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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)

CONNECTED TRANSACTION

THE SALE AND LEASEBACK OF ASSETS BY A SUBSIDIARY

INTRODUCTION

The Board is pleased to announce that, on 29 April 2021, the Board considered and approved the Relevant Resolution, pursuant to which, SEHMCF, a wholly-owned subsidiary of the Company, was approved to transfer to and lease back from SEC certain of its assets at a consideration of RMB125,890,112.27 (tax inclusive), which is based on the appraisal value of the above assets filed with state-owned assets authorities as of 31 May 2020, and annual lease rental of RMB2.15 million (tax inclusive).

LISTING RULES IMPLICATION

As at the date of this announcement, SEHMCF is a wholly-owned subsidiary of the Company, and SEC is the controlling shareholder of the Company, holding approximately 54.55% equity interest in the total issued share capital of the Company. Therefore, SEC is a connected person of the Company as defined under Chapter 14A of the Listing Rules and the Transactions constitute connected transactions of the Company under Chapter 14A of the Listing Rules.

Given that the highest applicable percentage ratio (as defined in the Listing Rules) for the Equipment Transfer Transaction is more than 0.1%, but all the percentage ratios are less than 5%, the Equipment Transfer Transaction is subject to the reporting and announcement requirements but exempt from the circular (including independent financial advice) and the independent shareholders' approval requirements under Chapter 14A of the Listing Rules. Given that the highest applicable percentage ratio (as defined in the Listing Rules) for the Equipment Leaseback Transaction is less than 0.1%, the Equipment Leaseback Transaction is exempt from the reporting, announcement, circular and independent shareholders' approval requirements under Chapter 14A of the Listing Rules. Since the Equipment Leaseback Transaction is related to the Equipment Transfer Transaction, it is also disclosed in this announcement.

INTRODUCTION

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THE PROPOSED EQUIPMENT TRANSFER AGREEMENT

Parties

SEHMCF (Vendor); and

SEC (Purchaser).

Date

29 April 2021

Transfer subject

The transfer by SEHMCF to SEC involves 19 sets of production equipment including an 165MN oil hydraulic press, details of which are set out in the list “Summary of Valuation Results” below.

Transfer price and Payment

(1) SEC shall purchase the aforementioned equipment at a price based on the final appraisal value filed with state-owned assets authorities which is RMB125,890,112.27 (tax inclusive).

(2) After the abovementioned contract takes effect, SEHMCF shall issue special value-added tax invoices to SEC, and SEC shall settle the payment with SEHMCF by way of cheque or bank transfer within 30 days upon receipt of the invoices.

Equipment delivery

The two parties agreed to carry out the delivery in accordance with the current status of the equipment.

Tax liabilities

Both parties shall bear their respective taxes and charges in accordance with relevant national regulations.

THE PROPOSED EQUIPMENT LEASEBACK AGREEMENT

Parties

SEC (lessor); and

SEHMCF (lessee).

Date

29 April 2021

Lease subject

SEC shall lease 19 sets of production equipment in good condition (details of which are set out in the list “Summary of Valuation Results” below) to SEHMCF in accordance with the production needs of SEHMCF and the standards for equipment and technology quality specified by SEHMCF.

Use of the lease subject

During the lease period, SEHMCF shall have the right to use the equipment for any production activities but not for transfer or collateral, and it shall not add or remove any parts to or from the equipment or shift its installation site without the consent of SEC. SEC shall have the right to check the equipment for its use and good condition, for which SEHMCF shall provide all the convenience.

Lease period

The lease period shall be 15 years from 1 May 2021 to 30 April 2036. Upon expiry of the lease period, SEHMCF shall return the lease subject to SEC. In case SEHMCF needs to renew the lease, it shall make a written application to SEC three months in advance and SEC shall have the right to determine whether to renew the lease or not. Where SEC agrees to renew the lease, both parties shall enter into a new lease contract.

Lease charges and payment method

(1) The lease charges shall be based on the equipment utilization rate method, and the annual lease rental is RMB2,150,000.00 (tax inclusive). The lease rental is determined after arm's length negotiations between both parties.

(2) The equipment lease charges shall be in advance on a calendar year basis, and the first settlement cycle is from the lease commencement date to 31 December of the current year; and the last settlement cycle is based on the remaining lease term.

(3) SEHMCF shall complete the payment within 10 working days upon receipt of the special value-added tax invoices issued by SEC, and both parties shall bear their respective taxes and charges in accordance with relevant national regulations.

Equipment lease management

(1) During the lease period, SEC entrusts SEHMCF to carry out daily management of the leased equipment. SEHMCF shall ensure the intact and normal operation of the leased equipment in accordance with the requirements of SEC on fixed assets management, and unconditionally cooperate with SEC in the inventory taking of property and materials.

(2) During the lease period, the ownership of the leased equipment belongs to SEC, and the responsibility for the safe use and production of the equipment shall be borne by SEHMCF.

(3) During the lease period, the daily repair and maintenance of the equipment shall be undertaken by SEHMCF, and the relevant costs and expenses shall be borne by itself.

Default clauses

(1) After both parties have signed the contract, neither party shall change or terminate the contract at will.

(2) During the lease period, without the consent of SEC, SEHMCF shall not arbitrarily add or remove any parts to or from the leased equipment, otherwise the responsibility shall be borne by SEHMCF.

(3) If SEHMCF fails to pay the rent as stipulated in the contract, SEC has the right to terminate the contract.

Compensation agreement

If the lease contract is terminated for whatever reason, SEHMCF shall immediately hand over the leased equipment to SEC. In case of any damage, loss or abnormal operation of the equipment, SEHMCF shall make compensation according to the price of the equipment purchased or repairing charges incurred by SEC.

Other clauses

(1) During the lease period, if SEC transfers the above equipment, it shall notify SEHMCF in writing three months in advance, and SEHMCF shall have the right of pre-emption under the same conditions.

(2) In case of any unexpected adjustment of the lease period or rent during the lease period, both parties shall settle the matter through negotiation.

EVALUATION OF THE SUBJECT OF THE TRANSACTIONS

The subject of the Transactions is 19 sets of machinery and equipment of SEHMCF and the transaction price of the Equipment Transfer Transaction is the final appraised value filed with state-owned assets authorities. Shanghai Shenwei Assets Valuation Co., Ltd. (上海申威資產評估有限公司) was engaged to conduct assets valuation for the disposal of the assets using the cost approach with 31 May 2020 as the valuation benchmark date. The appraised value of the abovementioned assets is RMB111,407,179.00. The valuation results are as follows:

Summary of Valuation Results

Unit: RMB'0,000

Name of equipment	Book value	Appraised value	Increase in value	Appreciation rate
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Ladle refining furnace	132.30	146.01	13.72	10.37%
100T steelmaking arc furnace	170.69	176.86	6.17	3.61%
Three-phase three-arm electro-slag furnace (200T)	7.02	51.41	44.39	632.24%
Vertical lathe C5263*55/250	435.46	437.76	2.31	0.53%
CNC lathe & milling machine	669.48	589.94	-79.54	-11.88%
Gas-fired heat-treatment furnace 11	383.75	383.05	-0.70	-0.18%
165MN oil hydraulic press	7,545.85	7,559.81	13.96	0.19%
Circular furnace 3#	33.22	37.63	4.41	13.28%
J1 new pit furnace 1#	83.75	87.27	3.52	4.20%
Circular furnace 4#	120.75	124.35	3.60	2.98%
Heating furnace 16#	578.11	532.90	-45.20	-7.82%
Heating furnace 5#	634.39	585.12	-49.27	-7.77%
Dust removal duct system	27.74	24.97	-2.77	-9.97%
200T dust removal system for electro-slag furnace	109.70	105.13	-4.57	-4.16%
300T vacuum casting tank device	38.07	56.18	18.11	47.56%
35T electric furnace	2.57	20.57	17.99	699.01%
35T electric furnace	2.57	20.57	17.99	699.01%
80T refining furnace	4.12	33.73	29.61	718.52%
10T electrohydraulic hammer	162.48	167.45	4.97	3.06%
Total	11,142.02	11,140.72	-1.30	-0.01%

REASONS FOR AND BENEFITS FROM THE TRANSACTIONS

The assets to be disposed of are hydraulic presses, heating furnaces, heat treatment furnaces, electric furnaces, lathes and other production equipment of SEHMCF. Through such disposal of the aforesaid assets by SEHMCF to SEC and turning into the long-term leaseback of relevant equipment, it may reduce the daily operating costs of SEHMCF and replenish its working capital while retaining its nuclear power key forging manufacturing capacity, which will provide support for the healthy and sustainable development of SEHMCF in the future. The connected transaction will not have material impacts on the operations of the Company. The gain from the Equipment Transfer Transaction to the Company is expected to be RMB8.82 million. The proceeds from the sale are intended to be used to supplement the working capital of SEHMCF.

OPINION FROM THE BOARD

Mr. Zheng Jianhua, being a Director of the Company, holds directorship(s) in the SEC Group and its associates and thus has material interests in the Transactions. He has therefore abstained from voting on the Relevant Resolution. Save as disclosed above, none of the other Directors has material interests in the Transactions.

The Directors (including the independent non-executive Directors) consider that the consideration for the Transactions was determined after arm's length negotiations and the Transactions thereunder are on normal commercial terms in the ordinary and usual course of business, fair and reasonable and in the interests of the Company and its shareholders as a whole.

LISTING RULES IMPLICATION

As at the date of this announcement, SEHMCF is a wholly-owned subsidiary of the Company, and SEC is the controlling shareholder of the Company, holding approximately 54.55% equity interest in the total issued share capital of the Company. Therefore, SEC is a connected person of the Company as defined under Chapter 14A of the Listing Rules and the Transactions constitute connected transactions of the Company under Chapter 14A of the Listing Rules.

Given that the highest applicable percentage ratio (as defined in the Listing Rules) for the Equipment Transfer Transaction is more than 0.1%, but all the percentage ratios are less than 5%, the Equipment Transfer Transaction is subject to the reporting and announcement requirements but exempt from the circular (including independent financial advice) and the independent shareholders' approval requirements under Chapter 14A of the Listing Rules. Given that the highest applicable percentage ratio (as defined in the Listing Rules) for the Equipment Leaseback Transaction is less than 0.1%, the Equipment Leaseback Transaction is exempt from the reporting, announcement, circular and independent shareholders' approval requirements under Chapter 14A of the Listing Rules. Since the Equipment Leaseback Transaction is related to the Equipment Transfer Transaction, it is also disclosed in this announcement.

GENERAL INFORMATION

The Group is one of the largest industrial equipment manufacturing conglomerates in China engaged in the following principal activities: (i) the energy equipment segment: design, manufacture and sale of coal-fired power generation and corollary equipment, gas-fired power generation equipment, wind power equipment, nuclear power equipment, energy storage equipment and high-end vessels for chemical industry; and provision of power grid and industrial intelligent power supply system solutions; (ii) the industrial equipment segment: design, manufacture and sale of elevators, large and medium-size electric motors, intelligent manufacturing equipment, industrial basic parts, environmental protection equipment and construction industrialization equipment; and (iii) the integrated services segment: provision of 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.; provision of industrial internet services; provision of financial services, covering financing leases and insurance brokerage; provision of international trade

services; provision of high-end property services and etc. The ultimate beneficial owner of the Group is Shanghai State-owned Assets Supervision and Administration Commission.

SEHMCF is mainly engaged in following principal activities: metal products, ferrous metal alloys, non-ferrous metal alloy manufacturing, ferrous metal rolling processing, non-ferrous metal rolling processing, mechanical equipment design, manufacturing, installation, repair, sales, import and export of goods, technology import and export business, smelting, casting, forging, heat treatment, metal processing, sales of self-produced products, and engaged in technical services, technical consultation, technology transfer, and technology development in the field of thermal processing technology. The ultimate beneficial owner of SEHMCF is Shanghai State-owned Assets Supervision and Administration Commission.

As at the date of this announcement, SEC is the controlling shareholder of the Company, holding approximately 54.55% equity interests in the total issued share capital of the Company. The principal business of SEC is the management of state-owned assets and investment activities. SEC is an enterprise wholly owned by the Shanghai State-owned Assets Supervision and Administration Commission and one of the largest comprehensive equipment manufacturing groups in China.

DEFINITIONS

Unless the context otherwise requires, the following expressions in this announcement shall have the following meanings:

“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, 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;
“controlling shareholder(s)”	has the meaning ascribed thereto under the Listing Rules;
“Director(s)”	the director(s) of the Company;
“Equipment Transfer Transaction”	the proposed transfer of 19 sets of fixed assets by SEHMCF to SEC at a consideration of RMB125,890,112.27;
“Equipment Leaseback Transaction”	SEHMCF intends to lease 19 sets of fixed assets from SEC at an annual lease rental of RMB2.15 million;

“Group”	the Company and its subsidiaries from time to time;
“Hong Kong”	the Hong Kong Special Administrative Region of the People’s Republic of China;
“Listing Rules”	The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited;
“PRC” or “China”	the People’s Republic of China, but for the purposes of this announcement only, excludes Hong Kong Special Administrative Region, Macau Special Administrative Region and Taiwan;
“Relevant Resolution”	The Resolution in Relation to the Transfer to and Lease back from SEC Certain Assets by SEHMCF which was submitted to the Board for consideration on 29 April 2021;
“RMB”	Renminbi, the lawful currency of the PRC;
“SEHMCF”	Shanghai Electric Heavy Machinery Casting Forging Co., Ltd., a limited company established in the PRC and a wholly-owned subsidiary of the Company as at the date of this announcement;
“SEC”	Shanghai Electric (Group) Corporation (上海電氣(集團)總公司), the controlling shareholder (as defined in the Listing Rules) of the Company holding 54.55% equity interest in the total issued share capital of the Company as at the date of this announcement;
“SEC Group”	SEC, its subsidiaries and its associates, but excluding the Group;
“subsidiary(ies)”	has the meaning ascribed thereto under the Listing Rules;
“Transactions”	The proposed transactions under the equipment transfer agreement and equipment leaseback agreement entered into between SEHMCF and SEC for 19 sets of fixed assets;
“%”	Percentage.

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

Shanghai, the PRC, 29 April 2021

As at the date of this announcement, the executive directors of the Company are Mr. ZHENG Jianhua, Mr. HUANG Ou and Mr. ZHU Zhaokai; 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. XI Juntong, Dr. XU Jianxin and Dr. LIU Yunhong.

** For identification purpose only*