“percentage ratio(s)”	has the same meaning ascribed thereto under the Listing Rules, as application to a transaction;

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“PRC” or “China”	the People’s Republic of China which, for the purpose of this circular only, does not include Hong Kong, the Macau Special Administrative Region and Taiwan;
“RMB”	Renminbi, the lawful currency of the PRC;
“SE Finance”	Shanghai Electric Group Finance Co., Ltd., (上海電氣集團財務有限責任公司), a 73.375% subsidiary of SEC and a limited company incorporated in the PRC;
“SEC”	Shanghai Electric Group Company Limited (上海電氣集團股份有限公司), a sister company 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 Framework Sales Agreement”	the framework sales agreement entered into between the Company and SEC dated 30 October 2013 to renew the existing framework sales agreement dated 12 August 2011;
“SEC Group”	SEC and its subsidiaries;
“SEG”	Shanghai Electric (Group) Corporation (上海電氣(集團)總公司), the controlling shareholder of the Company (as defined in the Listing Rules) holding 49.54% interests in the total issued share capital of the Company as at the date of this circular;
“SEG Framework Sales Agreement”	the framework sales agreement entered into between the Company and SEG dated 30 October 2013 to renew the existing framework sales agreement dated 12 August 2011;
“SEG Group”	SEG and its subsidiaries (excluding the Group and SEC Group);
“SFO”	The Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong);
“Share(s)”	domestic share(s) and/or H share(s) of the Company;
“Shareholder(s)”	registered holder(s) of the share(s) of the Company;
“Stock Exchange”	The Stock Exchange of Hong Kong Limited;

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“subsidiaries”	has the meaning ascribed thereto under the Listing Rules; and
“%”	per cent.

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

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

The English names of the Chinese nationals, companies, entities, departments, facilities, certificates, titles and the like are translation of their Chinese names and are included in this circular for identification purpose only and should not be regarded as their official English translation. In the event of any inconsistency, the Chinese name prevails.

** For identification purposes only*



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. Wang Qiang (*Chairman*)
Mr. Zhou Zhiyan
Mr. Zhang Jianping
Ms. Zhu Xi
Mr. Sun Wei
Mr. Chen Hui

Independent Non-executive Directors:

Mr. Chan Chun Hong (Thomas)
Mr. Ling Hong
Mr. Li Yin

Registered Address:

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

Principal Place of

Business in Hong Kong:

Room 2602, 26th Floor
Tower One, Lippo Centre
89 Queensway Road
Hong Kong

2 December 2013

To the Shareholders

Dear Sir or Madam,

MAJOR TRANSACTION AND CONTINUING CONNECTED TRANSACTIONS

1. INTRODUCTION

Reference is made to the announcement of the Company dated 30 October 2013 in relation to the major transaction and continuing connected transactions of the Company contemplated under the Framework Agreements and the respective proposed annual cap amounts for the three years ending 31 December 2016.

The purpose of this circular is to provide the Shareholders with further information, among other matters, (i) the details of the Framework Agreements and the transactions contemplated thereunder; (ii) the advice from the Independent Board Committee to the independent Shareholders in respect of the Framework Agreements; (iii) the letter of advice from Bridge Partners to the Independent Board Committee in respect of the Framework Agreements and the transactions contemplated thereunder; and (iv) a notice of the EGM to be convened for the Shareholders, to approve the transactions contemplated

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under the Framework Agreements, and the respective proposed annual cap amounts for the three years ending 31 December 2016.

2. LISTING RULES IMPLICATION

I. Connected Persons

As at the Latest Practicable Date, SEG is the controlling shareholder of the Company holding 49.54% interest in the total issued share capital of the Company. Therefore, SEG is a connected person of the Company under Rule 14A.11(1) of the Listing Rules.

As at the Latest Practicable Date, SEC is a subsidiary of SEG in which SEG holds 57.80% equity interest in the total issued share capital of SEC. Therefore, SEC and its subsidiaries are connected persons of the Company under Chapter 14A of the Listing Rules.

As at the Latest Practicable Date, SE Finance is a 73.375% owned subsidiary of SEC and thus is an associate of SEG. As such, SE Finance is a connected person under Chapter 14A of the Listing Rules.

As SEG, SEC and their corresponding associates are connected persons of the Group, they are required under the Listing Rules to abstain from voting on the resolutions to be proposed to approve the Framework Agreements and their respective annual cap amounts at the EGM to be convened.

II. Listing Rules Implications

(A) *SEG Framework Sales Agreement and SEC Framework Sales Agreement*

As one or more of the applicable percentage ratios of the transactions contemplated under the SEG Framework Sales Agreement and SEC Framework Sales Agreement, on an annual basis, exceed 5%, the transactions contemplated under the SEG Framework Sales Agreement and SEC Framework Sales Agreement are subject to reporting, announcement, annual review and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

(B) *Deposit Services under the Framework Financial Services Agreement*

As one or more of the applicable percentage ratios of the maximum daily balance of the deposit services under the Framework Financial Services Agreement exceed 5%, such transaction is subject to the reporting, announcement and independent shareholders' approval requirements under Chapter 14A of the Listing Rules. In addition, as one or more of the percentage ratios of the proposed maximum daily balance of the deposit services under the Framework Financial Services Agreement exceed 25% but are less than 100%, such transaction constitutes a major transaction under

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Chapter 14 of the Listing Rules and is subject to the notification, publication and shareholders' approval requirements.

The Directors are of the view that the Framework Agreements have been entered into on normal commercial terms and in the ordinary and usual course of business of the Company, and that the terms of the Framework Agreements, together with the respective annual cap amounts for the three years ending 31 December 2016, are fair and reasonable and in the interests of the Company and its Shareholders as a whole.

3. INDEPENDENT BOARD COMMITTEE

An Independent Board Committee has been established to consider and advise the independent Shareholders in respect of the transactions contemplated under the Framework Agreements and the respective proposed annual cap amounts. Bridge Partners has been appointed as the independent financial adviser to advise the Independent Board Committee and the independent Shareholders as to whether or not the terms and conditions of the Framework Agreements, the transactions contemplated thereunder and the respective annual cap amounts are fair and reasonable so far as the independent Shareholders are concerned and are in the interests of the Company and the Shareholders as a whole.

4. CONTINUING CONNECTED TRANSACTIONS

I. Background

References are made to the announcements of the Company dated 25 April 2008, 12 August 2011 and 28 September 2012, as well as the circulars of the Company dated 5 May 2008 and 2 September 2011, in respect of the existing continuing connected transactions under the existing framework sales agreement entered into with each of SEC and SEG, and the deposit services under framework financial services agreement entered into with SE Finance. In view of the forthcoming expiry of the aforesaid existing agreements, the Board approved the Framework Agreements to ensure the continuation of the on-going transactions of goods and services among the Group, the SEG Group and the SEC Group to facilitate the Group's operational needs. In addition, the Group also intends to continue the existing financial services provided by SE Finance.

The entering into of the Framework Agreements is to renew the above expiring framework agreements and set their respective annual cap amounts for the three years ending 31 December 2016 and reflect the terms of the on-going connected transactions with SEG and SEC. Save for the effective period and the annual cap amounts of the Framework Agreements, the terms and conditions of the Framework Agreements are similar to those in the respective existing framework agreements. Details of the Framework Agreements and the corresponding annual cap amounts are set out in this circular. The Directors consider that the entering into of the Framework Agreements are on normal commercial terms and in the ordinary and usual course of business of the Group, the terms of the Framework Agreements are fair and reasonable and in the interests of the Shareholders and the Group as a whole.

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II. The Framework Agreements

Set out below are the principal terms of the Framework Agreements:

(A) *SEG Framework Sales Agreement*

Summary

- Date : 30 October 2013
- Parties :
 - the Company, as supplier; and
 - SEG, as purchaser.
- Subject matter : The sale of certain materials, components, accessories or raw materials, finished products and other related or similar items, power generation equipment and parts from the Group to SEG and its associates.
- Term :
 - Three years from 1 January 2014 to 31 December 2016, renewable upon expiry, subject to conditions precedent including but not limited to, obtaining the approval of the independent Shareholders and compliance with the Listing Rules; and
 - May be terminated in part or in whole by either party to the agreement by giving at least three months' notice.
- Payment terms : The payment terms are dependent on the type of products/goods to be provided and are determined at the time when such sales are entered into. The payment terms will be specified on each separate contract to be agreed by the parties.

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Historical Figures, the Proposed Annual Cap Amounts and the Corresponding Basis for the Transactions under the SEG Framework Sales Agreement

	Historical transaction amounts			Utilization rate			Proposed annual cap amounts		
	For the year ended 31 December		For the six months ended 30 June	For the year ended/ending 31 December			For the year ending 31 December		
	2011	2012	2013	2011	2012	2013	2014	2015	2016
	<i>(RMB million)</i>			%			<i>(RMB million)</i>		
Aggregate sales to SEG and its associates	5.9	9.1	4.2	6.1	21.7	16.1	27.3	40.8	57.1
	<i>(note 1)</i>								

Note 1: The estimated utilization rate for the year ending 31 December 2013 is based on the annualized historical transaction amounts for the year ending 31 December 2013.

In arriving at the above proposed annual caps for the years 2014, 2015 and 2016, the Directors have taken into account of the following factors:

- (i) the previous transactions conducted and the transaction amounts in respect of the sale of the materials, components, accessories or raw materials, finished products to SEG and its associates;
- (ii) the future business development of the SEG Group for the coming three years ending 2016, especially the estimated development of angular contact bearing business division; and
- (iii) the changes in market conditions, and the anticipated demand and supply of the products in various business divisions of the SEG Group.

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Pricing basis

The pricing basis of certain materials, components, accessories or raw materials, finished products and other related or similar items, power generation equipment and parts under the SEG Framework Sales Agreement shall be in the order of standards as following:

- (i) prices as may be stipulated by the PRC Government (if any);
- (ii) if there are no such stipulated prices, the prices not less than any pricing guidelines or pricing recommendations set by the PRC Government (if any);
- (iii) if there are no such stipulated prices nor such pricing guidelines or recommendations, with reference to the market price which is determined by an independent third party; and
- (iv) if none of the above is applicable, an agreed price consisting of the actual or reasonable costs incurred thereof plus a reasonable profit margin.

The market price determined by an independent third party is the price of the same or comparable type of good as offered by the independent third parties in the PRC market and in the normal course of business.

A “reasonable cost” is a cost based on the labor and material costs previously incurred by the Group in manufacturing or constructing the same materials, components, accessories or raw materials, finished products and other related or similar items, power generation equipment and parts. A “reasonable profit margin” is a profit margin that is agreed between the parties as being no less than the Group’s prevailing profit margins of the same materials, components, accessories or raw materials, finished products and other related or similar items, power generation equipment and parts sold to independent third parties.

When implementing the existing SEG framework sales agreement dated 12 August 2011, there were no relevant PRC government documents in relation to the price for the Company to follow. Accordingly, the Company has adopted the “market price” as the pricing standard when selling materials, components, accessories or raw materials, finished products and other related or similar items, power generation equipment and parts under the existing SEG framework sales agreement. After implementation of the SEG Framework Sales Agreement, the Company will determine the prices based on the order of the pricing standards as mentioned above and

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adopt one of them. In the unforeseeable event that the PRC government decides to set prices of products sold by the Group, the Group will comply with the relevant government regulations and price its products accordingly.

(B) *SEC Framework Sales Agreement*

Summary

- Date : 30 October 2013
- Parties :
 - the Company, as supplier; and
 - SEC, as purchaser.
- Subject matter : The sale of certain materials, components, accessories or raw materials, finished products and other related or similar items, power generation equipment and parts from the Group to SEC and its associates.
- Term :
 - Three years from 1 January 2014 to 31 December 2016, renewable upon expiry, subject to conditions precedent including but not limited to, obtaining approval of the independent Shareholders and compliance with the Listing Rules; and
 - May be terminated in part or in whole by either party to the agreement by giving at least three months' notice.
- Payment terms : The payment terms are dependent on the type of products/goods to be provided and are determined at the time when such sales are entered into. The payment terms will be specified on each separate contract to be agreed by the parties.

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Historical Figures, the Proposed Annual Cap Amounts and the Corresponding Basis for the Transactions under the SEC Framework Sales Agreement:

	Historical transaction amounts			Utilization rate			Proposed annual cap amounts		
	For the year ended 31 December		For the six months ended 30 June	For the year ended/ending 31 December			For the year ending 31 December		
	2011	2012	2013	2011	2012	2013	2014	2015	2016
	<i>(RMB million)</i>			%			<i>(RMB million)</i>		
Aggregate sales to SEC and its associates	410.3	386.5	145.8	62.5	51.6	33.2	613.4	737.1	910.9
	<i>(Note 1)</i>								

Note 1: The estimated utilization rate for the year ending 31 December 2013 is based on the annualized historical transaction amounts for the year ending 31 December 2013.

In arriving at the above proposed annual caps for the years 2014, 2015 and 2016, the Directors have taken into account of the following factors:

- (i) the previous transactions conducted and the transaction amounts in respect of the sale of the materials, components, accessories or raw materials, finished products and other related or similar items, power generation equipment and parts to SEC and its associates;
- (ii) the future business development plan of the SEC Group, especially growth of the turbines business sector; and
- (iii) the changes in market conditions, and the anticipated demand and supply of the products in various business divisions of the SEC Group.

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Pricing basis

The pricing basis of certain materials, components, accessories or raw materials, finished products and other related or similar items, power generation equipment and parts under the SEC Framework Sales Agreement shall be in the order of standards as following:

- (i) prices as may be stipulated by the PRC Government (if any);
- (ii) if there are no such stipulated prices, the prices not less than any pricing guidelines or pricing recommendations set by the PRC Government (if any);
- (iii) if there are no such stipulated prices nor such pricing guidelines or recommendations, with reference to the market price which is determined by an independent third party; and
- (iv) if none of the above is applicable, an agreed price consisting of the actual or reasonable costs incurred thereof plus a reasonable profit margin.

The market price determined by an independent third party is the price of the same or comparable type of good as offered by the independent third parties in the PRC market and in the normal course of business.

A “reasonable cost” is a cost based on the labor and material costs previously incurred by the Group in manufacturing or constructing the same materials, components, accessories or raw materials, finished products and other related or similar items, power generation equipment and parts. A “reasonable profit margin” is a profit margin that is agreed between the parties as being no less than the Group’s prevailing profit margins of the same materials, components, accessories or raw materials, finished products and other related or similar items, power generation equipment and parts sold to independent third parties.

When implementing the existing SEC framework sales agreement dated 12 August 2011, there were no relevant PRC government documents in relation to the price for the Company to follow. Accordingly, the Company has adopted the “market price” as the pricing standard when selling materials, components, accessories or raw materials, finished products and other related or similar items, power generation equipment and parts under the existing SEC framework sales agreement. After implementation of the SEC Framework Sales Agreement, the Company will determine the prices based on the order of the pricing standards as mentioned above and adopt one of them. In the unforeseeable event that the PRC government decides to set prices of products sold by the Group, the Group will comply with the relevant government regulations and price its products accordingly.

LETTER FROM THE BOARD

(C) *Deposit Services under the Framework Financial Services Agreement*

Summary

- Date : 30 October 2013
- Parties :
 - the Company, as recipient of services; and
 - SE Finance, as provider of services.
- Subject matter : The provision of financial services which will include, among other matters, loan and bill discounting services, deposit services and integrated banking services, such as bill acceptance services, entrusted loan, settlement services, guarantee services, investment services and financial advisory services, to the Company and its associates by SE Finance.
- Term :
 - Three years from 1 January 2014 to 31 December 2016, renewable upon expiry, subject to conditions precedent including but not limited to, obtaining the approval of the independent Shareholders and compliance with the Listing Rules;
 - May be terminated in part or in whole by either party to the agreement by giving at least one months' notice; and
 - The Company and SE Finance may, from time to time, enter into separate individual financial services agreements with each other for the provision of specific financial services, provided that the principles as agreed in the Framework Financial Services Agreement shall be followed.
- Payment terms : The payment terms are dependent on the types of financial services to be provided and are determined at the time when such financial services are entered into. The Group expect such terms of payment to be consistent with market terms for the relevant types of financial services.

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Historical Figures, the Proposed Annual Cap Amounts and the Corresponding Basis for the Transactions under the deposit services under the Framework Financial Services Agreement

The following table sets out (i) the historical transaction amounts for the years ended 31 December 2011 and 2012 and for the six months ended 30 June 2013 under the existing framework financial services agreement; (ii) the corresponding utilization rates; and (iii) the proposed annual cap amounts of the maximum daily balance of deposits (including corresponding interests) for each of the three years ending 31 December 2014, 2015 and 2016 under the Framework Financial Services Agreement:

	Historical transaction amounts			Utilization rate			Proposed annual cap amounts		
	For the year ended 31 December		For the six months ended 30 June	For the year ended/ending 31 December			For the year ending 31 December		
	2011	2012	2013	2011	2012	2013	2014	2015	2016
	<i>(RMB million)</i>			%			<i>(RMB million)</i>		
Maximum daily balance of deposits with SE Finance (including corresponding interests)	Nil	78.9	96.3	Nil	23.9	26.5	363	363	363

In arriving at the above proposed annual caps for the years 2014, 2015 and 2016, the Directors have taken into account of the following factors:

- (i) As at 31 December 2011, 31 December 2012 and 30 June 2013, the Group had cash and cash equivalents of approximately RMB878.8 million, RMB1,283.9 million and RMB1,107.4 million, respectively;
- (ii) The provision of deposit services between the Group and SE Finance has been conducted since 2012, and the increase in the outstanding balance of deposits placed at SE Finance by the Group;
- (iii) The Company strives to strengthen its financial management and control practices in the coming years, and thus wishes to use SE Finance to centralise the capital management of the Company. In line with this view, the

LETTER FROM THE BOARD

Company's associates will gradually use more deposit and loan services provided by SE Finance to earn or incur the interest income more effectively in the coming years. Accordingly, the Directors expect that the deposit amounts will increase considerably. The Directors believe that the utilization of services provided by SE Finance is able to provide better financial management of the Group, and are therefore in the interests of the Shareholders and the Company as a whole;

- (iv) The proposed maximum daily balance of deposits is determined based on the strategic growth plan formulated by the Company taking into account of the cash flow position, fiscal policies and possible operational needs of the Company in the coming three years;
- (v) The proposed maximum daily balance of deposits shall remain at equivalent of RMB363 million for the two years ending 31 December 2016; and
- (vi) The financial capability of SE Finance.

The Directors are of the view that the deposit transactions do not have any effect on the assets and liabilities of the Company. Instead, the Company is able to earn the interests out of the deposit transactions.

Pricing Basis

The interest rates set by SE Finance for the Company's deposits will be in line with the relevant interest rates published by the PBOC from time to time. Currently, PBOC allows a 10% upward adjustment for deposit rate from the PBOC's rate. SE Finance will set its interest rates compliant with this regulation. Accordingly, the current deposit rates offered by SE Finance range from 0.35% to 5.225% per annum, depending on amount and terms of deposit, are within the range of the abovementioned regulation with reference to the deposit rates offered by other commercial banks and are subject to PBOC's possible amendment of regulations and requirements on the interest rates.

5. INFORMATION OF THE GROUP, SEG, SEC, AND SE FINANCE

(A) The Group

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

(B) SEG

The principal activities of SEG are investment holding, design, manufacture, sales and servicing of a wide range of products and services in the power equipment, electromechanical equipment, transportation equipment and environmental systems industries.

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(C) SEC

The principal activities of SEC are to design, manufacture, sales and servicing of a wide range of products and services in the power equipment, electromechanical equipment, transportation equipment and environmental systems industries.

(D) SE Finance

SE Finance was established in 1995 pursuant to the approval granted by the PBOC under “企業集團財務公司管理辦法” (“Administration of the Finance Companies of Enterprises Groups Procedures”) and CBRC. SE Finance has obtained all approvals, permits and licenses necessary for its operation and its principal business is the provision of financial services (including but not limited to loan and bills discounting services, deposit services and other treasury services) to the Company and its associates.

6. INTERNAL CONTROLS AND RISK MANAGEMENT

In order to safeguard the interests of the Shareholders, the Company and SE Finance provide the following measurements:

(A) The Company

The Company has established a special department with dedicated personnel in place to conduct the monitoring and management of its connected transactions. The personnel of this special department reviews and evaluates the usage of the annual cap amounts, as well as the implementation of the internal assessments to ensure the adoption of the pricing principles according to the terms of the existing agreements on a regular basis. The external auditors of the Company review the connected transactions and report the factual findings to the management of the Company on semi-annual basis.

The following internal assessments have been undertaken by the Group to monitor the pricing standards of the transactions and ensure that the transactions are conducted and the actual sale prices in accordance with the pricing basis under the Framework Agreements:

- (i) comparing the sale prices of the sales to SEG, SEC and their corresponding associates with the sale prices of the other customers of the Group;
- (ii) adhering to the relevant internal control policy of the Group on connected transactions to ensure that the relevant departments of the Group will monitor the sale prices payable by SEG, SEC and their corresponding associates shall be no less favorable than those payable to the Group from independent third party;

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- (iii) the Board is responsible for approving all the continuing connected transactions carried out by the Group including the continuing connected transactions under the Framework Agreements; and
- (iv) the financial department of the Company and the auditors review the transactions under the Framework Agreements regularly.

(B) SE Finance

Pursuant to the relevant regulations set by CBRC, financial institutions in the PRC have to comply with certain requirements, which include, among other things, the minimum total capital requirement of a capital adequacy ratio of not less than 10% as set out by CBRC. The capital adequacy ratio of SE Finance was approximately 18.44% as at 30 September 2013, which is therefore in compliance with relevant provisions of the CBRC. Specific enquiry has been made to SE Finance and they have confirmed that they have complied with all relevant requirements of PBOC and CBRC.

As at 31 December 2012, the registered capital of SE Finance was RMB1.5 billion. SE Finance also had a total asset value of approximately RMB25.9 billion. Based on the audited accounts of SE Finance prepared in accordance with the PRC accounting principles, the revenue and the net profit of SE Finance was approximately RMB513.3 million and RMB331.8 million, respectively, for the year ended 31 December 2012.

As a licensed non-bank financial institution in the PRC, SE Finance is subject to stringent regulations and is regulated by PBOC and CBRC. CBRC's supervision includes regular examination of the audited financial statements and other relevant materials required to be filed by group finance companies as well as on-site inspections and interviews with the senior management of group finance companies. To ensure compliance with the applicable laws and regulations, CBRC has powers to issue corrective and/or disciplinary orders and to impose penalties and/or fines on a group finance company.

In respect of the deposit service, the Company has set up an internal assessment mechanism. The Company will obtain the interest rates for deposits of similar nature and under similar terms offered to the Group from at least two other independent commercial banks in the PRC, and compare with the interest rates offered by SE Finance to the Group for deposits of similar nature and under similar terms to ensure that the interests the Group will receive on its deposit are in compliance with the above pricing basis for deposit services.

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7. REASONS FOR AND BENEFITS OF THE CONTINUING CONNECTED TRANSACTIONS CONTEMPLATED UNDER THE FRAMEWORK AGREEMENTS

The Group has been carrying out the transactions with SEC and its associates, and SEG and its associates to facilitate their productions and operations since the initial listing of the Company's shares on the Stock Exchange in 2006. In view of such long-term and solid business relationships between the Group and SEC and its associates, as well as the Group and SEG and its associates, the familiarity of each other's product and demand specifications, the parties are enabled to respond quickly and in a cost efficient manner to any new requirements upon request, the reliability of the materials supply and services provisions. The Company's operations would be adversely affected if the cross-supply of materials and services is terminated.

In considering the reasons and benefits for entering into Framework Financial Services Agreement, the Directors have considered that SE Finance has gained significant experiences in the provision of financial services over the past years, and demonstrated its continual compliance with the relevant guidelines and regulations, and the operational requirements governed by PBOC and CBRC. The Company is therefore satisfied with SE Finance's capacity in the provision of such financial services as stipulated in the Framework Financial Services Agreement.

Through the operation of the Framework Financial Services Agreement, the Group enjoys greater flexibility in its financial management and has better efficiency in allocating its financial resources between the members of the Group through the utilization of SE Finance as a medium. In addition, the interest rates and the services fees offered by the SE Finance to the Group are the same as or more favorable than (on case by case basis) those interest rates and services fees offered from other banks or financial institutions. Such arrangement will enable the Group to increase its interest income more effectively.

Accordingly, the Directors (including the independent non-executive Directors) are of the view that (i) the continuing connected transactions contemplated under the Framework Agreements will be carried out in the ordinary and usual course of business and in the interests of the Company and its Shareholders as a whole; (ii) the terms of the Framework Agreements are on normal commercial terms or on terms not less favorable than those of similar transactions with independent third parties and are fair and reasonable to the Company and its Shareholders; and (iii) the proposed annual cap amounts of the transactions contemplated under the Framework Agreements for the three years ending 31 December 2016 are fair and reasonable so far as the Shareholders are concerned.

LETTER FROM THE BOARD

Furthermore, the Directors (including the independent non-executive Directors) also believe that SE Finance, being a financial services provider to the Group, does not have a risk profile greater than that of other independent commercial banks in the PRC, considering that SE Finance:

- (a) is regulated by PBOC and CBRC similar to other independent commercial banks in the PRC, and provides services in accordance to regulatory guidelines and relevant rules, including capital risk guidelines and requisite capital adequacy ratios of such regulatory authorities;
- (b) is not subjected to high risk borrowers as commercial banks lends to the public, whereas SE Finance lends within SEG Group, SEC Group and the Group, which has higher credit rating; and
- (c) has established stringent internal control measures to ensure effective risk management and compliance with laws and regulations, as amended from time to time, as discussed in the above section.

8. RECOMMENDATIONS

Having considered the relevant information disclosed in this letter from the Board, the Directors (including the independent non-executive Directors) consider that the Framework Agreements, the transactions contemplated thereunder and their respective annual cap amounts are entered into (i) on normal commercial terms; (ii) in the ordinary and usual course of business of the Company; and (iii) are fair and reasonable, and in the interests of the Company and its Shareholders as a whole. Accordingly, the Directors also recommend that the Shareholders to vote in favour of the relevant resolutions to be proposed at the forthcoming EGM.

Your attention is drawn to the letter from the Independent Board Committee which is set out on pages 22 to 23, and the letter from Bridge Partners which is set out on pages 24 to 41 of this circular. The Independent Board Committee, having taken into account the advice of Bridge Partners, considers that the terms of the Framework Agreements are on normal commercial terms, and the entering into of the Framework Agreements, the transactions contemplated thereunder and their respective annual cap amounts are fair and reasonable so far as the independent Shareholders are concerned, and in the interests of the Company and its Shareholders as a whole. Accordingly, the Independent Board Committee recommends the independent Shareholders to vote in favour of the ordinary resolutions concerning the Framework Agreements, the transactions contemplated thereunder and their respective annual cap amounts, to be proposed at the forthcoming EGM.

9. EGM

The EGM will be held at 1:00 p.m. on Friday, 17 January 2014 at No. 1 Meeting Room, Hotel Nikko Shanghai, 488 West Yan An Road, Shanghai, the PRC, for the purpose of considering and, if though fit, approve the Framework Agreements, the transactions contemplated thereunder and the respective annual cap amounts.

LETTER FROM THE BOARD

Mr. Wang Qiang, being a Director, is also a senior management of SEG and therefore has abstained from voting on the relevant board resolutions approving the Framework Agreements and the transactions contemplated thereunder in accordance with the requirements of the Listing Rules. To the best of the Director's knowledge, information and belief having made all reasonable enquiries, SEG, the controlling shareholder which holds 49.54% of the issued share capital of the Company and has control or is entitled to exercise control over 49.54% voting rights of the Shares, will abstain from voting on the resolutions in relation to the Framework Agreements, the transactions contemplated thereunder and their respective annual cap amounts at the EGM to be convened. Save as disclosed above, none of the Directors has any material interest in the Framework Agreements. Voting on the resolutions will be taken by poll in accordance with the requirements of the Listing Rules.

A revised proxy form for use at the EGM is enclosed with this circular. Whether or not you are able to attend the EGM, you are requested to complete and return the revised proxy form in accordance with the instruction printed thereon to the Company's branch share registrar and transfer office in Hong Kong, Tricor Investor Services Limited, at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wan Chai, Hong Kong, as soon as possible and in any event not less than 24 hours before the time appointed for holding the EGM (or any adjournment thereof). Completion and return of the revised proxy form will not preclude you from attending and voting in person at the EGM (or any adjournment thereof) should you so wish.

10. ADDITIONAL INFORMATION

Your attention is drawn to (1) the letter from the Independent Board Committee set out on pages 22 to 23 of this circular; (2) the letter from Bridge Partners containing its advice to the Independent Board Committee and the independent Shareholders set out on pages 24 to 41 of this circular; and (3) the additional information as set out in the Appendices to this circular.

The English text of this circular shall prevail over the Chinese text in the event of inconsistency.

Yours faithfully,
By order of the Board
Shanghai Prime Machinery Company Limited
Wang Qiang
Chairman

This circular (in both English and Chinese versions) has been posted on the Company's website at <http://www.pmcsh.com>. Shareholders who have chosen to rely on copies of the Company's corporate communication (including but not limited to annual report and summary financial report (where applicable), interim report, summary interim report (where applicable)), posted on the Company's website in lieu of the printed copies thereof may request the printed copy of this circular. Shareholders who have chosen to receive the corporate communication using electronic means through the Company's website and who for any reason have difficulty in receiving or gaining access to this circular posted on the Company's website will promptly upon request be sent this circular in printed form free of charge.

Shareholders may at any time choose to change your choice as to the means of receipt (i.e. in printed form or by electronic means through the Company's website) and/or the language of the Company's corporate communication by notice in writing to the H Share registrar and transfer office, Tricor Investor Services Limited, at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong.

LETTER FROM THE INDEPENDENT BOARD COMMITTEE

The following is the text of a letter from the Independent Board Committee setting out its recommendation to the independent Shareholders in relation to the Framework Agreements:



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)

2 December 2013

To the Independent Shareholders

Dear Sirs or Madams,

MAJOR TRANSACTION AND CONTINUING CONNECTED TRANSACTIONS

We refer to the circular dated 2 December 2013 issued by the Company to the Shareholders (the “Circular”), of which this letter forms part. Terms defined in the Circular shall have the same meanings as those used in this letter, unless the context otherwise requires.

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

Bridge Partners has been appointed as the independent financial adviser to advise us and the independent Shareholders in this regard. Details of its advice, together with the principal factors taken into consideration in arriving at such, are set out in its letter set out on pages 24 to 41 of the Circular. We wish to draw your attention to the letter from the Board, as set out on pages 5 to 21 of the Circular, and the letter from Bridge Partners to the Independent Board Committee and the independent Shareholders which contains its advice to us in respect of the Framework Agreements, as set out on pages 24 to 41 of the Circular.

LETTER FROM THE INDEPENDENT BOARD COMMITTEE

Having considered the terms and conditions of the Framework Agreements and their respective proposed annual cap amounts, the advice given by Bridge Partners and the principal factors and reasons taken into consideration by them in arriving at their advice, we are of the opinion that the Framework Agreements were entered into in the ordinary and usual course of business, on normal commercial terms and the terms of the Framework Agreements, the transactions contemplated thereunder and their respective annual cap amounts are fair and reasonable so far as the independent Shareholders are concerned, and are in the interests of the Company and the Shareholders as a whole. Accordingly, we recommend that the independent Shareholders vote in favor of the ordinary resolutions concerning the same to be proposed at the EGM.

Yours faithfully,

For and on behalf of the Independent Board Committee

Mr. Chan Chun Hong (Thomas)

Mr. Ling Hong

Mr. Li Yin

Independent non-executive Directors

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

The following is the full text of the letter from Bridge Partners setting out the advice to the Independent Board Committee and the independent Shareholders in respect of the Framework Agreements, which has been prepared for the purpose of inclusion in this circular.



BRIDGE PARTNERS CAPITAL LIMITED

Unit 605, 6/F, Grand Millennium Plaza
181 Queen's Road Central
Central, Hong Kong

2 December 2013

*To the Independent Board Committee and
the independent Shareholders of
Shanghai Prime Machinery Company Limited*

Dear Sirs,

CONTINUING CONNECTED TRANSACTIONS

INTRODUCTION

We refer to our appointment as the independent financial adviser to the independent board committee (the "**Independent Board Committee**") and the independent shareholders (the "**Independent Shareholders**") of Shanghai Prime Machinery Company Limited (the "**Company**") in connection with the Framework Agreements, details of which are contained in the announcement of the Company dated 30 October 2013 (the "**Announcement**") and the letter from the Board (the "**Letter from the Board**") contained in the circular of the Company dated 2 December 2013 (the "**Circular**") to the Shareholders. Capitalised terms used in this letter shall have the same meanings as defined in the Circular unless the context requires otherwise.

On 30 October 2013, the Board announced that the Company has entered into the SEG Framework Sales Agreement and the SEC Framework Sales Agreement with SEG and SEC respectively to sell certain materials, components, accessories or raw materials, finished products and other related or similar items, power generation equipment and parts from the Group to the SEG Group/the SEC Group. On the same day, the Company entered into the Framework Financial Services Agreement with SE Finance, pursuant to which the Company agreed to procure financial services, which will include, among other matters, loan and bill discounting services, deposit services and integrated banking services on a non-exclusive basis, from SE Finance.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

As at the Latest Practicable Date, SEG is the controlling Shareholder of the Company holding 49.54% interest in the total issued share capital of the Company. SEC is a subsidiary of SEG in which SEG holds 57.80% equity interest and SE Finance is subsidiary of SEC in which SEC holds 73.375% equity interest. Each of SEC and its associates, SEG and its associates and SE Finance are connected persons of the Company under Chapter 14A of the Listing Rules. The transactions contemplated under the Framework Agreements accordingly constitute continuing connected transactions of the Company.

As one or more of the applicable percentage ratios of the transactions contemplated under the SEG Framework Sales Agreement and the SEC Framework Sales Agreement, on an annual basis, are expected to exceed 5%, the transactions contemplated under the SEG Framework Sales Agreement and SEC Framework Sales Agreement are subject to reporting, announcement, annual review and independent shareholders' approval requirements under Chapter 14A of the Listing Rules. In respect of the proposed maximum daily balance of the deposits under the Framework Financial Services Agreement, as one or more of the applicable percentage ratios for the three years ending 31 December 2016 exceed 5%, the provision of deposit services under the Framework Financial Services Agreement is subject to the reporting, announcement and independent shareholders' approval requirements under Chapter 14A of the Listing Rules. In addition, as one or more of the percentage ratios of the proposed maximum daily balance of the deposits for the deposit services under the Framework Financial Services Agreement exceed 25% but less than 100%, such transaction constitutes a major transaction for the Company under Chapter 14 of the Listing Rules and is subject to the notification, publication and shareholders' approval requirements.

THE INDEPENDENT BOARD COMMITTEE

The Independent Board Committee comprising Mr. Chan Chun Hong (Thomas), Mr. Ling Hong and Mr. Li Yin, being the independent non-executive Directors, has been formed to advise the Independent Shareholders in relation to the Framework Agreements.

We, Bridge Partners, have been appointed by the Company as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders in relation to the Framework Agreements, and to make a recommendation as to, among others, whether the terms of the Framework Agreements are fair and reasonable and are in the interests of the Company and the Shareholders as a whole, and as to voting in respect of the relevant resolutions at the EGM.

BASIS OF OUR ADVICE

In formulating our opinion and recommendations, we have reviewed, inter alia, the Announcement, the SEG Framework Sales Agreement, the SEC Framework Sales Agreement and the Framework Financial Services Agreement, the annual report of the Company for the year ended 31 December 2012, the interim report of the Company for the six months ended 30 June 2013 (the "Interim Report 2013") and the latest annual report and interim report of the SEC Group. We have also reviewed certain information provided by the management of the Company relating to the operations, financial condition and

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

prospects of the Group. We have also (i) considered such other information, analyses and market data which we deemed relevant; and (ii) conducted verbal discussions with the management of the Company regarding the terms of the SEG Framework Sales Agreement, the SEC Framework Sales Agreement and the Framework Financial Services Agreement, the businesses and future outlook of the Group. We have assumed that such information and statements, and any representation made to us, are true, accurate and complete in all material respects as of the date hereof and we have relied upon them in formulating our opinion.

All Directors collectively and individually accept full responsibility for the purpose of giving information with regard to the Company in the Circular and, having made all reasonable enquiries, confirm that to the best of their knowledge and belief, the information contained in the Circular is accurate and complete in all material respects and not misleading or deceptive, and there are no other facts not contained in the Circular, the omission of which would make any statement in the Circular misleading. We consider that we have been provided with, and we have reviewed, all currently available information and documents which are available under present circumstances to enable us to reach an informed view regarding the terms of, and reasons for entering into, the Framework Agreements and to justify reliance on the accuracy of the information contained in the Circular so as to provide a reasonable basis of our opinion. We have no reasons to suspect that any material information has been withheld by the Directors or management of the Company, or is misleading, untrue or inaccurate. We have not, however, for the purpose of this exercise, conducted any independent detailed investigation or audit into the business or affairs or future prospects of the Group. Our opinion is necessarily based on financial, economic, market and other conditions in effect, and the information made available to us, at the Latest Practicable Date.

This letter is issued for the information for the Independent Board Committee and the Independent Shareholders solely in connection with their consideration of the Framework Agreements, and, except for its inclusion in the Circular, is not to be quoted or referred to, in whole or in part, nor shall this letter be used for any other purposes, without our prior written consent.

PRINCIPAL FACTORS AND REASONS CONSIDERED

In assessing the terms of the Framework Agreements and in giving our recommendation to the Independent Board Committee and the Independent Shareholders, we have taken into account the following principal factors and reasons:

1. Background of and reasons for the entering into of the SEG Framework Sales Agreement, SEC Framework Sales Agreement and Framework Financial Service Agreement

Background of the Group, SEG Group, SEC Group and SE Finance

The Group is principally engaged in the design, manufacture and sale of turbine blades, bearings, fasteners and cutting tools.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

SEG is principally engaged in investment holding, design, manufacture, sales and servicing of a wide range of products and services in the power equipment, electromechanical equipment, transportation equipment and environmental systems industries.

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.

SE Finance is a non-banking financial institution set up in 1995 pursuant to the approval granted by PBOC under “企業集團財務公司管理辦法” (“**Administration of the Finance Companies of Enterprises Groups Procedures**”) to provide financial services in the PRC. SE Finance has obtained all approvals, permits and licences necessary for its operations. Currently, the governing body for financial institutions in the PRC (including SE Finance) is the CBRC. Under the relevant PRC regulations, SE Finance, as a non-bank finance company, is allowed to provide treasury services to the Company and its associates.

Background of the SEG Framework Sales Agreement, SEC Framework Sales Agreement and Framework Financial Service Agreement

In performing its ordinary course of businesses, the Group has been from time to time carrying out transactions with its connected persons. Indeed, the Group has been carrying on transactions pursuant to a number of agreements including, among others, (i) the existing framework sales agreements entered into with SEG and SEC for the sale of bearings, turbine blades, cutting tools, fasteners and components, on a non-exclusive basis, by the Group to the SEG Group and the SEC Group respectively for the three years ending 31 December 2013 and (ii) the existing framework financial services agreement entered into with SE Finance for the provision of financial services which include, among other matters, loan and bill discounting services, deposit services and integrated banking services, such as bill acceptance services, entrusted loan, settlement services, guarantee services, investment services and financial advisory services to the Group by SE Finance for the three years ending 31 December 2013, both of which were entered into on 12 August 2011 and approved by the then independent Shareholders on 21 October 2011.

As the existing framework sales agreements and the existing framework financial services agreement are soon to expire, the Company intends to continue the ongoing transactions contemplated thereunder among the Group, SEG Group, SEC Group and SE Finance and has accordingly entered into the SEG Framework Sales Agreement, SEC Framework Sales Agreement and the Framework Financial Services Agreement to govern such transactions for the three years ending 31 December 2016.

Under the SEG Framework Sales Agreement and the SEC Framework Sales Agreement, the goods to be sold by the Group include certain materials, components, accessories or raw materials, finished products and other related or similar items, power generation equipment and parts (the “**Products**”).

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Under the Framework Financial Services Agreement, the financial services to be provided to the Group include, among other matters, loan and bill discounting services, deposit services and integrated banking services, such as bill acceptance services, entrusted loan, settlement services, guarantee services, investment services and financial advisory services.

Reasons and benefits for entering into the SEG Framework Sales Agreement and the SEC Framework Sales Agreement

As advised by the management of the Company, the Products various precision and mechanical parts which are major components for power generators. The transactions in relation to the sale of the Products have been conducted in the ordinary and usual course of the respective businesses of the Group, SEC, SEG and their associates.

As mentioned in the Letter from the Board, having considered that (i) SEG, SEC and their respective associates have been purchasing the Products from the Group for years, resulting in a long term relationship between the parties; (ii) the Group is familiar with SEG, SEC and their respective associates' product specifications and has been able to respond quickly and in a cost effective manner to any new requirements that SEG, SEC and their respective associates may request; and (iii) the existing framework sales agreements are expiring on 31 December 2013, we are of the view that the SEG Framework Sales Agreement and the SEC Framework Sales Agreement are an extension in substance of the existing framework sales agreements.

As the continuation of the sales of the Products to SEG, SEC and their respective associates will enable the Group to capitalise on the well-established relationship with SEG, SEC and their respective associates to generate additional business and revenue stream, we are of the view that the entering into the SEG Framework Sales Agreement and the SEC Framework Sales Agreement is in the ordinary and usual course of business of the Company and is in the interests of the Company and the Shareholders as a whole.

Reasons and benefits for entering into the deposit services under the Framework Financial Services Agreements

In entering into the deposit services under the Framework Financial Services Agreements, the Directors have considered the following benefits:

- (i) Efficiency in management and allocation of financial resources through SE Finance

SE Finance has been providing to the Group the deposit services contemplated under the Framework Financial Services Agreement for years. The Group is expected to benefit from SE Finance's understanding of the Groups operations and practices developed from the long-term business relationship. We consider such understanding would allow streamlining of

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standard procedures normally taken by other independent financial institutions for providing the same financial services to the Group and thereby enabling SE Finance to render more efficient financial services than other independent financial institutions. As such, we are of the view that the Group could benefit from such efficiency and enjoy greater flexibility in managing its financial resources.

(ii) Reduction in administrative costs and transaction costs

According to the Letter from the Board, the Company strives to strengthen its financial management and control practices in the coming years, and thus wishes to use SE Finance to centralise the capital management of the Company. The Directors expect that the Company's subsidiaries will use more deposit and loan services provided by SE Finance to earn or incur the interest income more effectively in the coming years. As mentioned in the section headed "Lower counter party risk" below, SE Finance is experienced in providing financial services to the Group and other parties through the long-term relationship. We consider that such understanding should facilitate more efficient financial services to benefit of the Group and SE Finance. As a portion of deposits with SE Finance would originate from the unutilized portion of loans obtained from SE Finance under the loan and bill discounting services pursuant to the Framework Financial Services Agreement, we are of the view that the transfer of funds to and from SE Finance can be minimized. The Group can also save transactions costs, administrative costs and time in relation to fund transfers which may be charged by independent financial institutions for such transfers.

In addition, we have considered that, given (i) SE Finance will provide a rate in line with the relevant interest rates published by the PBOC from time to time and (ii) SE Finance generally has better and more efficient communication with the Group compared to independent commercial banks or financial institutions, we are of the view that it will be more convenient and cost saving and is commercially justifiable to maintain deposits with SE Finance.

(iii) Lower counter party risk

We note that SE Finance is experienced in providing financial services to the Group and other parties through the long-term relationship. Having considered its continuing compliance with the relevant regulations, guidelines and operational requirements with the PBOC and CBRC, plus the long term experience in financial services, we are of the view that the risk of placing deposits to SE Finance has no material difference in comparison to other independent financial institutions. Taking into account the close working relationship between the Group and SE Finance and the understanding of each other's operations and practices, we are of the view that there is a low possibility of dispute within the Group and SE Finance regarding the repayment terms of deposits as the Group is familiar with the

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terms and practices of deposits provided by SE Finance. We consider such lower possibility of dispute will reduce the risk of default in the repayment of the Group's deposits and that the risk of placing deposits to SE Finance is minimal.

Taking into account the above, we are of the view that the entering into of the deposit services under the Framework Financial Services Agreements is fair and reasonable and is in the interests of the Shareholders as a whole.

2. Principal terms of the Framework Agreements

The SEG Framework Sales Agreement and the SEC Framework Sales Agreement

Key terms of the SEG Framework Sales Agreement are as follows:

Date of agreement	:	30 October 2013
Parties	:	The Company, as supplier; and SEG, as purchaser
Subject matter	:	The sale of certain materials, components, accessories or raw materials, finished products and other related or similar items, power generation equipment and parts from the Group to SEG and its associates.
Term	:	Three years from 1 January 2014 to 31 December 2016, renewable upon expiry, subject to conditions precedent including but not limited to obtaining approval of the Independent Shareholders and compliance with the Listing Rules. May be terminated in part or in whole by either party to the agreement by giving at least three months' notice.
Payment Terms	:	The payment terms are dependent on the type of products/goods to be provided and are determined at the time when such sales are entered into. The payment terms will be specified on each separate contract to be agreed by the parties.

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Key terms of the SEC Framework Sales Agreement are as follows:

- Date of agreement : 30 October 2013
- Parties : The Company, as supplier; and SEC, as purchaser
- Subject matter : The sale of certain materials, components, accessories or raw materials, finished products and other related or similar items, power generation equipment and parts from the Group to SEC and its associates.
- Term : Three years from 1 January 2014 to 31 December 2016, renewable upon expiry, subject to conditions precedent including but not limited to, obtaining approval of the independent Shareholders and compliance with the Listing Rules. May be terminated in part or in whole by either party to the agreement by giving at least three months' notice.
- Payment Terms : The payment terms are dependent on the type of products/goods to be provided and are determined at the time when such sales are entered into. The payment terms will be specified on each separate contract to be agreed by the parties.

The pricing basis of the Products under each of the SEG Framework Sales Agreement and the SEC Framework Sales Agreement shall be in the order of standards as following:

- (i) prices as may be stipulated by the PRC government (if any);
- (ii) if there are no such stipulated prices, the prices not less than any pricing guidelines or pricing recommendations set by the PRC government (if any);
- (iii) if there are no such stipulated prices nor such pricing guidelines or recommendations, with reference to the market price which is determined by an independent third party; and
- (iv) if none of the above is applicable, an agreed price consisting of the actual or reasonable costs incurred thereof plus a reasonable profit margin.

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For the pricing principles, we note that (1) (a) prices as may be stipulated by the PRC government or (b) pricing guideline/pricing recommendations set by the PRC government or (c) the market price, which are public information and are therefore either the pricing principles which the Group has to abide by or the market value of the products which the Group makes reference to in pricing its products; and (2) if there is no set price and no guide prices set by the PRC government and there is no open market for such transactions, which is based on an agreed price consisting of the actual or reasonable cost incurred thereof plus a reasonable profit margin. As advised by the management of the Company, the market price determined by an independent third party is the price of the same or comparable type of products as offered by the Group to independent third parties in the PRC market and in the normal course of business. The reasonable costs incurred and the reasonable profit margin deployed in the above pricing mechanism will be mainly determined with reference to, among other things, the historical transactions with independent third parties for the relevant products. As such, we are of the view that such mechanism will ensure that the price to be charged for the Products will not be less favourable to the Group than that offered to independent third parties.

In assessing the terms of the transactions under the existing framework sales agreements, we have obtained 20 copies of contracts and invoices issued by the Group to independent third parties relating to sales of products similar to Products and compared them with those invoices to SEG, SEC and their respective associates. We have reviewed and compared sample contracts and invoices for the historical sales transactions (of which the transactions were of similar products and conducted within a year) ("**Sample Review**"), on a random sampling basis, and noted that the terms on delivery, settlement terms and indemnification given by the Group to SEG, SEC and their respective associates are no less favourable than those given by the Group to independent third parties. Based on the Sample Review, we noticed that the selling of the Products is priced at market price. We consider that the selling price set by the open market is fair and reasonable and in the interests of the Company as a whole. We are also of the view that, by making reference to a reasonable profit margin of the product, the Group will earn a profit margin not less than the Group's prevailing profit margins of the same goods sold to independent third parties.

At present, there are no relevant PRC government documents in relation to the pricing of the relevant products for the Company to follow. The Company has adopted the "market price" as the pricing standard for the sale of materials, finished products and other related or similar items, power generation equipment and parts under the existing SEC framework sales agreement/SEG framework sales agreement. As advised by the Company, the Company will determine the prices based on the order of the pricing standards as mentioned above and adopt one of them. The Group will also comply with the relevant government regulations and price its products if the PRC government decides to set prices of products sold by the Group.

We noted from the Company that the Group is at its discretion to determine whether to sell any Products to the SEC Group/SEG Group or independent third

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parties in any circumstances. The Group also undertakes internal assessments to monitor the pricing standards of the transactions and ensure that the transactions are conducted and the actual sale prices are set in accordance with the stipulated pricing basis under the SEG Framework Sales Agreement and the SEC Framework Sales Agreement. The internal assessments include (i) reviewing the pricing under the transactions before executing such transactions to ensure that the price offered to SEG, SEC and their respective associates are no less favourable to the Group than that offered to independent third parties; and (ii) adhering to the relevant internal control policy. As such, we consider that the Group has sufficient measures to ensure that the future prices will be set in accordance with the pricing basis and are on normal commercial terms.

Having considered the above, we are of the view that the terms (including the pricing principles) under the SEG Framework Sales Agreement and the SEC Framework Sales Agreement are fair and reasonable so far as the Company and the Independent Shareholders are concerned and on normal commercial terms, and in the interests of the Company and the Shareholders as a whole.

Deposit services under the Framework Financial Services Agreement

Key terms of the deposit services under the Framework Financial Services Agreement are as follows:

Date of agreement	:	30 October 2013
Parties	:	The Company, as recipient of services; and SE Finance, as provider of services
Subject matter	:	The provision of deposit services to the Company and its associates by SE Finance.
Term	:	Three years from 1 January 2014 to 31 December 2016, renewable upon expiry, subject to conditions precedent including but not limited to compliance with the Listing Rules; and

May be terminated in part or in whole by either party to the agreement by giving not less than one months' notice; and

The Company and SE Finance may, from time to time, enter into separate individual financial service agreements with each other for the provision of specific financial services, provided that the principles as agreed in the Framework Financial Services Agreement shall be followed.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

As advised by the management of the Group, SE Finance has been following benchmark current deposit interest rate prescribed by the People's Bank of China ("PBOC"), and has been offering interest rates to current deposit not less than the current deposit interest rates offered by other independent commercial banks. As advised by the Company, the Company will compare the market interest rates offered to the Group from at least two independent commercial banks with the interest rates offered by SE Finance in order to ensure that the Group will be able to receive a favorable interest rate according to the pricing principles. Therefore, we are of the view that there are sufficient procedures under the deposit service to ensure that the Company will receive an interest rate offered by SE Finance that is no less favourable than those by other independent financial institutions in the PRC.

For the deposit services, we have obtained and reviewed 5 sample contracts with different deposit amount and terms, including the interest payment invoices received from SE Finance. As discussed with the management of the Company, we noted that the interest rates charged were in line with the then interest rates published by the PBOC. The terms of the financial services to be provided by SE Finance to the Group will be no less favourable than those offered by other independent financial institutions in the PRC for providing similar services or similar natures and under similar terms (subject to no violation of relevant laws and regulations). As enquired with the Company, we have discussed and confirmed with the Company that it is not an obligation of the Group to obtain any or all of the Financial Services provided by SE Finance. If other independent commercial banks or financial institutions offer favorable terms or higher deposit interest rate which are more favourable to the Group, the Group has its sole discretion to use financial service from such independent commercial banks or financial institutions.

The interest rates for the deposit services will be in line with the relevant interest rates published by the PBOC from time to time. According to the Letter from the Board, PBOC allows a 10% upward adjustment for deposit rate from the PBOC's rate. SE Finance will set its interest rates in compliance with this regulation. The current deposit rates offered by SE Finance, which range from 0.35% to 5.225% per annum depending on amount and terms of deposit, will be changed in alignment with the rates published by the PBOC. Such rates published by the PBOC are the benchmark rates designated for the PRC market which are the market rates. The deposit rates range is also making reference to the deposit rates offered by other commercial banks and are subject to PBOC's possible amendment of regulations and requirements on the interest rates.

Given (i) the interest rates for the deposit services will be in line with the market rates; (ii) the Group may obtain the Financial Services from other independent financial institutions in addition to those provided by SE Finance; (iii) the Company shall have the right to unilaterally terminate the Framework Financial Services Agreement; and (iv) it is non-exclusive that the Group should use one or all of the Financial Services from SE Finance should SE Finance offer better terms and rates to the Group, we are of the view that the entering into of the deposit services under the Framework Financial Services Agreements is fair and reasonable and the terms of the Framework Financial Services Agreements are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

3. The Annual Caps

The table below sets out respectively the historical amounts for the two years ended 31 December 2012 and the six months ended 30 June 2013, and proposed annual caps for the three years ending 31 December 2016 of the transactions in relation to the Framework Agreements:

	Historical transaction amounts			Proposed annual caps		
	For the year ended 31 December 2011	For the year ended 31 December 2012	For the six months ended 30 June 2013	For the year ending 31 December 2014	For the year ending 31 December 2015	For the year ending 31 December 2016
	<i>(RMB million)</i>					
Aggregate sales to SEG and its associates	5.9	9.1	4.2	27.3	40.8	57.1
Aggregate sales to SEC and its associates	410.3	386.5	145.8	613.4	737.1	910.9
Maximum daily balance of the deposit services (including corresponding interests)	-	78.9	96.3	363	363	363

As set out in the Letter from the Board, in arriving at the above proposed annual caps for the transactions in relation to the Framework Agreements, the Directors have taken into account, among others, the following information:

SEG Framework Sales Agreement and SEC Framework Sales Agreement

Regarding the SEG Framework Sales Agreement, the historical aggregate sales to SEG and its associates as provided by the Group were RMB5.9 million and RMB9.1 million for the two years ended 31 December 2012, representing a growth rate of approximately 54.24% over the sales figure of the prior year. Sales to SEG and its associates for the six months ended 30 June 2013 represents approximately 46.15% of that of the full year 2012. It is noted that the proposed annual caps for the year ending 31 December 2015 and 2016 represent an increase of 49.45% and 39.95% respectively over the proposed annual caps for the immediately prior year.

Regarding the SEC Framework Sales Agreement, the historical aggregate sales to SEC and its associates as provided by the Group was RMB410.3 million for the year ended 31 December 2011 and remained steady at RMB386.5 million for the year ended 31 December 2012. Sales to SEC and its associates for the six months ended 30 June 2013 represents approximately 37.72% of that of the full year 2012. It is noted that the proposed annual caps for the year ending 31 December 2015 and 2016 represent an increase of 20.17% and 23.58% respectively over the proposed annual caps for the immediately prior year.

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As advised by the management of the Company, each of the proposed annual caps for the aggregate sales to the SEG Group and the SEC Group has been arrived at after taking into account (i) the historical transaction amounts of the products sold to SEG/SEC and its associates; (ii) the latest business development plans of the SEC Group; and (iii) the change in the market conditions, the anticipated demand and supply of the products in various business divisions of the SEG Group/the SEC Group, in particular, the various projects that SEG/SEC and its associates have in their schedule and anticipated projects that SEG/SEC intends to bid for.

As shown in the in the table above, the aggregate sales of the Products to SEG and SEC and their respective associates demonstrate a slight slowdown for the two years ended 31 December 2012 and for the six months ended 30 June 2013. As advised by the Company, such slowdown was mainly due to the slowdown in growth of PRC economy amidst the sluggish economic condition worldwide which has weakened the market demand across all industries in general, including the major business segments of the SEG Group and the SEC Group.

Business plans of SEC Group and the SEG Group

According to the latest interim report of the SEC Group for the six months ended 30 June 2013, SEC Group is shifting its strategy similarly towards the development of high-end products and production methods, including but not limited to (i) the development of 1000 MW ultra-supercritical high efficiency and clean thermal power equipment which matches the world highest standard, (ii) intensifying their research and development of offshore wind turbines through strengthening their cooperation with Siemens; and (iii) mastering the advanced techniques to enable the SEC Group to manufacture advanced gas turbines and combined cycle units with production capacity of one gas turbine per month.

According to the directors' report as set out in the annual report of the SEC Group for the year ended 31 December 2012, SEC Group will subcontract more orders from the thermal power equipments and gas turbine etc aligning with the changes of international production capacity and gain a share of international market. SEC Group will also step forward in the areas of large scale wind turbines, power station engineering service and energy-saving service. As advised by the management of the Company, the Products offered by the Group are various precision and mechanical parts such as turbine blades which are major components for power generators. We believe that the newly secured and the orders of gas turbines of SEC Group would drive up the demand for the Products, including turbine blades, being the major components of power generators. It is further noted that the SEC Group has secured over RMB5 billion worth of new orders for gas turbines in 2012 and the accumulated gas turbine orders on hand exceeded RMB10 billion.

As advised by the Company, the SEG Group are principally engaged in the bearing, electric motor and fastener business. Since the macro-economy has showed an initial sign of recovering and the favourable national policies and industry development trend in respect of the promotion of investments and advancement of

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power generating equipments in the PRC, it is expected that more infrastructure investment will be deployed. As such, we consider that the demands for the Products by the SEG Group will increase accordingly. We are also of the view that the considerable amount of contracts on hand by as well as the strategies adopted by the SEG Group and the SEC Group would allow them to remain competent and active in the market amidst the current economic condition both domestically and globally, thereby securing and potentially driving up their demands for the Products.

On the other hand, with respect to the market condition and its anticipated development, we have conducted researches from the public domain and noted the following policies of the central government of the PRC as well as historical statistical trends. With reference to the report titled “Statistical Communique of the PRC on the 2012 National Economic and Social Development” released by the National Bureau of Statistics of China on 22 February 2013, growths were recorded for fixed assets investments in sectors related to the Products, including but not limited to, fixed assets investments in the sectors of the manufacture of general machinery, electric machinery equipment and production and supply of electric power and heat power, value of which has increased by approximately 8.4%, 12.1% and 5.0% compared to 2011. It can be derived that momentum still exists in the aforesaid machinery manufacturing sectors and demand for the Products, being components of the equipments and machineries invested by such sectors, would be positive as a result.

According to 《中華人民共和國國民經濟和社會發展第十二個五年規劃綱要》 (the Twelfth Five-Year National Economic and Social Development Planning Summary of the PRC*, the “**12th Five-Year Plan**”) for 2011 to 2015 set out by the PRC government, many supportive policies and target industries are highlighted for development in 2011 to 2015. Such policies are fall within the business scope of the SEG Group and the SEC Group, including but not limited to, (i) increasing the efficiency of manufacturing industry by upgrading the manufacturing equipments and facilities; (ii) encouraging investments in new energy industry including, among others, development of new nuclear power equipments, wind power generating equipments, heat power and solar power equipments; and (iii) promoting efficiency in energy generation and energy consumption by, among others, development of efficient and clean thermal power equipments and generators and enhancement in power transmission grids. As mentioned above, the Products offered by the Group are various precision and mechanical parts such as turbine blades which are major components for power generators, including those deployed in thermal power and nuclear power plants. We are of the view that the aforesaid favourable national policies and industry development trend to the SEG Group and the SEC Group in respect of the promotion of investments and advancement of power generating equipments in the PRC could lead to increase in the demand for the Products by the SEG Group and the SEC Group.

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As mentioned in the section headed “SEG Framework Sales Agreement and SEC Framework Sales Agreement”, above, the aggregate sales of the Products to SEG and SEC and their respective associates demonstrate a slight slowdown for the two years ended 31 December 2012 and for the six months ended 30 June 2013, notwithstanding the aforesaid favourable national policies and industry development trend. However, we also noted that the proposed annual cap for the year ending 31 December 2014 of each of the SEG Framework Sales Agreement and the SEC Framework Sales Agreement are 3 times and about 1.6 times of the corresponding historical transaction amount for the year ended 31 December 2012. As advised by the management of the Company, the slowdown in such sale is expected to be temporary and it is expected that there would be a rebound of such sale in the years ahead.

We have also conducted researches on information from the public domain in respect of the economic outlook of the PRC. According to the National Bureau of Statistics of China (the “**Statistics Bureau**”), based on the preliminary results published on 16 July 2013, the country’s GDP for the first half of 2013 is expected to achieve a growth rate of 7.6% over the same period in 2012, a stable level comparable to the annual growth rate of 7.8% for 2012 as announced by the Statistics Bureau on 18 January 2013. On 1 November 2013, the Statistics Bureau announced that the manufacturing purchasing manager index for October 2013 was 51.4%, which is 0.3% higher than the corresponding figure in the previous month and is over the threshold of 50%, meaning that the manufacturing industries were generally in expansion. Apart of the positive economic indicators, as announced by the PRC government at the meeting of the 12th National People’s Congress held on 5 March 2013 (source: www.gov.cn), the target GDP growth of 2013 is set at 7.5%. We are of the view that the stabilising growth of the PRC economy creates room for the expansion of the relevant industry and potentially results in rising demand for the Products by the SEG Group and the SEC Group.

Taking into account (i) the development strategy of the SEG Group and the SEC Group towards high-end products which may increase the demand for the Products and (ii) the favourable national policies in relation to the development of the SEG Group and the SEC Group which could lead to increase in demand for the Products; and (iii) the efficiency and understanding established under the long-term business relationship between the Group and the SEG Group/the SEC Group as discussed in the section headed “Reasons and benefits for entering into the SEG Framework Sales Agreement and the SEC Framework Sales Agreement” above, we are of view that the proposed annual caps under the SEG Framework Sales Agreement and SEC Framework Sales Agreement are determined based on the reasonable estimation and after due and careful consideration, and are fair and reasonable so far as the Independent Shareholders are concerned.

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Deposit services for the Framework Financial Services Agreement

As a licensed non-bank financial institution in the PRC, SE Finance is regulated by the PBOC and CBRC. SE Finance provides services in accordance to regulatory guidelines and relevant rules, including capital risk guidelines and requisite capital adequacy ratios of such regulatory authorities. CBRC's supervision includes regular examination of the audited financial statements and other relevant materials required to be filed by group finance companies as well as on-site inspections and interviews with the senior management of group finance companies. The Group has also adopted stringent internal control measures to ensure effective risk management and compliance with laws and regulations. As advised by the Company, the Financial Services to be provided by SE Finance under the Framework Financial Services Agreements are in line with the principal business of SE Finance. SE Finance has in place internal control measures specifically for management and control of operational risk and credit risk. In addition, SE Finance has developed various rules and policies for various areas (for example, accounting, internal control, investment etc.) to ensure effective risk management and compliance with the relevant laws and regulations stipulated by PRC authorities.

As noted from the Company, the Group will adopt the following internal control procedures in relation to its utilisation of the deposit services:

- (1) the Company will send to all independent non-executive Directors for their review terms of the deposit service provided by SE Finance;
- (2) a monthly report on the status of the Group's deposits with SE Finance will be delivered by SE Finance to the Company; and
- (3) the Company will obtain a copy of annual regulatory report to the CBRC from SE Finance.

The Company will also ensure the risk profile of SE Finance is not any greater than those of independent commercial banks/financial institutions in the PRC. In view of the above internal control procedures, we are of the view that there is sufficient risk control measures in place to safeguard the interests of the Company and its Shareholders as a whole.

The historical maximum daily balance of the deposit services as utilized by the Group were nil and approximately RMB78.9 million for the two years ended 31 December 2012. The maximum daily balance of deposits for the six months ended 30 June 2013 further rose to RMB96.3 million. It is noted that the proposed annual caps (including corresponding interests) remain even at RMB363 million throughout the three years ending 31 December 2016.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

As advised by the management of the Company, the proposed annual caps for the maximum daily balance of the deposit services have been arrived at after taking into account, (i) the historical figures of maximum daily outstanding balance of the deposits amounts; (ii) fund management strategy of the Group, namely to benefit from the enlarged economies of scale by centralizing its funds with high liquidity in certain selected financial institutions, including the SE Finance; and (iii) the latest business development plans of the Group.

With reference to the Interim Report 2013, the unaudited cash and cash equivalents of the Group amounted to RMB1,107 million, which is a higher than the proposed annual caps for the maximum daily balance of the deposit services for each of the three years ending 31 December 2016. We consider it is prudent to set the annual caps closer to the level of cash and cash equivalents of the Group to offer flexibility to the Group in case a higher maximum daily balance is needed. As mentioned in the Interim Report, the Group will further expand overseas power plant market and expand the market share of niche products such as threat cutting tools etc. and medium and high-end compressors. It is expected that the Group would require more liquid capital due to the expanding operating scale of the Group.

Taking the above into consideration, we are of the opinion that the proposed annual caps under the Framework Financial Services Agreement are determined based on the reasonable estimation and after due and careful consideration, and are fair and reasonable so far as the Independent Shareholders are concerned.

However, Shareholders should note that as the proposed annual caps for the three years ending 31 December 2016 of each of the SEG Framework Sales Agreement, the SEC Framework Sales Agreement and the Framework Financial Services Agreement are determined based on various factors relating to future events and assumptions which may or may not remain valid for the entire period up to 31 December 2016, they do not represent forecasts of revenue to be generated from the operations of the Group. Consequently, we express no opinion as to how closely the actual amounts will correspond with the proposed annual caps for the three years ending 31 December 2016.

ANNUAL REVIEW OF THE TRANSACTIONS

The proposed annual caps will be subject to the annual review by the independent non-executive Directors, details of which must be included in the Company's subsequent published annual report and accounts. In addition, pursuant to the Listing Rules, the auditors of the Company must provide a letter to the Board confirming, among others, that the continuing connected transaction is conducted in accordance with their terms and that the Annual Caps not being exceeded. Moreover, pursuant to the Listing Rules, the Company shall publish an announcement if it knows or has reason to believe that the independent non-executive Directors and/or its auditors will not be able to confirm the terms of such transactions or the relevant annual cap not being exceeded. We are of the view that there are appropriate measures in place to govern the conduct of the continuing connected transactions under the Framework Agreements and safeguard the interests of the Independent Shareholders.

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RECOMMENDATIONS

Given that the transactions contemplated under the Framework Agreements have been carried out under the existing framework sales agreements as well as framework financial services agreement as part of the Group's ordinary course of business as discussed in the section headed "Background of the SEG Framework Sales Agreement, SEC Framework Sales Agreement and Framework Financial Service Agreement" above, we are of the view that the transactions contemplated under the Framework Agreements are entered into on normal commercial terms, in the ordinary and usual course of business of the Group, and are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

Taking into consideration of the above mentioned principal factors and reasons, including but not limited to (i) the reasons and benefits of entering into the Framework Agreements as discussed above; (ii) the pricing of the Products to be offered under the SEG Framework Sales Agreement and the SEC Framework Sales Agreement will be determined with pricing mechanism and measures in place such that the price to be charged for the Products will be no less favourable to the Group than that offered to independent third parties; (iii) the interest rates for the deposit services under the Framework Financial Services Agreement will be in line with the relevant interest rates published by the PBOC from time to time which is the benchmark market rate adopted in the PRC; and (iv) the proposed annual caps under the Framework Agreements are determined based on reasonable estimation and after due and careful consideration as analysed above, we consider that the terms of the Framework Agreements and the basis of the relevant proposed annual caps are fair and reasonable so far as the Independent Shareholders are concerned and are in the interests of the Company and the Shareholders as a whole. Accordingly, we recommend the Independent Shareholders, as well as the Independent Board Committee to advise the Independent Shareholders, to vote in favour of the resolution to be proposed at the EGM to approve the Framework Agreements and the transactions contemplated thereunder.

Yours faithfully,
For and on behalf of
Bridge Partners Capital Limited
Monica Lin
Managing Director

1. FINANCIAL INFORMATION OF THE GROUP FOR THE SIX MONTHS ENDED 30 JUNE 2013 AND THE THREE YEARS ENDED 31 DECEMBER 2012

The unaudited consolidated financial statements of the Group for the six months ended 30 June 2013 have been set out in the 2013 interim report of the Company which was posted on 29 August 2013 on the Stock Exchange's website (<http://www.hkexnews.hk>). Please also see below quick link to the 2013 interim report of the Company:

<http://www.hkexnews.hk/listedco/listconews/SEHK/2013/0829/LTN20130829298.pdf>

The audited consolidated financial statements of the Group for the year ended 31 December 2012 have been set out in the 2012 annual report of the Company which was posted on 27 March 2013 on the Stock Exchange's website (<http://www.hkexnews.hk>). Please also see below quick link to the 2012 annual report of the Company:

<http://www.hkexnews.hk/listedco/listconews/SEHK/2013/0327/LTN20130327702.pdf>

The audited consolidated financial statements of the Group for the year ended 31 December 2011 have been set out in the 2011 annual report of the Company which was posted on 29 March 2012 on the Stock Exchange's website (<http://www.hkexnews.hk>). Please also see below quick link to the 2011 annual report of the Company:

<http://www.hkexnews.hk/listedco/listconews/SEHK/2012/0329/LTN201203291140.pdf>

The audited consolidated financial statements of the Group for the year ended 31 December 2010 have been set out in the 2010 annual report of the Company which was posted on 30 March 2011 on the Stock Exchange's website (<http://www.hkexnews.hk>). Please also see below quick link to the 2010 annual report of the Company:

<http://www.hkexnews.hk/listedco/listconews/SEHK/2011/0330/LTN20110330283.pdf>

The three auditors' reports for the consolidated financial statements of the Group for the three years ended 31 December 2012, 2011 and 2010 are unqualified reports.

2. INDEBTEDNESS STATEMENT

As at the close of business on 30 September 2013, being the latest practicable date for the purpose of determining this indebtedness of the Group prior to the printing of this circular, the details of which are as following:

I. Debts and Borrowings

As at 30 September 2013, the Group had company bonds with an amount of RMB494 million. The company bonds are unconditional and irrevocable guaranteed by SEG. The Group had total borrowings with an amount of RMB160 million, which RMB67 million was bank loans secured by accounts receivable, and unsecured and secured bank credit line of RMB93 million.

II. Contingent Liabilities

As at 30 September 2013, there were no any contingent liabilities.

III. Disclaimer

Save as aforementioned, at the close of business on 30 September 2013, the Group did not have any other outstanding loan capital issued and outstanding or agreed to be issued, term loans (secured, unsecured, guaranteed or not), bank overdrafts, charges or debentures, mortgages, loans, or other similar indebtedness or any finance lease commitments, hire purchase commitments, liabilities under acceptance (other than normal trade bills), acceptance credits or any guarantees or other material contingent liabilities.

3. FINANCIAL AND TRADING PROSPECT

During the first half of 2013, with the slowdown of global economic growth, the manufacturing industry in the PRC encountered a new stage of transformation upgrade under the new economic situation. The Group adhered to the strategic goals of “transformation upgrade, wisely create future”, i.e. “upgrade to high-end products, transform to smart manufacturing”, in order to enhance the Group’s competitiveness in the midst of consolidation of manufacturing sector.

In the second half of 2013, the Group is expected to face challenges in various aspects including the rising cost of labor, excess production capacity of the medium and low-end parts and components manufacturing industry, a significant slowdown in the growth of China’s economy and disorderly competition in the industry. Nevertheless, the new demands arising from new urbanization, enormous opportunities for import substitution emerging from the upgrade of parts and components industry as well as the state’s policy support for the development of a high-end core components industry.

In response to the current low concentration of the parts and components industry, the low entry barrier of the medium and low-end market and the high technology requirement of the high-end market, the Board believes that the revenue and income to the Group will be improved in the future as the Group will continue to provide quality parts and components products and efficient services for the manufacturing industry to differentiate the Group from other competitors through technology upgrading, business models innovation and branding strategy implementation. In the long-term, the Directors consider that the implementation of the corporate development strategies for the five core business sectors of the Group, the turbine blade, bearing, cutting tool, fastener and general machinery businesses, together with its solid financial and capital position, will lay a sound foundation for its long-term sustainable development.

4. WORKING CAPITAL STATEMENT

The Directors are of the opinion that, after taking into account of the financial resources available to the Group (including internal resources and available banking facilities), the Group will have sufficient working capital for its present requirements for at least the next 12 months from the date of this circular.

1. RESPONSIBILITY STATEMENT

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

2. DISCLOSURE OF INTERESTS

As at the Latest Practicable Date, none of the directors, chief executives or supervisors of the Company or their respective associates had any interests or short positions in the shares, underlying shares and debentures of the Company or any associated corporation (within the meaning of Part XV of the SFO), which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which he or she was taken or deemed to have under such provision of the SFO); or were required, pursuant to Section 352 of the SFO, to be entered in the register, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers. As at the Latest Practicable Date, none of the directors, supervisors or chief executives of the Company and their respective associates was granted the right to acquire any interests in shares or debentures of the Company or any of its associated corporations.

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

3. DIRECTOR'S SERVICE CONTRACTS

Mr. Wang Qiang, the executive director of the Company entered into a service contract with the Company on 22 February 2013 while Mr. Zhang Jianping, the executive director of the Company entered a service contract with the Company on 7 December 2012. Other Directors have entered into service contracts with the Company on 21 October 2011. According to the terms of the service contracts, each of the Directors agreed to take up the office of Director for a term of three years and to be subject to re-election upon the expiry of the term. These contracts are renewable in accordance with the Company's articles of association and the Listing Rules and terminable at the option of the Company and the Directors by giving three months' notice in writing or according to the terms of the contract prior to the expiry of the contract.

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

4. ARRANGEMENT AFFECTING DIRECTORS

As at the Latest Practicable Date:

- (I) None of the Directors was interested, directly or indirectly, in any assets which have, since 31 December 2012, the date to which the latest published audited financial statements of the Company were made up, been acquired or disposed of by or leased to any member of the Group, or were proposed to be acquired or disposed of by or leased to any member of the Group.
- (II) None of the Directors was materially interested in any contract or arrangement subsisting as entered into by any member of the Group and which was significant in relation to the business of the Group.
- (III) None of the Directors and his/her associates had any competing interests in a business that would be required to be disclosed under Rule 8.10 of the Listing Rules where he/she was a controlling shareholder.

5. MATERIAL ADVERSE CHANGE

As at the Latest Practicable Date, the Directors were not aware of any material adverse change in the financial or trading position or outlook of the Group since 31 December 2012, being the date to which the latest published audited consolidated financial statements of the Group were made up.

6. LITIGATION

As at the Latest Practicable Date, to the best of the Directors' knowledge information and belief, neither the Company nor any of its subsidiaries was engaged in any litigation, arbitration or claim of material importance and no litigation, arbitration or claim of material importance was known to the Directors to be pending or threatened against any members of the Group.

7. QUALIFICATION AND CONSENT OF EXPERT

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

Name	Qualification
Bridge Partners	a licensed corporation under the SFO to carry on type 1 (dealing in securities) and type 6 (advising on corporate finance) regulated activities

Bridge Partners has given and has not withdrawn its written consent to the issue of this circular with the inclusion of its letter and references to its name included in this circular in the form and context in which it is included. The letter and recommendations therein given by Bridge Partners are given as of the date of this circular for incorporation herein.

8. EXPERT'S INTERESTS

As at the Latest Practicable Date, Bridge Partners did not have shareholding interest, directly or indirectly in any member of the Group or any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group.

As at the Latest Practicable Date, Bridge Partners did not have any direct or indirect interest in any assets which have been, since 31 December 2012, being the date to which the latest published audited consolidated accounts of the Group were made up, acquired or disposed of by or leased to, or are proposed to be acquired or disposed of by or leased to, any member of the Group.

9. MISCELLANEOUS

- (I) The company secretary of the Company is Mr. Li Wai Chung and he is a member of the Hong Kong Institute of Certified Public Accountants.
- (II) The registered address of the Company is at Room 1501, Jidian Edifice, 600 Heng Feng Road, Shanghai, the PRC.
- (III) The principal place of business of the Company in Hong Kong is at Room 2602, 26th Floor, Tower One, Lippo Centre, 89 Queensway, Hong Kong.
- (IV) The H-share registrar and transfer office of the Company in Hong Kong is Tricor Investor Services Limited, at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong.
- (V) The English text of this circular shall prevail over the Chinese text in case of any inconsistency.

10. MATERIAL CONTRACTS

The following contracts (not being contracts in the ordinary course of business) have been entered into by members of the Group during the two years immediately preceding the Latest Practicable Date and are or may be material:

- (I) the acquisition agreement dated 28 September 2012 and entered into between the Company and SEG in relation to the acquisition of 上海大隆機器廠有限公司 (Shanghai Dalong Machinery Factory Company Limited) from 上海聯合產權交易所 (Shanghai United Assets and Equity Exchange) in accordance to the successful bid; and

- (II) the acquisition agreement dated 5 March 2012 and entered into between the Company and 上海電氣企業發展有限公司 (Shanghai Electric Development Co., Ltd.), a wholly-owned subsidiary of SEG, in relation to the acquisition of 上海電氣絕緣材料有限公司 (Shanghai Electric Insulating Material Company Limited) from Shanghai United Assets and Equity Exchange in accordance to the successful bid.

11. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents are available for inspection during normal business hours on Monday to Friday (other than public holidays) at the principal place of business of the Company in Hong Kong at Room 2602, 26th Floor, Tower One, Lippo Centre, 89 Queensway, Hong Kong from the date of this circular up to and including the date of the EGM:

- (I) the memorandum and articles of association of the Company;
- (II) each of the material contracts referred to in section headed "10. Material Contracts" in this appendix;
- (III) each of the service contracts referred to in section headed "3. Director's Service Contracts" in this appendix;
- (IV) the annual reports of the Company for the three years ended 31 December 2010, 2011 and 2012, and the interim report of the Company for the six months ended 30 June 2013;
- (V) the letter dated 2 December 2013 from the Independent Board Committee to the independent Shareholders, the text of which is set out on pages 22 to 23 of this circular;
- (VI) the letter of advice dated 2 December 2013 from Bridge Partners to the Independent Board Committee and the independent Shareholders, the text of which is set out on pages 24 to 41 of this circular;
- (VII) the written consent of Bridge Partners referred to in section headed "7. Qualification and Consent of Expert" of this appendix;
- (VIII) each of the Framework Agreements; and
- (IX) this circular.

SUPPLEMENTAL NOTICE OF EXTRAORDINARY GENERAL 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)

SUPPLEMENTAL NOTICE OF EXTRAORDINARY GENERAL MEETING

Reference is made to the notice (the “**Notice**”) of the extraordinary general meeting (the “**EGM**”) of Shanghai Prime Machinery Company Limited (the “**Company**”) dated 20 November 2013, which set out the time and venue of the EGM, and the resolutions to be proposed at the EGM for approval by the shareholders of the Company (the “**Shareholders**”). Unless otherwise stated, the terms used herein shall have the same meanings as those defined in the circular of the Company dated 2 December 2013. Subsequent to the despatch of the Notice, the Board has noted an inadvertent clerical error in point 2 of the section headed “Notes” of the Notice and would like to rectify as follows:

*“In order to qualify for attending the EGM, the holders of H Shares whose transfers have not been registered must deposit transfer documents together with the relevant share certificates at the H share registrar of the Company, Tricor Investor Services Limited, not later than 4:30 p.m. on **Monday, 16 December 2013.**”*

SUPPLEMENTAL NOTICE IS HEREBY GIVEN THAT the EGM will be held as originally scheduled at time and venue as set out under the Notice, and the resolutions remained unchanged. Save for the above, all information and contents set out in the Notice remain unchanged:

AS ORDINARY RESOLUTIONS:

1. To consider, approve and confirm the SEG Framework Sales Agreement dated 30 October 2013 (a copy of which will be produced to the meeting marked “A” and signed by the chairman of the meeting for the purpose of identification) entered into between the Company and SEG, and the transactions contemplated thereunder be and are hereby approved, confirmed and ratified; and any one director of the Company is hereby authorized to sign or execute such other documents or supplemental agreements or deeds on behalf of the Company and to do all such things and take all such actions as he may consider necessary or desirable for the purpose of giving effect to the SEG Framework Sales Agreement with such changes as he may consider necessary, desirable or expedient;
2. To consider, approve and confirm the SEC Framework Sales Agreement dated 30 October 2013 (a copy of which will be produced to the meeting marked “B”

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and signed by the chairman of the meeting for the purpose of identification) entered into between the Company and SEC, and the transactions contemplated thereunder be and are hereby approved, confirmed and ratified; and any one director of the Company is hereby authorized to sign or execute such other documents or supplemental agreements or deeds on behalf of the Company and to do all such things and take all such actions as he may consider necessary or desirable for the purpose of giving effect to the SEC Framework Sales Agreement with such changes as he may consider necessary, desirable or expedient; and

3. To consider, approve and confirm the deposit services under the Framework Financial Services Agreement dated 30 October 2013 (a copy of which will be produced to the meeting marked "C" and signed by the chairman of the meeting for the purpose of identification) entered into between the Company and SE Finance, and the transactions contemplated thereunder be and are hereby approved, confirmed and ratified; and any one director of the Company is hereby authorized to sign or execute such other documents or supplemental agreements or deeds on behalf of the Company and to do all such things and take all such actions as he may consider necessary or desirable for the purpose of giving effect to the deposit services under the Framework Financial Services Agreement with such changes as he may consider necessary, desirable or expedient.

Yours faithfully
By Order of the Board
Shanghai Prime Machinery Company Limited
Wang Qiang
Chairman

Shanghai, the PRC

2 December 2013

As at the date of this notice, the Board consists of executive Directors, namely Mr. Wang Qiang, Mr. Zhou Zhiyan, Mr. Zhang Jianping, Ms. Zhu Xi, Mr. Sun Wei, Mr. Chen Hui, and independent non-executive Directors, namely Mr. Chan Chun Hong (Thomas), Mr. Ling Hong and Mr. Li Yin.

Notes:

1. The voting at the EGM shall be conducted by way of poll.
2. Holders of the Company's H shares ("H Shares") and domestic shares ("Domestic Shares") whose names appear on the register of members of the Company on Friday, 17 January 2014 are entitled to attend and vote at the EGM. The register of members of the Company will be closed from Tuesday, 17 December 2013 to Friday, 17 January 2014 (both days inclusive), during which time no transfer of H Shares will be effected. In order to qualify for attending the EGM, the holders of H Shares whose transfers have not been registered must deposit transfer documents together with the relevant share certificates at the H share registrar of the Company, Tricor Investor Services Limited, not later than 4:30 p.m. on Monday, 16 December 2013. The address of Tricor Investor Services Limited is 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong.

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3. Shareholders who intend to attend the EGM in person or by proxy should complete and sign the reply slip accompanying each notice of the EGM and return it to the Company's H Share registrar, for the holders of H Shares, or to the address of the company secretary of the Company (the "**Company Secretary**"), for holders of Domestic Shares (as may be applicable) on or before Friday, 27 December 2013 by hand, by post or by fax. Completion and return of the reply slip do not affect the right of a Shareholder to attend the EGM. However, the failure to return the reply slip may result in adjournment of the EGM, if the number of shares carrying right to vote represented by the Shareholders proposing to attend the EGM by reply slip does not reach more than half of total number of shares of the Company carrying right to vote at the EGM.
4. Any shareholder of the Company entitled to attend and vote at the EGM is entitled to appoint one or more proxies to attend and vote at the meeting on his behalf. A proxy need not be a shareholder of the Company.
5. A proxy shall be appointed by an instrument in writing. Such instrument shall be signed by the appointer or his attorney duly authorized in writing. If the appointer is a legal person, then the instrument shall be signed under a legal person's seal or signed by its director or an attorney duly authorized in writing. The instrument appointing the proxy shall be deposited at the Company's H Share registrar for holders of H Shares or at the address of the Company Secretary for holders of Domestic Shares not less than 24 hours before the time appointed for the holding of the EGM or any adjournment thereof (as the case may be). If the instrument appointing the proxy is signed by a person authorized by the appointer, the power of attorney or other document of authority under which the instrument is signed shall be notarized. The notarized power of attorney or other document of authority shall be deposited together and at the same time with the instrument appointing the proxy at the Company's H Share registrar or the address of the Company Secretary (as may be applicable).
6. Shareholders or their proxies are required to produce their identification documents when attending the EGM.
7. Miscellaneous
 - i. It is expected that the EGM will last for half a day. All attending shareholders shall arrange for their transportation and accommodation and shall bear all their own expenses in connection with their attendance.
 - ii. The address of the Company Secretary:

Company Secretary
Shanghai Prime Machinery Company Limited
Room 1501, Jidian Edifice
600 Heng Feng Road
Shanghai, the PRC
200070

Tel: (8621) 6472 9900
Fax: (8621) 6472 9889

Contact Person: Li Wai Chung
 - iii. The address of the Company's H Share registrar:

Tricor Investor Services Limited
26th Floor, Tesbury Centre
28 Queen's Road East
Wanchai
Hong Kong

Tel: (852) 2980 1333
Fax: (852) 2810 8185
8. The original proxy form which was despatched by the Company together with the Notice dated 20 November 2013 has been replaced by the revised proxy form enclosed, if the original proxy form is completed and lodged with the Company, the original proxy form will be invalid.