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SHANGHAI ELECTRIC GROUP COMPANY LIMITED

上海電氣集團股份有限公司

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

(Stock Code: 02727)

**WAIVER FROM STRICT COMPLIANCE WITH RULE 14A.34 AND
RULE 14A.51 OF THE LISTING RULES
AND
CONTINUING CONNECTED TRANSACTIONS**

**WAIVER FROM STRICT COMPLIANCE WITH RULE 14A.34 AND RULE
14A.51 OF THE LISTING RULES**

On 6 October 2020, the Company applied to the Stock Exchange for the waiver from strict compliance with Rule 14A.34 and Rule 14A.51 of the Listing Rules, in accordance with which, the Company would be required to enter into a written framework agreement with SGSMEPC in respect of the Continuing Connected Transactions (the “**2020 Waiver**”). The 2020 Waiver has been conditionally granted by the Stock Exchange on 15 October 2020, subject to the fulfilment of certain waiver conditions (the “**Waiver Conditions**”) by the Company described under “Conditions to the Waiver” mentioned below.

The Board (including the independent non-executive Directors) approved the 2020 Waiver on 15 October 2020.

CONTINUING CONNECTED TRANSACTIONS

The Company plans to enter into the Continuing Connected Transactions with SGSMEPC.

As SGSMEPC holds more than 10% of the equity interest in Transmission and Distribution Group which does not fall within the scope of “insignificant subsidiary” under Rule 14A.09 of the Listing Rules, SGSMEPC is regarded as a connected person of the Company by virtue of its falling under the definition of a substantial shareholder at the subsidiary level pursuant to Rule 14A.07(1) of the Listing Rules. As the highest applicable percentage ratio (as defined in the Listing Rules) of the proposed annual caps under the Continuing Connected Transactions is expected to be more than 5% but considering the Continuing Connected Transactions being connected transactions between the Group and its connected person at the subsidiary level on normal commercial terms or better, these transactions are therefore exempt from the circular, independent financial advice and shareholders’ approval requirements if approved by the Board and confirmed by the independent non-executive Directors as required under Rule 14A.101(1) and (2) of the Listing Rules, but are subject to annual review, disclosure and other requirements pursuant to the Listing Rules.

After taking into consideration of the 2020 Waiver, the Board (including the independent non-executive Directors) approved the Continuing Connected Transactions and the annual caps for relevant years accordingly.

INTRODUCTION

The Company plans to enter into the Continuing Connected Transactions. Although the Company has made efforts and requested for entering into a written framework agreement in respect of the Continuing Connected Transactions with SGSMEPC, no written framework agreement has been entered into so far or is expected to be entered into. Therefore, the Company applied to the Stock Exchange for the 2020 Waiver, which has been conditionally granted by the Stock Exchange on 15 October 2020.

The Board (including the independent non-executive Directors) approved the 2020 Waiver, the Continuing Connected Transactions and the annual caps for relevant years accordingly.

WAIVER FROM STRICT COMPLIANCE WITH 14A.34 AND RULE 14A.51 OF THE LISTING RULES

General background information and reasons for the Waiver

The Company and SGSMEPC established Transmission and Distribution Group in September 2011. Relevant subsidiaries of the Company have been supplying PTD products to SGSMEPC Related Connected Group since 2012. Each member of the SGSMEPC Related Connected Group, when purchasing PTD products from relevant subsidiaries of the Company, went through open, fair and strict bidding process for such transactions.

As SGSMEPC holds more than 10% of the equity interest in Transmission and Distribution Group which does not fall within the scope of “insignificant subsidiary” under Rule 14A.09 of the Listing Rules, SGSMEPC is regarded as a connected person of the Company by virtue of its falling under the definition of a substantial shareholder at the subsidiary level pursuant to Rule 14A.07(1) of the Listing Rules.

The Company is fully aware of the procedural requirements under Chapter 14A of the Listing Rules. In particular, the Company needs to enter into a written framework agreement for continuing connected transactions in accordance with Rule 14A.34 and Rule 14A.51 of the Listing Rules.

However, although the Company has made efforts and requested for entering into a written framework agreement in respect of the Continuing Connected Transactions with SGSMEPC, no written framework agreement has been entered into so far or is expected to be entered into.

Transactions between the Group and SGSMEPC Related Connected Group are important to the Company’s business. The Company expects that transactions between the Group and SGSMEPC Related Connected Group will continue in the years to come as the Company aims to increase the sales of and profits from the sales of PTD products.

As such, the Company applied to the Stock Exchange for the 2020 Waiver. The 2020 Waiver has been conditionally granted by the Stock Exchange on 15 October 2020, subject to the fulfilment of the Waiver Conditions by the Company. The Board (including the independent non-executive Directors) has approved the 2020 Waiver.

Conditions to the Waiver

According to the 2020 Waiver, the Continuing Connected Transactions will be exempted from the requirements under Rule 14A.34 and Rule 14A.51 of the Listing Rules, subject to and on the conditions set out below:

- (a) the waiver, if granted, will only apply to the Continuing Connected Transactions;
- (b) each of the Continuing Connected Transactions will be entered into on normal commercial terms, in the ordinary and usual course of business of the Company, and will be on terms that are fair and reasonable and in the interests of the Company and the Shareholders as a whole. A written agreement will be entered into for each of the Continuing Connected Transactions, and the consideration of each of the Continuing Connected Transactions will be determined through an open, fair and strict bidding process conducted by SGSMEPC according to the Law of the PRC on Tenders and Bids (《中華人民共和國招投標法》) and its implementing regulations (《中華人民共和國招投標法實施條例》). After receiving the bid invitation from members of SGSMEPC Related Connected Group, the sales departments of the relevant subsidiaries of the Company will set

the bidding price after considering (1) the technical specifications required by the bid tenderer which are contained in the bid invitation, (2) the production cost estimated by the purchase department and financial department of the relevant subsidiaries of the Company, (3) a reasonable profit margin estimated based on the profit margin of the same products for the preceding year and (4) the competition status monitored by the sales departments of the relevant subsidiaries of the Company based on public information such as the change of market competitors and bidding prices from other competitors disclosed after the bidding process is finished;

- (c) the Company will adopt the following methods and procedures to ensure that the bidding price is fair and reasonable: (i) the sales department of the relevant subsidiary will collect all winning prices of the subject product (including prices of other bid winners) in the preceding year and calculate an average winning price; (ii) the financial department of the relevant subsidiary will use such average winning price to calculate the profit margin (the “**Base Margin**”) based on the Company’s own costs; (iii) the sales department of the relevant subsidiary will propose a bidding price which represents a profit margin ranging from 5% to 10% upwards or downwards from the Base Margin based on competition status for a particular bidding; and (iv) the management of the relevant subsidiary will review and decide whether or not to approve such bidding price according to market conditions. Through the abovementioned mechanisms, the Company has the opportunity to learn the market conditions and assure the profitability of the bids;
- (d) in respect of the written agreements to be entered into between the Group and SGSMEPC Related Connected Group for the sales of PTD products, if the independent bidding process is no longer applicable, the Company will re-comply with the requirements under Chapter 14A of the Listing Rules; if the transaction is out of the scope of the Continuing Connected Transactions, the Company will publish an announcement and will re-comply with the reporting, announcement, board of directors’ approval and/or independent non-executive directors’ confirmation requirements under Chapter 14A of the Listing Rules, and the annual caps will be calculated on an aggregate basis;
- (e) details of the Continuing Connected Transactions will be disclosed in the Company’s future annual reports and accounts in accordance with Rule 14A.49 of the Listing Rules;
- (f) other than Rule 14A.34 and Rule 14A.51 of the Listing Rules, the Company will fully comply with the disclosure, board of directors’ approval and independent non- executive directors’ confirmation requirements under Chapter 14A of the Listing Rules (including Rule 14A.68). Accordingly, the Company will set annual caps for the Continuing Connected Transactions for a duration of no longer than three years and comply with the reporting, announcement, board of directors’

approval and independent non-executive directors' confirmation requirements. The Company will make announcement regarding the Continuing Connected Transactions and will not exceed the applicable annual caps in respect of the Continuing Connected Transactions. The proposed annual caps and their basis of determination are disclosed in paragraph headed "Proposed annual caps and basis of determination" below;

- (g) the waiver, if granted, will be subject to the approval of the Board and the confirmation of the independent non-executive Directors; and
- (h) the Company will re-comply with Chapter 14A of the Listing Rules as far as practicable should any of the above conditions no longer exists or any member of SGSMEPC Related Connected Group becomes a connected person due to other reason(s) (e.g., it becomes a substantial shareholder at the Company's level).

CONTINUING CONNECTED TRANSACTIONS WITH THE SGSMEPC RELATED CONNECTED GROUP

The Company plans to enter into the Continuing Connected Transactions. Although the Company has made efforts and requested for entering into a written framework agreement in respect of the Continuing Connected Transactions with SGSMEPC, no written framework agreement has been entered into so far or is expected to be entered into. Therefore, the Company applied to the Stock Exchange for the 2020 Waiver. The 2020 Waiver has been conditionally granted by the Stock Exchange on 15 October 2020, subject to the fulfilment of the Waiver Conditions by the Company. After taking into consideration of the 2020 Waiver, the Board (including the independent non-executive Directors) approved the Continuing Connected Transactions and the annual caps for relevant years accordingly.

Proposed annual caps and basis of determination

The table below sets out the historical transaction amounts with SGSMEPC for the three years ended 31 December 2019, the approved annual cap for the year ending 31 December 2020 and the proposed annual caps for the three years ending 31 December 2023:

| | Historical transaction amounts for the year ended 31 December | | | Approved annual cap for the year ending 31 December | Proposed annual caps for the year ending 31 December | | |
|--|---|----------|----------|---|--|-------|-------|
| | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 |
| | <i>(RMB million)</i> | | | | | | |
| Aggregate sales transaction amounts with SGSMEPC | 2,384.39 | 4,552.07 | 4,118.25 | 7,000 | 6,000 | 6,200 | 6,500 |

In arriving at the above annual caps, the Directors have considered the previous transaction records with SGSMEPC Related Connected Group.

Pricing basis

As the Company needs to take part in open, fair and strict bidding process in order to obtain the orders and enter into each of the Continuing Connected Transactions, the Company will adopt the following methods and procedures to ensure that the bidding price is fair and reasonable: (i) the sales department of the relevant subsidiary will collect all winning prices of the subject product (including prices of other bid winners) in the preceding year and calculate an average winning price; (ii) the financial department of the relevant subsidiary will use such average winning price to calculate the Base Margin based on the Company's own costs; (iii) the sales department of the relevant subsidiary will propose a bidding price which represents a profit margin ranging from 5% to 10% upwards or downwards from the Base Margin based on the competition status for a particular bidding; and (iv) the management of the relevant subsidiary will review and decide whether or not to approve such bidding price according to market conditions. Through the abovementioned mechanisms, the Company has the opportunity to learn the market conditions and assure the profitability of the bids.

Reasons of and benefits for the Continuing Connected Transactions

SGSMEPC is a large state-owned enterprise and a subsidiary of SGCC which is one of the largest public utilities in the world. SGSMEPC is responsible for the electricity transmission, distribution, sale and service for the Shanghai region and carries out the unified planning, construction and scheduling of the Shanghai power grid.

PTD business is one of the major business sub-segments of the Group. Transactions between the Group and SGSMEPC Related Connected Group are important to the Group's PTD business. The sales of PTD products by the Group to the SGSMEPC Related Connected Group contribute revenue and profits to the Group and strengthen the Group's competitive position in PTD market.

The Company expects that the transactions between the Group and the SGSMEPC Related Connected Group will continue in the following years.

For PTD products supplied to SGSMEPC Related Connected Group, the Company also sells the same to independent third parties via participating in the public biddings held by other purchasers. The Company adopts the same pricing basis as that for the Continuing Connected Transactions when determining the bidding price for a particular project. The Directors (including the independent non-executive Directors) are of the opinion that the Continuing Connected Transactions are on normal commercial terms comparable to those offered to independent third parties.

The Directors (including the independent non-executive Directors) are of the opinion that the Continuing Connected Transactions are conducted in the ordinary and usual course of business of the Group, and that the pricing basis under the Continuing Connected Transactions is an appropriate mechanism to ensure that the terms of the Continuing Connected Transactions will be fair and reasonable, the Continuing Connected Transactions will be on normal commercial terms and in the interests of the Company and the Shareholders as a whole. The Directors (including the independent non-executive Directors) are of the opinion that the proposed annual caps of the Continuing Connected Transactions are fair and reasonable.

LISTING RULES IMPLICATIONS

As SGSMEPC holds more than 10% of the equity interest in Transmission and Distribution Group which does not fall within the scope of “insignificant subsidiary” under Rule 14A.09 of the Listing Rules, SGSMEPC is regarded as a connected person of the Company by virtue of its falling under the definition of a substantial shareholder at the subsidiary level pursuant to Rule 14A.07(1) of the Listing Rules. As the highest applicable percentage ratio (as defined in the Listing Rules) of the proposed annual caps under the Continuing Connected Transactions is expected to be more than 5% but considering the Continuing Connected Transactions being transactions between the Group and its connected person at the subsidiary level on normal commercial terms or better, these transactions are therefore exempt from the circular, independent financial advice and shareholders’ approval requirements if approved by the Board and confirmed by the independent non-executive Directors as required under Rule 14A.101(1) and (2) of the Listing Rules, but are subject to annual review, disclosure and other requirements pursuant to the Listing Rules.

GENERAL

The Group is one of the largest industrial equipment manufacturing conglomerates in China engaged in the following business segments: (i) the energy equipment segment includes coal-fired power generation and corollary equipment, gas-fired power generation equipment, wind power equipment, nuclear power equipment, energy storage equipment, high-end vessels for chemical industry as well as power grid and industrial intelligent power supply system solutions; (ii) the industrial equipment segment includes elevators, large and medium-sized electric motors, intelligent manufacturing equipment, industrial basic parts, environmental protection equipment and construction industrialization equipment; and (iii) the integrated services segment includes energy, environmental protection and automation engineering and services, covering traditional and new energy, comprehensive use of solid wastes, sewage treatment, flue gas treatment, rail transit and etc.; industrial internet services; financial services, covering financing leases and insurance brokerage; international trade services; high-end property services and etc.

SGSMEPC, a subsidiary of SGCC, is a large state-owned enterprise responsible for the electricity transmission, distribution, sale and service for the Shanghai region. It carries out the unified planning, construction and scheduling of the Shanghai power grid. SGCC is a state-owned enterprise approved by the PRC State Council to conduct government authorized investment activities. SGCC is one of the largest public utilities in the world.

DEFINITIONS

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

| | |
|-------------------------------------|---|
| “associate(s)” | has the meaning ascribed thereto under the Listing Rules; |
| “Board” | the board of directors of the Company; |
| “Company” | Shanghai Electric Group Company Limited(上海電氣集團股份有限公司), a joint stock limited company duly incorporated in the PRC with limited liability, the H shares of which are listed on the Stock Exchange of Hong Kong Limited under stock code 02727 and the A shares of which are listed on the Shanghai Stock Exchange under stock code 601727; |
| “connected person(s)” | has the meaning ascribed thereto under the Listing Rules; |
| “Continuing Connected Transactions” | the sales transactions, which are continuing connected transactions to be entered into between the Company and SGSMEPC for the three years ending 31 December 2023 for the sales of PTD products by the Group to the SGSMEPC Related Connected Group, are conditional upon the approval of the Board and the confirmation by the independent non-executive Directors as required under Rule 14A.101 of the Listing Rules; |
| “Directors” | the directors of the Company; |
| “Group” | the Company and its subsidiaries from time to time; |
| “Listing Rules” | the Rules Governing the Listing of Securities on the Stock Exchange; |
| “PRC” | the People’s Republic of China which, for the purpose of this announcement only, does not include the Hong Kong Special Administrative Region, the Macau Special Administrative Region and Taiwan; |

| | |
|---------------------------------------|--|
| “PTD” | power transmission and distribution equipment; |
| “RMB” | Renminbi, the lawful currency of the PRC; |
| “SGCC” | State Grid Corporation of China (國家電網公司); |
| “SGSMEPC” | State Grid Shanghai Municipal Electric Power Company (國網上海市電力公司); |
| “SGSMEPC Related Connected Group” | SGSMEPC, its subsidiaries and its associates; |
| “Shareholder(s)” | registered shareholder(s) of the Company; |
| “Stock Exchange” | The Stock Exchange of Hong Kong Limited; and |
| “Transmission and Distribution Group” | Shanghai Electric Transmission and Distribution Group Co., Ltd, a company incorporated in the PRC with limited liability and a subsidiary of the Company, in which each of the Company and SGSMEPC holds 50% of its equity interest as at the date of this announcement; |
| “%” | per cent. |

By order of the Board
Shanghai Electric Group Company Limited
ZHENG Jianhua
Chairman of the Board

Shanghai, the PRC, 15 October 2020

As at the date of this announcement, the executive directors of the Company are Mr. ZHENG Jianhua, Mr. HUANG Ou, Mr. ZHU Zhaokai and Mr. ZHU Bin; the non-executive directors of the Company are Ms. YAO Minfang and Ms. LI An; and the independent non-executive directors of the Company are Dr. CHU Junhao, Dr. XI Juntong and Dr. XU Jianxin.

* *For identification purpose only*