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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)

REVISION OF ANNUAL CAPS FOR CONTINUING CONNECTED TRANSACTIONS

Reference is made to the announcement of the Company dated 29 October 2019 and the circular of the Company dated 6 December 2019 in relation to, among others, the Continuing Connected Transactions between SE Finance, a subsidiary of the Company, and SEC and the Existing Annual Caps for three years ending 31 December 2022. On 11 May 2021, the Board considered and approved the resolution in respect of the revision of annual caps for the Continuing Connected Transactions with SEC. As SEC is the controlling shareholder holding approximately 54.55% equity interest in the total issued share capital of the Company as at the date of this announcement, SEC is a connected person of the Company as defined under Chapter 14A of the Listing Rules. Therefore, the transactions between SE Finance and SEC constitute continuing connected transactions of the Company under the Listing Rules.

Based on reasons mentioned in this announcement, the Directors believe that the Existing Annual Caps will not be sufficient for the Group's current business needs and therefore propose to revise the Existing Annual Caps for the maximum daily balance of deposit services and loan and bill discounting services to RMB11,500 million and RMB11,500 million for the years ending 31 December 2021 and 2022, respectively, with the terms of the Framework Financial Service Agreements remaining unchanged.

As the highest applicable percentage ratio (as defined in the Listing Rules) of the Proposed Revised Annual Caps under the Continuing Connected Transactions is expected to be more than 5%, the Proposed Revised Annual Caps are subject to reporting, announcement, annual review and Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules. The respective highest applicable percentage ratio of the Proposed Revised Annual Caps under the Continuing Connected Transactions is expected to be more than 5% and less than 25%, and therefore, such transactions fall under the discloseable transactions as defined in Chapter 14 of the Listing Rules, which are subject to reporting and announcement requirements.

INTRODUCTION

Reference is made to the announcement of the Company dated 29 October 2019 in relation to, among others, the Continuing Connected Transactions between SE Finance and SEC and the Existing Annual Caps for three years ending 31 December 2022. On 11 May 2021, the Board considered and approved the resolution in respect of the revision of annual caps for the Continuing Connected Transactions with SEC. As SEC is the controlling shareholder holding approximately 54.55% equity interest in the total issued share capital of the Company as at the date of this announcement, SEC is a connected person of the Company as defined under Chapter 14A of the Listing Rules. Therefore, the transactions between SE Finance and SEC constitute continuing connected transactions of the Company under the Listing Rules.

Based on reasons mentioned in this announcement, the Directors believe that the Existing Annual Caps will not be sufficient for the Group's current business needs and therefore propose to revise the Existing Annual Caps for the maximum daily balance of deposit services and loan and bill discounting services to RMB11,500 million and RMB11,500 million for the years ending 31 December 2021 and 2022, respectively, with the terms of the Framework Financial Service Agreements remaining unchanged.

1. SEC FRAMEWORK DEPOSIT AGREEMENT

Historical Amounts, Existing Annual Caps and Proposed Revised Annual Caps

The table below sets out the historical actual maximum daily balance of deposits (including interests) made by SEC Group with SE Finance for the years ended 31 December 2018, 2019 and 2020:

	For the year ended 31 December		
	2018	2019	2020
	(RMB million)		
Actual maximum daily balance of deposits by SEC Group	4,089	6,969	6,969

After consideration, the proposed increase in the maximum daily balance of SEC's deposits with SE Finance to RMB11,500 million for both years 2021 and 2022 is, on one hand, to meet the peak demand for SE Finance's deposit services that may result from the fund centralization management requirements as well as large cash inflows that may come from land disposal and equity transfer of SEC. On the other hand, it is also conducive to the increase in the daily fund centralization of SEC and its subordinate enterprises through SE Finance and the increase in the average daily deposit scale of SE Finance. The Directors believe that the Existing Annual Caps will not be sufficient for the Group's current business needs. Therefore, on 11 May 2021, the Board proposed to revise the Existing Annual Caps of the transactions under the SEC Framework Deposit Agreement to RMB11,500 million for the years ending 31 December 2021

and 2022. The table below sets out the Existing Annual Caps and the Proposed Revised Annual Caps of the transactions under the SEC Framework Deposit Agreement for the years ending 31 December 2021 and 2022:

	For the year ending 31 December	
	2021	2022
	(RMB million)	
Existing Annual Caps for maximum daily balance of deposit services	7,500	7,500
Proposed Revised Annual Caps for maximum daily balance of deposit services	11,500	11,500

In arriving at the above Proposed Revised Annual Caps, the Directors of the Company have considered that SE Finance may increase the fund centralization scale of SEC and its subsidiaries and allocate the funds to interbank loans and deposits business which provides higher yields, providing the Company with additional spread income through increasing the amount of deposit connected transaction. These interest rates offered by SE Finance to SEC and its subsidiaries are in line with the interest rate policies promulgated by the PBOC from time to time, and are beneficial to all Shareholders of the Company as a whole.

Pricing Basis

The pricing basis for deposit interest rates provided by SE Finance has no substantive change to the same as set out in the circular of the Company dated 6 December 2019.

Interest rates set by SE Finance for deposits by SEC Group will be subject to the relevant guidelines and regulations of the PBOC set out on the website of the PBOC. SE Finance will set its interest rates with reference to the relevant savings rates set by the PBOC from time to time as well as the rates set by the major commercial banks in the PRC. The current interest rates offered by SE Finance in respect of RMB deposits, which range from 0.35% to 2.73% per annum depending on amount and terms of deposits (0.35% for demand deposits, 1.54% to 1.65% for three-month term deposits, 1.75% to 1.95% for six-month term deposits, 2.1% to 2.25% for one-year term deposits, 2.31% to 2.73% for two-year term deposits and 1.38% to 1.5985% for agreement deposits) (the “**Current Deposit Interest Rates**”), are with reference to the prevailing interest rates set and updated by the PBOC as at the date of 24 October 2015 and are in line with the market rates and are subject to adjustment as per regulations and requirements of the PBOC on the interest rates. The annual interest rates set by SE Finance for deposit is the same with the PBOC benchmark rates, the annual interest rates set by SE Finance for agreement deposits represent 120% to 139% of the PBOC benchmark rates, the annual interest rates set by SE Finance for deposits with a term of one year or shorter represent 135%

to 150% of the PBOC benchmark rates and the annual interest rates set by SE Finance for two-year term deposits represent 110%-130% of the PBOC benchmark rates, respectively. SE Finance will consider the size, term and time of deposits and funding needs of SE Finance at the time of taking deposits for each individual case, and offer interest rates higher than the benchmark rates set by the PBOC if the factors mentioned above are favourable to SE Finance. The Directors considered the higher interest rates than the benchmark rates set by the PBOC is still fair and reasonable based on (i) the interest rates offered by SE Finance is within the range of deposit interest rates offered by the major commercial banks in the PRC; and (ii) SE Finance applies the same factors above to all kinds of its clients and offers no preferential treatment to members of SEC Group.

The Current Deposit Interest Rates are not fixed and are subject to adjustment. The finance department of SE Finance will check the deposit interest rates published by the major commercial banks in the PRC monthly and review the rates offered by SE Finance accordingly. SE Finance will apply the above interest rates to all the customers equally. The audit committee of the Company will review the relevant deposit service agreements or provisions entered into between SE Finance and SEC Group quarterly to ensure the pricing basis disclosed above is complied with. Interest for deposits (other than term deposits) is usually payable by SE Finance to SEC Group on a quarterly basis. Interest for term deposits is usually payable by SE Finance to SEC Group on the maturity date.

Reasons and Benefits for Revising the Existing Annual Caps for Deposit Service

In order to provide sufficient funds to the Company and its subsidiaries, SE Finance must ensure sufficient liquidity to meet the needs of granting loans and bill discounting, conducting interbank deposit business, etc. By increasing the maximum daily balance for deposits, SE Finance will be able to increase the fund centralization scale for SEC Group and allocate the funds to loans and the interbank deposit business of higher yields, which will provide additional income from interest spread to the Company. In determining the revision of the Existing Annual Caps for deposit service, the Company takes into account two factors in relation to the fund centralization: the scale of the deposits of SEC Group at the end of 2020 and the significant cash inflows as a result of the recent projects carried out by SEC.

The interest rates offered by SE Finance to SEC Group are in compliance with the interest rate policy promulgated by the PBOC from time to time, which are beneficial to the Company and all its Shareholders. Given that the additional deposits taken by SE Finance can be allocated to the loans and bill discounting as well as the interbank deposit business, it is estimated that the gain from those businesses will be in proportion to the scale of the additional deposits. Since the revenue contribution is related to the asset allocation, allocating funds to loans and bill discounting which provide higher yields will bring higher revenue to the Company.

2. SEC FRAMEWORK LOAN AGREEMENT

Historical Amounts, Existing Annual Caps and Proposed Revised Annual Caps

The table below sets out the historical maximum daily balance of outstanding loans (including interests) maintained by SEC Group with SE Finance for the years ended 31 December 2018, 2019 and 2020:

	For the year ended 31 December		
	2018	2019	2020
	(RMB million)		
Actual maximum daily balance of loan and bill discounting services provided to SEC Group by SE Finance	7,453	7,492	7,389

After consideration, the increase in the maximum daily balance of SEC's loans and bill discounting with SE Finance to RMB11,500 million for 2021 and 2022 is, on one hand, to meet the needs of peak management for loans and bill discounting services of SEC and its subsidiaries. On the other hand, it is expected that the average daily loan and scale of bill discounting business of approximately RMB10 billion will be provided to SEC and its subsidiaries, which is higher than the current level of connected transactions. The Directors believe that the Existing Annual Caps will not be sufficient for the Group's current business needs. Therefore, on 11 May 2021, the Board proposed to revise the Existing Annual Caps of the transactions under the SEC Framework Loan Agreement to RMB11,500 million for the years ending 31 December 2021 and 2022. The table below sets out the Existing Annual Caps and the Proposed Revised Annual Caps of the transactions under the SEC Framework Loan Agreement for the years ending 31 December 2021 and 2022:

	For the year ending December 31	
	2021	2022
	(RMB million)	
Existing Annual Caps for maximum daily balance of loan and bill discounting services	7,500	7,500
Proposed Revised Annual Caps for maximum daily balance of loan and bill discounting services	11,500	11,500

In arriving at the above Proposed Revised Annual Caps, the Directors have considered that as a centralized fund management platform of the Group, in order to effectively utilize the

liquidity of SE Finance and to better allocate financial resources, through increasing the maximum daily balance of SEC's loans and bill discounting, the Company is to re-allocate the resources for providing loans and discounting service to SEC and its subsidiaries with the priority of meeting the credit needs of the Company and its subsidiaries, which can provide more interest income for the Company. These interest rates offered by SE Finance to SEC and its subsidiaries are in line with the interest rate policies promulgated by the PBOC from time to time, and are beneficial to all shareholders of the Company as a whole. In addition, SE Finance has a clear understanding of the financial condition of SEC and its subsidiaries, and each loan is guaranteed by SEC or a company with credit rating of not lower than that of SEC, hence with lower risk of loans and bill discounting connected transactions.

Pricing Basis

The pricing basis for loan services provided by SE Finance has no substantive change to the same as set out in the circular of the Company dated 6 December 2019.

Interest rates set by SE Finance for all loan services provided to SEC Group will be subject to the relevant guidelines and regulations of the PBOC set out on the website of the PBOC. SE Finance determines the relevant interest rates for its loans based on the loan interest rates set by the PBOC from time to time. Currently, SE Finance provides RMB loans to SEC Group with a term within one year, the current interest rates of which range from 3.30% to 4.275% per annum, representing 76% to 98% of the Current Deposit Interest Rates updated by the PBOC on 24 October 2015. Such interest rates are in line with the market rates and are subject to adjustment in accordance with the regulations and requirements of the PBOC on the relevant loan rates from time to time.

Similar to the major commercial banks on the market, SE Finance sets different loan interest rates for different customers after considering major factors including the PBOC benchmark interest rates for each type of loan, the credit status of the customer and the amount of funds available for loans. In the meantime, SE Finance also makes reference to the loan interest rates obtained by members of SEC Group from the major commercial banks in the market before determining the loan interest rate applicable to members of SEC Group.

The Company adopts the following procedures to ensure that the pricing basis disclosed above is complied with: (1) the amount of the total facilities for financing to SEC Group and the relevant terms will be reviewed and approved by the credit approval committee of SE Finance; (2) each grant of loan to SEC Group will be approved by the senior management of SE Finance and (3) the audit committee of the Company will review the loan services between SE Finance and SEC Group on a quarterly basis. There is no common directors between the Company and SEC Group which would be involved in reviewing and approving the loan services including the loan terms.

Interest for loans provided to SEC Group will usually be charged by SE Finance on a quarterly basis.

Reasons and Benefits for Revising the Existing Annual Caps for Loans and Bill Discounting

At the end of 2020, the Company has sufficient funds overall. There is also a greater demand from SEC Group for loans and bill discounting services to be provided by SE Finance. As the centralized fund management platform of the Company, SE Finance primarily allocates its funds to the interbank deposit business under the circumstance of fully utilising its Existing Annual Caps for loans and bill discounting. With the priority of meeting the credit needs of the Company and its subsidiaries, increasing the amount of connected transaction for loans and bill discounting to SEC Group will not only be conducive to the peak management of loans and bill discounting business of SEC Group, but also allocate the resources effectively to generate income from loan interest for the Company at a rate higher than that of the interbank deposits.

At the same time, the interest rates offered by SE Finance to SEC Group are in compliance with the interest rate policy promulgated by the PBOC from time to time, and no lower than the loan interest rates provided by the external banks, which are beneficial to the Company and all its shareholders as a whole. Given that the additional loans and bill discounting funds come from the interbank deposits and the additional deposits taken by SE Finance, it is estimated that the gain from the business will be in proportion to the scale of the additional loans and bill discounting. Since the contribution is related to the source of the funds, granting loans by taking additional deposits will bring higher revenue to the Company.

In addition, SE Finance has a clear understanding of the financial position of SEC Group, and each loan is guaranteed by either SEC or an entity with a credit rating no lower than SEC. The risk of the connected transactions for loans and bill discounting is relatively low.

OPINIONS OF THE BOARD OF DIRECTORS

Mr. Zheng Jianhua, being a Director of the Company, holds directorship(s) in SEC Group and its associates and thus has material interests in the Continuing Connected Transactions. He has therefore abstained from voting on the relevant board resolutions approving such matters (including the Proposed Revised Annual Caps). Other than as disclosed above, none of the other Directors has material interests in these transactions.

The Directors (including the independent non-executive Directors) are of the view that the Existing Annual Caps for deposit services as well as the loan and bill discounting services will not be able to meet the current business needs of the Group, the Continuing Connected Transactions are concluded 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 Continuing Connected Transactions will be fair, reasonable and no less favourable to the Company than those offered by other third parties. Therefore, the Directors (including the independent non-executive Directors) are of the view that the proposed revision of the Existing Annual Caps for the years ending 31 December 2021 and 2022 is fair and reasonable and is in the interest of the Company and the Shareholders as a whole.

LISTING RULES IMPLICATIONS

SEC is the controlling shareholder holding approximately 54.55% equity interest in the total issued share capital of the Company as at the date of this announcement. Therefore, SEC is a connected person of the Company as defined under Chapter 14A of the Listing Rules. Given the highest applicable percentage ratio of the Proposed Revised Annual Caps is expected to be more than 5% as set out under Chapter 14A of the Listing Rules, the Proposed Revised Annual Caps are subject to reporting, announcement, annual review and Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules. The respective highest applicable percentage ratio of the Proposed Revised Annual Caps under the Continuing Connected Transactions is expected to be more than 5% and less than 25%, and therefore, such transactions fall under the discloseable transactions as defined in Chapter 14 of the Listing Rules, which are subject to reporting and announcement requirements.

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.

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.

SE Finance is a subsidiary of the Company in which the Company holds 74.63% equity interest of the issued share capital as at the date of this announcement. SEC holds 9.75% equity interest in SE Finance as at the date of this announcement. SE Finance was set up in 1995 pursuant to the approval granted by the PBOC under "The Regulations Governing Finance Companies of Conglomerates" to provide financial services to the Group and SEC Group. SE Finance has obtained all approvals, permits and licenses necessary for its operations. Currently, the

governing body for financial institutions in the PRC (including SE Finance) is the China Banking and Insurance Regulatory Commission. Under the relevant PRC regulations, SE Finance, as a non-bank finance company, is allowed to provide treasury services to, in addition to the Group, companies where SEC holds at least 20% shareholding or in which SEC has a control.

The Independent Board Committee, comprising all of the independent non-executive Directors, will be established by the Company to advise the Independent Shareholders in respect of, among others, the Proposed Revised Annual Caps. The Company will appoint an independent financial adviser to advise the Independent Board Committee and Independent Shareholders on the Proposed Revised Annual Caps.

A circular containing a letter from the Board setting out the details of the Proposed Revised Annual Caps, a letter from the Independent Board Committee and a letter of advice from the independent financial adviser will be despatched to the Shareholders in due course. As additional time is required for finalizing the circular, it is expected that the circular will be despatched on or before 2 June 2021.

DEFINITIONS

In this Announcement, unless the context otherwise requires, the following terms have the following meanings:

“associate(s)”	has the meaning ascribed thereto under the Listing Rules;
“Board”	the board of Directors;
“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 Transaction(s)”	SE Finance, a subsidiary of the Company, entered into the Framework Financial Services Agreements, namely the SEC Framework Deposit Agreement and the SEC Framework Loan Agreement, with SEC to provide SEC Group with deposit services and loan services;
“controlling shareholder”	has the meaning ascribed to it by the Listing Rules;

“Director(s)”	the directors of the Company;
“Existing Annual Caps”	as previously disclosed in the announcement dated 29 October 2019, the annual caps for the Continuing Connected Transactions between SE Finance, a subsidiary of the Company, and SEC for the years ending 31 December 2021 and 2022, which were RMB7,500 million and RMB7,500 million, respectively;
"Framework Financial Service Agreements"	collectively, the SEC Framework Deposit Agreement and the SEC Framework Loan Agreement;
“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;
“PBOC”	People's Bank of China;
“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;
“Proposed Revised Annual Caps”	the annual caps for maximum daily balance of deposit services and the annual caps for maximum daily balance of loan and bill discounting services to be revised for the Continuing Connected Transactions between SE Finance, a subsidiary of the Company, and SEC for the years ending 31 December 2021 and 2022, which are RMB11,500 million and RMB11,500 million, respectively;
“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 subsidiary of the Company owned as to 74.63% as at the date of this announcement and a limited company incorporated in the PRC;
“SEC”	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 54.55% equity interest in the total issued share capital of the Company as at the date of this announcement;

“SEC Framework Deposit Agreement”	the framework deposit agreement between SE Finance and SEC dated 29 October 2019 for provision of deposit services by SE Finance to SEC Group;
“SEC Framework Loan Agreement”	the framework loan agreement between SE Finance and SEC dated 29 October 2019 for provision of loan and bill discounting services by SE Finance to SEC Group;
“SEC Group”	SEC and its subsidiaries and associates, but excluding the Group;
“subsidiary(ies)”	has the meaning ascribed thereto under the Listing Rules; and
“%”	percent.

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

Shanghai, the PRC, 11 May 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*