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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 Siemens 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.

**CONTINUING CONNECTED TRANSACTIONS**

The Company plans to enter into the Continuing Connected Transactions with the Siemens Group for three years ending 31 December 2023.

As Siemens holds more than 10% of the equity interest in Electric Power Station which does not fall within the scope of “insignificant subsidiary” under Rule 14A.09 of the Listing Rules, Siemens 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. Given that 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, the Continuing Connected Transactions are exempt from the circular (including 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. Although the Continuing Connected Transactions are exempt from the circular, independent financial advice and independent shareholders’ approval requirements under the Listing Rules, the resolution shall be subject to Shareholders’ consideration and approval at the general meeting of the Company pursuant to the Rules Governing the Listing of Stocks on the Shanghai Stock Exchange.

After taking into consideration of the 2020 Waiver, the Board (including the independent non-executive Directors) approved the Continuing Connected Transactions between the Company and the Siemens Group for three years ending 31 December 2023 and the annual caps for relevant years accordingly.

## **INTRODUCTION**

The Company plans to enter into the Continuing Connected Transactions with the Siemens Group for three years ending 31 December 2023. Although the Company has made efforts and requested for entering into a written framework agreement in respect of the Continuing Connected Transactions with Siemens, no written 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 Waiver Conditions by the Company.

The Board (including the independent non-executive Directors) approved the 2020 Waiver, the Continuing Connected Transactions between the Company and the Siemens Group for three years ending 31 December 2023 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**

In order to maintain its market position and further strengthen its competitiveness in such technology-intensive industries, the Group has been conducting business with Siemens for several years. Currently, the Company plans to enter into the Continuing Connected Transactions with the Siemens Group for three years ending 31 December 2023.

Siemens is a well-known multinational enterprise operating independently and is also a listed company. As Siemens holds more than 10% of the equity interest in Electric Power Station which does not fall within the scope of “insignificant subsidiary” under Rule 14A.09 of the Listing Rules, Siemens 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 Siemens, no written agreement has been entered into so far or is expected to be entered into.

Transactions between the Group and the Siemens Group constitute an important and integral part of the business alliance. The Company expects that transactions between the Group and the Siemens Group will continue in the years to come as the Company aims to maintain its cooperation with Siemens. 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.

### **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 between the Group and the Siemens Group, namely, purchases of certain power generation, distribution and transmission related electrical and mechanical components by the Group from the Siemens Group to be used in various projects and products of the Group;

- (b) each of the Continuing Connected Transactions is, and/or will be entered into, on normal commercial terms, in the ordinary and usual course of business of the Company, will be on terms that are fair and reasonable and in the interests of the Company and the shareholders of the Company 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 successively in accordance with the following pricing policies:
- (i) in respect of the purchase transactions where the components and/or technologies are generally available in the market (mainly used in transmission & distribution equipment), market price, which is determined by reference to the prevailing market rates for similar or the same components and/or technologies available on an arm's length basis from independent third parties, shall be considered for the consideration of the Continuing Connected Transactions to be determined. The marketing departments of the relevant subsidiaries of the Company have been obtaining and will continue to obtain price quotations from suppliers in the market (including both independent suppliers and Siemens) once the relevant subsidiaries receive orders from the customers and will choose the supplier who provides the most favourable terms (especially the lowest price per unit of the same quality). The marketing department of the relevant subsidiaries will compare the price quotations from Siemens with at least two price quotations from independent suppliers before making the commercial decision. The internal control department of the relevant subsidiaries has completed the annual review for the two years ended 31 December 2019 and confirms that the abovementioned procedure has been complied with. The Company confirms that the relevant internal control department will continue to conduct such annual review to make sure the abovementioned procedure has been complied with throughout the year. During the past three years, the Company has purchased the same products provided by the Siemens Group from more than two independent suppliers every year and expects to stick to such practice if there is no material change to the current market conditions. With the access to the independent suppliers in the market from time to time, the Company has the opportunity to learn the market conditions on a timely basis and make an informed commercial decision; or
- (ii) in respect of the purchase transactions where the components and/or technologies can only be provided by the Siemens Group due to its unique technology (mainly used in power equipment) while similar components and/or technologies provided by other suppliers currently do not match well with the Company's certain power equipment which renders the contemporaneous quotations from independent third parties not available, the Group may refer to (1) prices of relevant transactions for the last year, (2) market trend of the prices for similar components and/or technologies domestically and internationally, which has been and will be assessed by the marketing department of the relevant subsidiaries based on the public

information in the fourth quarter of every year and (3) business plan of the Group, and negotiate with the Siemens Group in good faith. For avoidance of doubt, as the prices of the similar components and/or technologies provided by other suppliers are not directly available in the market, the Company estimates the market trend of the prices for such similar components and/or technologies from the change of the prices of the final products which contain the abovementioned similar components and/or technologies. The Company participates in biddings several times every year thus has access to the prices of the abovementioned final products, which the prices are offered by the bid winners. In the fourth quarter of every year, the marketing department of the relevant subsidiaries will review the prices offered by the bid winners throughout the year to understand the percentage of the increase or decrease of the prices for the final products. With such rough percentage provided by the marketing department, a special panel generally consisting of representative(s) from marketing department, finance department, sales department and purchase department will determine on a price range acceptable to the Company after considering various factors (including but not limited to the abovementioned rough percentage of the increase or decrease of the prices for the final products) and negotiate with Siemens on such basis. It has been an established practice and mechanism between the Company and Siemens to negotiate and set the purchase price of the relevant components and/or technologies for the following twelve months in the fourth quarter of every year so as to lock up the prices in advance for better management and control of the production cost and to avoid going through the negotiation process again during the year which can be costly and burdensome to both parties. With the historical purchase price as a benchmark price and the roughly estimated percentage of the increase or decrease of the market prices for similar components and/or technologies domestically and internationally, the Company should be able to assess the fairness and reasonableness of price quotations from the Siemens Group and make an informed commercial decision based on the market information to the largest extent possible.

- (c) in respect of the written agreements to be entered into between the Group and Siemens for the purchase transactions, to the extent that the pricing policy is different from those under item (b) above, or transaction is out of the scope of the Continuing Connected Transactions under item (a) above, the Company will publish an announcement and will re-comply with the reporting, announcement, board of directors' approval and independent non-executive directors' confirmation requirements under Chapter 14A of the Listing Rules, where the annual caps will be calculated on an aggregate basis;
- (d) 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;

- (e) 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 state in the announcement that the Continuing Connected Transactions will be entered into with Siemens over the next three years, but 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 below in the paragraph headed **"Proposed Annual Caps and Basis of Determination"**;
- (f) the legal department, operational department, internal control department and General Office of the Board of the Company jointly review the Continuing Connected Transactions on a full and case-by-case basis to ensure the compliance with the pricing policies as stated above in paragraph (b). For the two years ended 31 December 2019, the Company has completed such joint review and confirms that the pricing policies have been complied with. The independent non-executive directors of the Company will also give the confirmation in the annual reports of the Company in accordance with Rule 14A.55 of the Listing Rules;
- (g) the waiver, if granted, will be subject to the approval of the board of directors 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 Siemens 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 SIEMENS GROUP**

The Company plans to enter into the Continuing Connected Transactions with the Siemens Group for three years ending 31 December 2023. Although the Company has made efforts and requested for entering into a written framework agreement in respect of the Continuing Connected Transactions with Siemens, no written 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. After taking into consideration of the 2020 Waiver, the Board (including the independent nonexecutive Directors) approved the Continuing Connected Transactions and the annual caps for relevant years accordingly.



## Proposed annual caps and basis of determination

The tables below set out the historical purchase amounts in respect of the continuing connected transactions with Siemens for two years ended 31 December 2019 and for six months ended 30 June 2020, the existing annual caps in respect of the continuing connected transactions for three years ending 31 December 2020, and the proposed annual caps in respect of the Continuing Connected Transactions for three years ending 31 December 2023:

	<b>For year ended 31 December</b>		<b>For 6 months ended 30 June 2020</b>	<b>For year ending 31 December 2020</b>
	<b>2018</b>	<b>2019</b>	<b>June 2020</b>	<b>2020</b>
	<i>(RMB million)</i>			
Existing annual caps for the continuing connected transactions with Siemens	2,700	2,700	N/A	2,700
Historical purchase amounts from the Siemens Group	1,640.75	943.88	1,175.69	N/A
	<b>For year ending 31 December</b>			
	<b>2021</b>	<b>2022</b>	<b>2022</b>	<b>2023</b>
	<i>(RMB million)</i>			
Proposed annual caps for the Continuing Connected Transactions	4,000	3,500		3,000

In arriving at the above annual caps for the purchases from the Siemens Group, the directors of the Company have considered (i) the previous transaction records with the Siemens Group; (ii) the further cooperation between the Siemens Group and the Company on the wind power equipment business and (iii) the backlog orders from the Company's customers.

## Pricing basis

The consideration of each of the Continuing Connected Transactions is and will continue to be determined in accordance with the following pricing policies:

- (i) in respect of the purchase transactions where the components and/or technologies are generally available in the market (mainly used in transmission & distribution equipment), market price, which is determined by reference to the prevailing market rates for similar or the same components and/or technologies available on an arm's length basis from independent third parties, shall be considered for the consideration of the Continuing Connected Transactions to be determined. The marketing departments of the relevant subsidiaries of the Company have

been obtaining and will continue to obtain price quotations from suppliers in the market (including both independent suppliers and Siemens) once the relevant subsidiaries receive orders from the customers and will choose the supplier who provides the most favourable terms (especially the lowest price per unit of the same quality). The marketing department of the relevant subsidiaries will compare the price quotations from Siemens with at least two price quotations from independent suppliers before making the commercial decision. The internal control department of the relevant subsidiaries has completed the annual review for the two years ended 31 December 2019 and confirms that the abovementioned procedure has been complied with. The Company confirms that the relevant internal control department will continue to conduct such annual review to make sure the abovementioned procedure has been complied with throughout the year. During the past three years, the Company has purchased the same products provided by the Siemens Group from more than two independent suppliers every year and expects to stick to such practice if there is no material change to the current market conditions. With the access to the independent suppliers in the market from time to time, the Company has the opportunity to learn the market conditions on a timely basis and make an informed commercial decision; or

- (ii) in respect of the purchase transactions where the components and/or technologies can only be provided by the Siemens Group due to its unique technology (mainly used in power equipment) while similar components and/or technologies provided by other suppliers currently do not match well with the Company's certain power equipment which renders the contemporaneous quotations from independent third parties not available, the Group may refer to (1) prices of relevant transactions for the last year, (2) market trend of the prices for similar components and/or technologies domestically and internationally, which has been and will be assessed by the marketing department of the relevant subsidiaries based on the public information in the fourth quarter of every year and (3) business plan of the Group, and negotiate with the Siemens Group in good faith. For avoidance of doubt, as the prices of the similar components and/or technologies provided by other suppliers are not directly available in the market, the Company estimates the market trend of the prices for such similar components and/or technologies from the change of the prices of the final products which contain the abovementioned similar components and/or technologies. The Company participates in biddings several times every year thus has access to the prices of the abovementioned final products, which the prices are offered by the bid winners. In the fourth quarter of every year, the marketing department of the relevant subsidiaries will review the prices offered by the bid winners throughout the year to understand the percentage of the increase or decrease of the prices for the final products. With such rough percentage provided by the marketing department, a special panel generally consisting of representative(s) from marketing department, finance department, sales department and purchase department will determine on a price range acceptable to the Company after considering various factors (including but not limited to the abovementioned rough percentage of the increase or decrease



of the prices for the final products) and negotiate with Siemens on such basis. It has been an established practice and mechanism between the Company and Siemens to negotiate and set the purchase price of the relevant components and/or technologies for the following twelve months in the fourth quarter of every year so as to lock up the prices in advance for better management and control of the production cost and to avoid going through the negotiation process again during the year which can be costly and burdensome to both parties. With the historical purchase price as a benchmark price and the roughly estimated percentage of the increase or decrease of the market prices for similar components and/or technologies domestically and internationally, the Company should be able to assess the fairness and reasonableness of price quotations from the Siemens Group and make an informed commercial decision based on the market information to the largest extent possible.

### **Reasons of and benefits for the Continuing Connected Transactions**

Siemens is one of the leading international manufacturers and operators in the power equipment business. The Group has invested in several companies with Siemens that produce a variety of power generation equipment and related products, power transmission and distribution equipment products, including turbines, turbine generators, power plant auxiliary equipment and others.

Transactions between the Group and Siemens constitute an important and integral part of the business alliance between them. The purchase of certain equipment and component parts from the Siemens Group for use in production of the Group's power equipment and other products would improve performance criteria of the Group's products and hence strengthen the Group's competitive position in both the PRC and international markets.

The Company expects that the transactions between the Group and the Siemens Group will continue in the following years.

The Directors (including the independent non-executive Directors) are of the opinion that the Continuing Connected Transactions are on normal commercial terms and 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, reasonable and no less favourable to the Company than those offered by other third parties and in the interest 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 Siemens holds more than 10% of the equity interest in Electric Power Station which does not fall within the scope of “insignificant subsidiary” under Rule 14A.09 of the Listing Rules, Siemens 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. Given that the highest applicable percentage ratio (as defined in the Listing Rules) of the proposed annual caps under the Continuing Connected Transactions are 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, the Continuing Connected Transactions are exempt from the circular (including 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.

Although the Continuing Connected Transactions are exempt from the circular, independent financial advice and independent shareholders’ approval requirements under the Listing Rules, the resolution shall be subject to Shareholders’ consideration and approval at the general meeting of the Company pursuant to the Rules Governing the Listing of Stocks on the Shanghai Stock Exchange.

## **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.

Siemens is a global powerhouse in electronics and electrical engineering, operating in the fields of industry, energy and healthcare as well as providing infrastructure solutions, primarily for cities and metropolitan areas. Siemens is one of the world’s largest providers of environmental technologies.

## 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 purchase transactions, which are continuing connected transactions to be entered into by the Company and Siemens for the three years ending 31 December 2023 for the purchase of certain power generation, distribution and transmission related electrical and mechanical components by the Group from the Siemens Group, which are conditional on the approval of the Board and confirmation by the independent non-executive Directors;
“Directors”	the directors of the Company;
“Electric Power Station”	Shanghai Electric Power Generation Equipment Co., Ltd., a subsidiary of the Company, in which Siemens holds 40% of its equity interest as at the date of this announcement;
“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;
“RMB”	Renminbi, the lawful currency of the PRC;
“Shareholder(s)”	registered shareholder(s) of the Company;
“Siemens”	Siemens Aktiengesellschaft, an enterprise registered in Germany and established in 1847, with business covering more than 200 countries in the world;
“Siemens Group”	Siemens, its subsidiaries and its associates;
“Stock Exchange”	The Stock Exchange of Hong Kong Limited; and
“%”	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*