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

If you have sold or transferred all your shares in Shanghai Electric Group Company Limited, you should at once hand this circular and the form of proxy and the reply slip to the purchaser or transferee or to the bank or licensed securities dealer or other agent through whom the sale or transfer was effected for transmission to the purchaser or transferee.

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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)

DISCLOSEABLE TRANSACTION AND CONNECTED TRANSACTION DISPOSAL OF 15.24% SHARES IN THVOW TECHNOLOGY AND NOTICE OF EXTRAORDINARY GENERAL MEETING

All capitalised terms used in this circular have the meanings set out in the section headed “Definitions” of this circular. A letter from the Board is set out on pages 1 to 19 of this circular.

A notice convening the extraordinary general meeting of the Company (the “EGM”) to be held at 2:00 p.m. on Friday, 22 July 2022 at Meeting Room, Shanghai Electric Training Base, 2748 Pudong Avenue, Shanghai, the PRC is set out on pages 45 to 47 of this circular.

Forms of proxy for use at the EGM have been published on the website of the Hong Kong Stock Exchange (<http://www.hkexnews.hk>) on 6 July 2022. If you intend to appoint a proxy to attend the EGM, you are requested to complete and return the forms of proxy in accordance with the instructions printed thereon not less than 24 hours before the time fixed for holding the EGM or any adjournment thereof (as the case may be). Completion and return of the forms of proxy will not preclude you from attending the EGM and voting in person if you so wish.

6 July 2022

* For identification purpose only

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DEFINITIONS

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

“A Share(s)”	the domestic ordinary share(s) of nominal value RMB1.00 each in the share capital of the Company, which are listed on the Shanghai Stock Exchange and traded in RMB;
“Articles of Association”	the articles of association of the Company as amended from time to time;
“associate(s)”	has the meaning ascribed thereto under the Listing Rules;
“Board”	the board of Directors;
“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;
“CSRC”	China Securities Regulatory Commission;
“Directors”	the directors of the Company;
“EGM”	the extraordinary general meeting of the Company to be convened at 2:00 p.m. on Friday, 22 July 2022 at Meeting Room, Shanghai Electric Training Base, 2748 Pudong Avenue, Shanghai, the PRC;
“Group”	the Company and its subsidiaries;

DEFINITIONS

“Guarantee Arrangement”	After the completion of the Transaction and subject to obtaining the counter-guarantee, the Company will continue to fulfill guarantee contracts with the total amount of RMB4,614 million during the validity period (among which the amount due within 1 year is RMB3,494 million, the amount due between 1–2 years is RMB1,020 million, and the amount due over 2 years is RMB100 million), which will be used for Thvow Technology and its controlling subsidiaries to borrow from connected (related) parties, and to apply for various financing from various financial institutions. The company will no longer provide guarantees for Thvow Technology and its controlled subsidiaries after the expiration of the validity period of each guarantee;
“H Share(s)”	the overseas listed foreign capital share(s) of nominal value RMB1.00 each in the share capital of the Company, which are listed on the Hong Kong Stock Exchange and traded in Hong Kong dollars;
“Hong Kong”	the Hong Kong Special Administrative Region of the People’s Republic of China;
“Hong Kong Stock Exchange”	The Stock Exchange of Hong Kong Limited;
“Independent Board Committee”	the independent board committee, comprising all the independent non-executive Directors, namely, Dr. Xi Juntong, Dr. Xu Jianxin and Dr. Liu Yunhong, established by the Company to advise the Independent Shareholders on the transactions contemplated under the Share Transfer Agreement;
“Independent Financial Adviser”	Lego Corporate Finance Limited, a corporation licensed to carry out Type 6 (advising on corporate finance) regulated activity under the SFO, being the independent financial adviser appointed to advise the Independent Board Committee and Independent Shareholders in respect of the transactions contemplated under the Share Transfer Agreement;
“Independent Shareholders”	the Shareholders other than SEGC and its associates (as defined in the Listing Rules);
“Independent Third Party(ies)”	any entity or person who is not a connected person of the Company within the meaning ascribed thereto under the Listing Rules;

DEFINITIONS

“Latest Practicable Date”	6 July 2022, being the latest practicable date prior to the printing of this circular for the purpose of ascertaining certain information contained in this circular;
“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 circular only, excludes Hong Kong Special Administrative Region, Macau Special Administrative Region and Taiwan;
“RMB”	Renminbi, the lawful currency of the PRC;
“SEGC”	Shanghai Electric Holding Group Co., Ltd. (former name “Shanghai Electric (Group) Corporation”, completed the industrial and commercial change registration on 28 January 2022), the controlling shareholder (as defined in the Listing Rules) of the Company, holds 54.82% of the total issued share capital of the Company as at the date of the Latest Practicable Date. On 15 November 2021, SEGC entered into the Agreement on the Gratuitous Transfer of 5% shares of Shanghai Electric Group Company Limited from Shanghai Electric (Group) Corporation to Shanghai State-owned Capital Investment Co., Ltd. with Shanghai State-owned Capital Investment Co., Ltd., to gratuitously transfer 785,298,555 A shares to Shanghai State-owned Capital Investment Co., Ltd. At present, the share transfer registration is still in process;
“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong), as amended, supplemented or otherwise modified from time to time;
“Shanghai Lixin”	Shanghai Lixin Industrial Co., Ltd., a limited liability company established in the PRC and a consolidated 100% owned subsidiary of SEGC as at the Latest Practicable Date;
“Share Transfer Agreement”	the execution of the Share Transfer Agreement with precedent conditions between the Company and SEGC on 20 June 2022 in relation to the Transaction;

DEFINITIONS

“Share(s)”	the ordinary share(s) of nominal value RMB1.00 each in the share capital of the Company, including both A Share(s) and H Share(s);
“Shareholder(s)”	the shareholder(s) of the Company, including holder(s) of both A share(s) and H share(s) of the Company;
“subsidiary(ies)”	has the meaning ascribed thereto under the Listing Rules;
“SZSE”	the Shenzhen Stock Exchange;
“Thvow Technology” or “Target Company”	Suzhou Thvow Technology Co., Ltd. (蘇州天沃科技股份有限公司), a joint stock limited company established in the PRC on 31 March 2001, the A Shares of which are listed on the SZSE under stock code 002564 and a subsidiary of the Company, as of the Latest Practicable Date;
“Transaction”	The Company transferred 132,458,814 shares it held in Thvow Technology to SEGC at a consideration of RMB4.26 per share, totaling RMB564,274,547.64 by way of non-public agreement transfer; and
“%”	Percentage.

LETTER FROM THE BOARD



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)

Executive Directors:

Ms. LENG Weiqing

Mr. LIU Ping

Mr. ZHU Zhaokai

Registered office:

30th Floor, Maxdo Center

No. 8 Xingyi Road

Shanghai

PRC

Non-executive Directors:

Mr. GAN Pin

Ms. YAO Minfang

Ms. LI An

Principal place of business in Hong Kong:

Room 901-903,

Tower Two Lippo Centre

89 Queensway

Hong Kong

Independent non-executive Directors:

Dr. XI Juntong

Dr. XU Jianxin

Dr. LIU Yunhong

6 July 2022

To the Shareholders

Dear Sir or Madam,

**DISCLOSEABLE TRANSACTION AND CONNECTED TRANSACTION
DISPOSAL OF 15.24% SHARES IN THVOW TECHNOLOGY
AND
NOTICE OF EXTRAORDINARY GENERAL MEETING**

I. INTRODUCTION

Reference is made to the announcement of the Company dated 20 June 2022 on the Transaction contemplated under the Share Transfer Agreement. The purpose of this circular, to which this letter forms a part of, is to provide you with all the information reasonably necessary to enable you to make an informed decision on whether to vote for or against the proposed resolution at the EGM,

LETTER FROM THE BOARD

including but not limited to regarding (i) details of the Transaction; (ii) a letter of recommendation from the Independent Board Committee to the Independent Shareholders; (iii) a letter of advice from the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders in relation to the Transaction; and (iv) the notice of convening of the EGM.

At the EGM, the following ordinary resolution will be proposed for the Shareholders to approve: the connected transaction regarding Shanghai Electric Group Company Limited transferring 15.24% shares of Suzhou Thvow Technology Co., Ltd. to Shanghai Electric Holding Group Co., Ltd.

II. PROPOSED CONNECTED TRANSACTION

TRANSACTION BACKGROUND AND OVERVIEW

On 20 June 2022, the Board of the Company considered and approved the resolution in relation to the termination of the issuance of shares by Suzhou Thvow Technology Co., Ltd. to purchase 100% equity of Shanghai Boiler Works Co. Ltd. (上海鍋爐廠有限公司) and to raise supporting funds and the resolution in relation to the connected transaction regarding Shanghai Electric Group Company Limited transferring 15.24% shares of Suzhou Thvow Technology Co., Ltd. to Shanghai Electric Holding Group Co., Ltd., approving the Company to transfer 132,458,814 shares it held in Thvow Technology to SEGC by way of non-public agreement transfer, at a consideration of RMB4.26 per share, totaling RMB564,274,547.64. On 20 June 2022, the Company and SEGC entered into the Share Transfer Agreement with conditions precedent regarding the Transaction.

The Transaction is subject to the fulfillment of the relevant procedures of state-owned assets supervision and administration and the consideration and approval at the EGM of the Company, and there are certain uncertainties in the subsequent implementation of the Transaction.

SHARE TRANSFER AGREEMENT

On 20 June 2022, the Company and SEGC entered into the Share Transfer Agreement with conditions precedent. The main contents of the Share Transfer Agreement are as follows:

LETTER FROM THE BOARD

(I) Transfer of Shares

The Company agreed to transfer the target shares held by it and all equity of shareholders derived therefrom to SEGC in accordance with the terms and conditions of the Share Transfer Agreement, and SEGC agreed to acquire the target shares in accordance with the terms and conditions of the Share Transfer Agreement.

(II) Payment of Transfer Price and Transfer of Shares

1. Both parties agree that the transfer price per share of the target shares shall be determined at the higher of:
 - (1) 90% of the closing price of the shares of the Target Company on the trading day immediately preceding the date of entering into the Share Transfer Agreement;
 - (2) the arithmetic average of the daily weighted average price of the Target Company for the 30 trading days prior to the indicative announcement date of the Transaction;
 - (3) The audited net asset value per share of the Target Company for the latest accounting year.
2. Based on the above pricing principle, both parties agreed that the price of the shares to be transferred shall be RMB4.26 per share, and the total transfer price shall be RMB564,274,547.64.
3. Both parties agree that SEGC shall pay 30% of the transfer price as deposit to the Company within five working days from the date of entering into the Share Transfer Agreement, and the remaining transfer price shall be paid to the bank account designated by the Company within 10 working days after the Share Transfer Agreement becomes effective. If the Share Transfer Agreement does not become effective due to the non-fulfilment of any of the conditions precedent set out in article 3 of the Share Transfer Agreement, the Company shall return the deposit to SEGC within five working days from the date on which the conditions precedent are confirmed to be not fulfilled.
4. Both parties agree that both parties shall actively cooperate to complete the registration procedures for the transfer of the shares to be transferred after the transfer price of the target shares has been fully paid.

LETTER FROM THE BOARD

(III) Conditions Precedent to the Share Transfer Agreement Becoming Effective

The Share Transfer Agreement shall become effective upon the satisfaction of all of the following conditions precedent:

1. The Share Transfer Agreement has been signed and sealed by the Company and SEGC and its legal representatives or authorised representatives;
2. Both parties and the Target Company have completed their internal decision-making procedures to approve the Transaction in accordance with the relevant laws and regulations, their respective articles of association and other internal organisational documents;
3. The Transaction has fulfilled the relevant procedures of state-owned assets supervision and administration.

(IV) Special Provisions

In respect of a series of guarantee measures provided by the Company for the Target Company, both parties agreed that the Company will continue to perform the original guarantee contracts within the validity period provided that the counter-guarantee is obtained. Upon expiry of the validity period of each guarantee, the Company will not continue to provide guarantee for the Target Company, and SEGC, as the state-owned shareholder of the Target Company, will provide relevant support to the Target Company in accordance with the laws and regulations and after performing relevant procedures.

(V) Tax Sharing

1. The taxes and fees charged by the competent government authorities involved in the Transaction shall be borne by both parties in accordance with the laws and regulations of the PRC and the existing specific requirements of the relevant authorities. Where there are no or unclear provisions in the laws, regulations and relevant authorities, they shall be resolved by the parties through negotiation.
2. The share transfer registration fees incurred during the transaction of the target shares under the contract shall be paid by both parties in accordance with relevant regulations.

LETTER FROM THE BOARD

(VI) Effectiveness of the Agreement

The Share Transfer Agreement shall be established from the date of signing by both parties and shall become effective from the date of satisfaction of all conditions precedent under the Share Transfer Agreement.

BASIC INFORMATION OF SEGC

Name of company	Shanghai Electric Holding Group Co., Ltd.
Date of establishment	14 January 1985
Registered address	No. 110 Sichuan Middle Road, Huangpu District, Shanghai
Principal office address	No. 110 Sichuan Middle Road, Huangpu District, Shanghai
Legal representative	Leng Weiqing
Registered capital	RMB9,930,366,000
Unified social credit code	913100001322128733
Type of enterprise	Limited liability company (wholly state-owned)
Controlling shareholder	100% owned by Shanghai State-owned Assets Supervision and Administration Commission

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Main business scope	<p>Licensed business: production of Class II medical devices; production of Class III medical devices; operation of Class III medical devices; import and export of goods; import and export of technologies. (For projects subject to approval in accordance with the law, business activities can only be carried out after approval by the relevant authorities, and the specific business projects shall be subject to the approval documents or licences of the relevant authorities). General business: general contracting of power engineering projects, general contracting of complete sets of equipment or sub-contracting, outsourcing labour services, industrial investment, manufacturing and sales of mechanical and electrical products and equipment in related industries, providing relevant technical consultation and training for domestic and export projects, operation and management of state-owned assets within the scope authorised by the Municipal State-owned Assets Supervision and Administration Commission, domestic trade (except for special regulations), design, production and agency distribution of various advertisements; production of Class I medical devices; sales of Class I medical devices; sales of Class II medical devices; medical equipment leasing; Engineering and technology research and experimental development; Software development; research and development of machinery and equipment. (Except for projects subject to approval in accordance with the law, business activities shall be carried out independently according to the law with business license)</p>
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Term of operation	1998–05–28 to non-fixed term
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The key financial data of SEGC for the latest year and period are as follows:

Unit: RMB0'000

Item	31 March 2022	31 December 2021 (Audited)
Total assets	38,125,256.29	38,155,572.11
Total liabilities	27,309,843.16	27,618,321.73
Total equity	10,815,413.13	10,537,250.38

Item	January to March 2022	2021 (Audited)
Total revenue	3,403,833.11	16,349,525.62
Net profit/(loss)	37,536.83	(1,330,388.48)

LETTER FROM THE BOARD

The above financial information of SEGC for the year of 2021 has been audited by Baker Tilly China Certified Public Accountants.

BASIC INFORMATION OF THVOW TECHNOLOGY

The transaction target is 15.24% shares in Thvow Technology by way of agreement transfer, which belongs to the category of connected transactions in which the Company sells assets.

In May 2018 and on 3 August 2018, the Company entered into the share subscription agreement with the Target Company and the Share Purchase Agreement with Mr. Chen Yuzhong (the then controller of the Target Company) and his spouse, respectively. On 3 August 2018, the Company also entered into the Voting Rights Entrustment Agreement with Mr. Chen Yuzhong, pursuant to the above-mentioned agreements, the Company has been entitled to exercise approximately 29.87% of the voting power in the Target Company, among which 15.00% as a shareholder and 14.87% as a trustee of the Voting Rights Entrustment Agreement and the Company has also become the single largest shareholder of the Target Company since then. The main reason for the delegation is that the Company was expected to control the Target Company through the above-mentioned agreements.

According to the Voting Rights Entrustment Agreement, the voting rights proxy shall be irrevocably entrusted to the Company until Mr. Chen Yuzhong no longer holds any Entrusted Shares under the Voting Rights Entrustment Agreement. Therefore, it would be unpracticable for Mr. Chen Yuzhong to revoke the Voting Rights Entrustment Agreement and the Company continues to hold the voting rights proxy.

Prior to the Transaction, the Company held 132,458,814 shares of Thvow Technology, representing 15.24% of the total share capital of Thvow Technology. The Company held the voting rights of 131,290,074 shares of Thvow Technology through voting right proxy, representing 15.10% of the total share capital of Thvow Technology. The total number of voting shares accounted for 30.34% of the total share capital of Thvow Technology, and the Company was the controlling shareholder of Thvow Technology.

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After the transaction, the Company will no longer be the controlling shareholder of Thvow Technology and would only hold the voting rights of 131,290,074 shares of Thvow Technology by voting rights proxy. Keeping the voting rights proxy following the completion of the Transaction will not incur extra cost or resources to the Company.

Name of Company	Suzhou Thvow Technology Co., Ltd.
Date of establishment	31 March 2001
Registered address	No. 1 Linjiang Road, Changshan Village, Jingang Town, Zhangjiagang City, Jiangsu Province
Principal business address	B103-104, No. 1737 Zhongshan North Road, Putuo District, Shanghai
Legal representative	Yu Zhengqing
Registered capital	RMB869,375,282
Unified social credit code	91320500703676365K
Type of enterprise	Joint stock limited company (listed)
Main business scope	Design and manufacturing: class A1 high pressure vessels, class A2 type III low and medium pressure vessels; manufacturing of class A boiler components (steam drum only). General business: manufacture and maintenance of petroleum, chemical, medical, textile, chemical fibre and food machinery; purchase and sale of machinery accessories; installation and sale of tank trucks; design and manufacture of marine engineering equipment; self-operation and agency of import and export of various commodities and technologies. (For business subject to approval according to law, business activities can only be carried out after approval by relevant authorities) Permitted business: construction project survey; various engineering construction activities; construction engineering design; installation, repair and testing of power facilities (for business subject to approval in accordance with the law, operation activities can only be carried out after approval by relevant authorities, and specific business are subject to the approval results) General business: engineering management services; overseas contracting projects; power generation technology services; Technical services, technology development, technology consulting, technology exchange, technology transfer, technology promotion; biomass energy technology services; sales of power facilities and equipment; leasing of machinery and equipment. (Except for business subject to approval in accordance with the law, operating activities independently with business licences)
Term of operation	31 March 2001 to 30 March 2051

LETTER FROM THE BOARD

On 20 April 2022, as considered and approved at the 43rd meeting of the fourth session of the board of directors of Thvow Technology, Thvow Technology intended to cancel the remaining portion of the shares repurchased in 2019 which had not been cancelled so far, the number of shares to be cancelled was 10,470,805 shares. Upon completion of the cancellation of the repurchased shares, the total share capital of Thvow Technology will decrease from 869,375,282 shares to 858,904,477 shares. As at the Latest Practicable Date, Thvow Technology was in the process of fulfilling the creditors' notification procedures for the share cancellation.

The ownership of the 15.24% shares of Thvow Technology to be transferred is clear. There is no mortgage, pledge and any other restrictions on the transfer, no litigation, arbitration matters, or judicial measures such as seizure and freezing are involved, and there are no other obstacles to the transfer of ownership.

The key financial data of Thvow Technology for the latest year and period is as follows:

Unit: RMB0'000

Item	31 March 2022	31 December 2021 (Audited)
Total assets	2,783,706.79	2,847,235.54
Total liabilities	2,559,464.01	2,623,509.49
Total equity	224,242.77	223,726.06

Item	January to March 2022	2021 (Audited)
Total revenue	138,076.50	680,679.12
Net profit/(loss) after taxation	495.02	(82,324.35)

LETTER FROM THE BOARD

The net profit before and after taxation of Thvow Technology for the two financial years ended 31 December 2021 (in accordance with the Accounting Standards for Business Enterprises of the PRC) is as follows:

Unit: RMB0'000

Item	2021 (Audited)	2020 (Audited)
Net profit/(loss) before taxation	(85,798.26)	(167,484.01)
Net profit/(loss) after taxation	(82,324.35)	(140,192.05)

The above financial information of Thvow Technology for the years of 2020 and 2021 has been audited by Zhonghua Certified Public Accountants LLP.

Set out below is a summary of the consolidated financial information of Thvow Technology and its subsidiaries (“**Thvow Technology Group**”) for the three years ended 31 December 2019, 2020 and 2021 and three months ended 31 March 2022 respectively, which was prepared in accordance with PRC accounting standard, as extracted from the published annual reports of Thvow Technology Group for the years ended 31 December 2019, 2020 and 2021 and the first quarterly report of Thvow Technology Group for the three months ended 31 March 2022:

	For the three months ended 31 March 2022 <i>RMB'000</i> <i>(unaudited)</i>	For the year ended 31 December		
		2021 <i>RMB'000</i> <i>(audited)</i>	2020 <i>RMB'000</i> <i>(audited)</i>	2019 <i>RMB'000</i> <i>(audited)</i>
Revenue	1,380,765	6,806,791	7,712,474	10,779,197
Profit/(loss) for the year/period	4,950	(823,243)	(1,401,920)	138,840
Profit/(loss) for the year/period attributable to the shareholders of Thvow Technology	<u>1,871</u>	<u>(693,320)</u>	<u>(1,159,517)</u>	<u>42,392</u>

LETTER FROM THE BOARD

	As at 31 March 2022 <i>RMB'000</i> <i>(unaudited)</i>	As at 31 December 2021 <i>RMB'000</i> <i>(audited)</i>	As at 31 December 2020 <i>RMB'000</i> <i>(audited)</i>	As at 31 December 2019 <i>RMB'000</i> <i>(audited)</i>
Non-current assets	6,353,973	6,326,076	6,059,202	6,455,243
Current assets	21,483,095	22,146,279	24,328,693	25,370,870
Current liabilities	22,663,832	22,473,239	22,345,065	22,634,928
Net current assets/(liabilities)	(1,180,737)	(326,960)	1,983,628	2,735,942
Non-current liabilities	2,930,808	3,761,856	4,956,353	4,692,189
Net assets	<u>2,242,428</u>	<u>2,237,261</u>	<u>3,086,477</u>	<u>4,498,996</u>

Note:

1. The above figures are subject to rounding adjustments.
2. the net asset of the Thvow Technology was decrease from RMB4,498,996,000 as at 31 December 2019 to RMB2,242,428,000 as at 31 March 2022.
3. The loss of the Thvow Technology for the year of 2020 and 2021 are RMB1,401,920 and RMB823,243, respectively. The total loss generated from 2020 and 2021 is RMB2,225,163, which is almost equal to the net asset as at 31 March 2022.

TRANSACTION PRICE

Given that Thvow Technology is a company listed on the main board of the SZSE, according to the relevant business rules of the SZSE, the agreed transfer of shares of a company listed on the main board of the SZSE shall be based on the closing price of the transferred shares in the secondary market on the trading day preceding the date of entering into the agreement. The lower end of the transfer price range shall be subject to the provisions of block trading. The agreed transfer price of shares of a company listed on the main board of the SZSE shall not be lower than 90% of the closing price of the shares of the company on the trading day preceding the date of entering into the agreement (where ST and *ST are subject to special treatment, the transfer price shall not be lower than 95% of the closing price of the shares of the company on the trading day preceding the date of entering into the agreement), unless otherwise provided by laws, administrative regulations, departmental rules, regulatory documents and business rules of the SZSE.

According to the relevant provisions of the Measures for the Supervision and Administration of State-owned Equities of Listed Companies, the price for non-public agreement transfer of shares of listed companies by state-owned shareholders shall not be lower than the higher of the following: the arithmetic average of the daily weighted average price for the 30 trading days prior to the indicative announcement date or the audited net asset value per share of listed companies for the latest accounting year.

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According to the above provisions, after negotiation between the parties to the Transaction, the transfer price per share of the target shares shall be determined at the higher of:

- (1) 90% of the closing price of the shares of the Target Company on the trading day immediately preceding the date of entering into the Share Transfer Agreement, which is RMB4.14 per share;
- (2) the arithmetic average of the daily weighted average price of the Target Company for the 30 trading days prior to the indicative announcement date of the Transaction dated June 21, 2022, which is RMB4.26 per share;
- (3) the audited net asset value per share of the Target Company for the latest accounting year, which is RMB2.08 per share.

According to the above provisions, the transfer price of the target shares is RMB4.26 per share, and the total transfer price of shares is RMB564,274,547.64.

GUARANTEE ARRANGEMENT

As at the Latest Practicable Date, the aggregate amount of guarantee contracts provided by the Company to Thvow Technology and its controlled subsidiaries which were in the term of the guarantees was RMB4,614 million, (among which the amount due within 1 year is RMB3,494 million, the amount due between 1–2 years is RMB1,020 million, and the amount due over 2 years is RMB100 million), for the purposes of their loans from connected (related) parties and various types of financing applications from various financial institutions. The aggregate amount under the Guarantee represented only approximately 1.53% of the total assets of the Company as at 31 December 2021. The Company has not and will not receive any guarantee fee from above-mentioned guarantee contracts. The Guarantee Arrangement and the Share Transfer Agreement are a whole package deal. In order to ensure the fairness and equality of the guarantee, Thvow Technology and its designated third parties have provided the Company with counter-guarantee including but not limited to equity interests in subsidiaries, credit guarantees, assets pledge, etc. as the counter-guarantee to cover each guarantee contract the Company involved, where the counter-guarantee amount and counter-guarantee period is same as the guarantee amount and guarantee period that the Company is responsible for. However, the Company may be still subject to the guarantee risk under current guarantee arrangement especially when the counter-guarantee from Thvow Technology and its designated third parties could not cover the guarantee amount. Meanwhile, the Company is not subject to additional guarantee risk compared to that before the Transaction as the relevant guarantee amount, guarantee period, guarantee conditions and other guarantee terms remain unchanged. As the controlling shareholder, SEGC will endeavour to protect the Company from the above-mentioned guarantee risks. SEGC will support the healthy development of the Target Company and strive to reduce the Target Company's debt ratio, which in turn to protect the Company from the above-mentioned guarantee risks. Upon the completion of the Transaction, SEGC with its abundant resources could conduct reorganization to improve the business operation and the financial performance of the Target Company, which in turn will lower

LETTER FROM THE BOARD

the guarantee risk of the Company. After the completion of the Transaction and subject to obtaining the counter-guarantee, the Company will continue to perform the existing guarantee contracts within the validity period. Upon the expiry of the validity period of each guarantee, the Company will no longer provide guarantee for Thvow Technology and its controlled subsidiaries.

LOAN EXTENSION AGREEMENT

On 28 January 2022, the Company and Thvow Technology entered into the Loan Extension Agreement of RMB1.3 billion and the Loan Extension Agreement of RMB0.7 billion, respectively, pursuant to which the Company agreed to extend the above loans totaling RMB2 billion to Thvow Technology for 12 months by 21 February 2023 and 28 February 2023, respectively, and the loan interest rate during the extension period is 3.85% per annum. As an A share listed company, the Company is not allowed to provide loans to the controlling shareholder in accordance with the article 10 of Notice of the State Council on Approving and Forwarding the Opinions of the China Securities Regulatory Commission on Improving the Quality of Listed Companies, therefore the Company will terminate the above Loan Extension Agreement before the completion of the Transaction in an appropriate manner subject to compliance with relevant laws and regulations. Thvow Technology will repay the loan principal together with relevant interests to the Company. The termination of the Loan Extension Agreement is not a condition precedent to the Share Transfer Agreement.

REASONS FOR AND BENEFITS FROM THE TRANSACTION

In the past two years, due to the impact of the COVID-19 pandemic, rising procurement and construction costs and other factors, Thvow Technology was facing difficulties in operation. In order to improve the sustainable operation capability and profitability of Thvow Technology, the Company originally intended to improve the asset quality of Thvow Technology by injecting 100% equity interest in Shanghai Boiler Works Co. Ltd. (上海鍋爐廠有限公司) into Thvow Technology. However, due to the recent changes in the external market environment, it is highly uncertain to continue to promote the above transaction. After prudent research and analysis and negotiation between the parties to the Transaction, the Company proposed to terminate the asset reorganisation. As the indirect controlling shareholder of Thvow Technology, and to further support the development of Thvow Technology by relying on the resources of SEGC, SEGC plans to acquire the Company's shares in Thvow Technology after due negotiation between the parties.

In 2018, the Company subscribed and acquired 81,181,318 shares and 51,277,496 shares in Thvow Technology at the consideration of RMB590,999,995.04 and RMB350,225,297.68.

LETTER FROM THE BOARD

According to management account of the Target Company as of 30 May 2022, the book net identifiable asset attributable to the Company after deducting the goodwill (RMB303 million) of the Target Company is about RMB122 million. Therefore, the Company is expected to recognize a net gain of RMB139 million from the Transaction considering the Transaction Price is RMB564 million. The proceeds from the Transaction can be used to replenish the daily working capital of the Company supporting the healthy development of the main business. In 2018, the Company entered into relevant subscription/acquisition agreements to obtain 132 million shares of the Target Company at the consideration of RMB941 million and designated it as a financial instrument measured at fair value through other comprehensive income. In February 2019, the Company obtained control over the Target Company and According to the Accounting Standards for Business Enterprises No. 20 – Business Combination, the assets paid, liabilities incurred or assumed by the purchaser as consideration for the business combination on the purchase date shall be measured at fair value. Therefore, the Company recognized the investment cost based on the fair value of the Target Company's then stock price at RMB664 million accordingly. According to Accounting Standards for Business Enterprises No. 22 Recognition and Measurement of Financial Instruments, if an enterprise designates a non-trading equity instrument investment as a financial asset measured at fair value and its changes as other comprehensive income, when the financial asset is derecognized, the accumulated gains or losses previously recognized as other comprehensive income shall be transferred from to retained earnings. Therefore, the Company recognized the accumulated fair value loss of RMB277 million as retained earnings in the owner's equity. From February 2019 to May 2022, the operating loss of the Target Company attributable to the Company was RMB219 million. In addition, during this period, the Company recognized a goodwill impairment of RMB20 million for the goodwill arising from the acquisition of the Target Company. The total of the above two matters resulted in a further decrease in the identifiable net assets attributable to the Company (including the goodwill of the Company's investment in the Target Company) from RMB664 million to RMB425 million.

LETTER FROM THE BOARD

IMPACTS OF THE TRANSACTION

Upon completion of the Transaction, Thvow Technology will become a subsidiary of SEGC and become a connected person of the Company. Several kinds of existing continuing transactions for a fixed period with fixed terms between the Target Company and the Company would become connected continuing transactions upon completion of the Transaction, including but not limited to transactions related to deposit, loan, guarantee, procurement and sales. Upon the completion of the Transaction, the Company will as soon as practicable after becoming aware of the scope of proposed continuing connected transactions transferred from existing continuing transactions upon completion of the Transaction, comply with the annual review and disclosure requirements including publishing an announcement and annual reporting if the Company continues to conduct the transaction under the agreements and when the agreements are renewed or their terms are varied, comply with all connected transaction requirements. The Company will determine the prices of the connected transactions in accordance with the principles of openness, impartiality, fairness and justice, and strictly perform the decision-making procedures and information disclosure obligations of the connected transactions in accordance with the provisions of relevant laws and regulations to ensure the fairness of the connected transactions.

Before the Transaction, the Company issued relevant undertakings to avoid horizontal competition in August 2018 and December 2019, respectively, as the controlling shareholder of Thvow Technology making arrangements on avoiding horizontal competition regarding the field of new energy power engineering general contracting by relying on the differentiated competitive advantages of both parties. To safeguard the interests of minority shareholders of the Company, the Company will terminate the above-mentioned undertakings Upon completion of the Transaction.

OPINION FROM THE BOARD

On 20 June 2022, the resolution in relation to the termination of the issuance of shares by Suzhou Thvow Technology Co., Ltd. to purchase 100% equity of Shanghai Boiler Works Co. Ltd. (上海鍋爐廠有限公司) and to raise supporting funds and the resolution in relation to the connected transaction regarding Shanghai Electric Group Company Limited transferring 15.24% shares of Suzhou Thvow Technology Co., Ltd. to Shanghai Electric Holding Group Co., Ltd. were considered and approved at the 70th meeting of the fifth session of the Board of the Company. The resolutions have been approved by the independent Directors of the Company in advance and was approved to be submitted to the Board of the Company for consideration. The connected Directors of the Company, namely Ms. Leng Weiqing, Mr. Gan Pin, Mr. Liu Ping and Mr. Zhu Zhaokai, abstained from voting. All other Directors present at the Meeting approved these resolutions. Voting results: 5 votes in favour, 0 vote against and 0 abstaining vote.

LETTER FROM THE BOARD

The independent Directors of the Company are of the view that “we have reviewed the resolutions and are not aware of any violation of regulations or damage to the interests of the shareholders of the Company. The pricing of the share transfer is determined after negotiation between the parties to the Transaction in accordance with the Measures for the Supervision and Administration of State-owned Equities of Listed Companies and the relevant business rules of the SZSE, and is fair and reasonable and in the interests of the Company and its shareholders as a whole. At the same time, the Company will continue to perform the existing guarantee contracts provided to Thvow Technology and its controlled subsidiaries which are in the validity period subject to obtaining the counter-guarantee, which is in line with the practical needs and not prejudicial to the interests of the shareholders of the Company. When considering the resolutions, the connected Directors, namely Ms. Leng Weiqing, Mr. Gan Pin, Mr. Liu Ping and Mr. Zhu Zhaokai, abstained from voting. Other Directors attending the Meeting voted for the resolutions. The procedures of consideration and voting at the meeting comply with the laws, administrative regulations, rules of the stock exchanges where the shares of the Company are listed and relevant provisions of the articles of association of the Company”.

LISTING RULES IMPLICATION

As at the Latest Practicable Date, SEGC, the transferee of the share transfer in the Transaction, is the controlling shareholder of the Company, holding approximately 54.82% equity interest in the total issued share capital of the Company. Therefore, SEGC is a connected person of the Company as defined under Chapter 14A of the Listing Rules and the Transaction constitutes a connected transaction of the Company under Chapter 14A of the Listing Rules.

As the highest applicable percentage ratio (as defined in the Listing Rules) for the Transaction is more than 5% but is less than 25%, and therefore the Transaction is subject to the reporting, announcement, circular (including independent financial advice) and the independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

As the highest applicable percentage ratio (as defined in the Listing Rules) for such Transaction is more than 5% but is less than 25%, and therefore the Transaction is subject to the reporting, announcement, circular (including independent financial advice) and the independent shareholders' approval requirements under Chapter 14 of the Listing Rules.

LETTER FROM THE BOARD

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

As at the Latest Practicable Date, Thvow Technology is a controlled subsidiary of the Company and the principal business consists of three segments, namely energy engineering services, manufacturing of high-end equipment and military-civilian integration. The ultimate beneficial owner of Thvow Technology is Shanghai State-owned Assets Supervision and Administration Commission.

As at the Latest Practicable Date, SEGC is the controlling shareholder of the Company holding approximately 54.82% of equity interest in the total issued share capital of the Company. The principal business of SEGC is the management of state-owned assets and investment activities. SEGC is an enterprise wholly-owned by Shanghai State-owned Assets Supervision and Administration Commission and is one of the largest comprehensive equipment manufacturing conglomerates in China.

III. EGM

A notice convening the EGM to be held at 2:00 p.m. on Friday, 22 July 2022 at Meeting Room, Shanghai Electric Training Base, 2748 Pudong Avenue, Shanghai, the PRC is set out on pages 45 to 47 of this circular.

In order to determine the list of Shareholders who are entitled to attend the EGM, the register of members of the H Shares will be closed from Wednesday, 20 July 2022 to Friday, 22 July 2022 (both days inclusive) during which period no transfer of H Shares will be effected. Holders of the Company's H Shares whose names appear on the register of members of the H Shares on Friday, 22 July 2022 are entitled to attend the meeting.

LETTER FROM THE BOARD

In order to attend and vote at the meeting, holders of H Shares whose transfers have not been registered shall deposit the transfer documents together with the relevant share certificates at the H Share registrar of the Company, Computershare Hong Kong Investor Services Limited, at or before 4:30 p.m. on Tuesday, 19 July 2022. The address of the transfer office of Computershare Hong Kong Investor Services Limited is Shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong.

In order to be valid, the form of proxy together with the power of attorney or other authorization document (if any) signed by the authorised person or notarially certified power of attorney must be deposited to Computershare Hong Kong Investor Services Limited for holders of H Shares at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong not less than 24 hours before the time fixed for holding the EGM or any adjournment thereof (as the case may be). Completion and return of a form of proxy will not preclude a Shareholder from attending and voting in person at the EGM if he/she so wishes.

As at the Latest Practicable Date, SEGC is the controlling shareholder of the Company holding approximately 54.82% equity interest in the total issued share capital of the Company. Pursuant to Rule 14A.70(12) of the Listing Rules, where shareholders' approval is required with regard to a connected transaction, any shareholder with a material interest in such transaction will not vote on such transaction. Accordingly, SEGC shall at the EGM abstain from voting on all resolutions proposed at the EGM.

As at the Latest Practicable Date, SEGC and its associates controlled or were entitled to exercise control over the voting rights in respect of 8,227,400,468 A Shares and 313,642,000 H Shares in the Company, representing approximately 54.82% of the entire issued share capital of the Company. To the extent that the Company is aware having made all reasonable enquiries, as at the Latest Practicable Date, except for the gratuitous transfer arrangement between SEGC and Shanghai State-owned Capital Investment Co., Ltd. subject to the further fulfillment:

- (i) there was no voting trust or other agreement or arrangement or understanding entered into by or binding upon SEGC;
- (ii) the members of SEGC were not subject to any obligation or entitlement whereby they had or might have temporarily or permanently passed control over the exercise of the voting right in respect of their shares in the Company to a third party, whether generally or on a case-by-case basis; and
- (iii) it was not expected that there would be any discrepancy between SEGC's beneficial shareholding interest in the Company and the number of shares in the Company in respect of which they would control or would be entitled to exercise control over the voting right at the EGM.

As far as the Directors are aware, other than SEGC, no other Shareholder has a material interest in any of the resolution and so has to abstain from voting at the EGM on the above-mentioned resolution.

LETTER FROM THE BOARD

IV. RECOMMENDATION

Your attention is drawn to the letter from the Independent Board Committee set out on pages 20 to 21 of this circular and the letters from the Independent Financial Adviser set out on pages 22 to 44 of this circular.

The Independent Board Committee, having taken into account of the advice of the Independent Financial Adviser, considers that although the entering into of the Share Transfer Agreement is not in the ordinary and usual course of business of the Group, the transactions contemplated under the Share Transfer Agreement are on normal commercial terms, fair and reasonable so far as the Independent Shareholders are concerned, and in the interests of the Company and the Shareholders as a whole. Accordingly, the Independent Board Committee recommends the Independent Shareholders to vote in favour of the relevant resolution to be proposed at the EGM.

The Directors are of the view that all of the transactions described in this circular are fair and reasonable, on normal commercial terms and in the interests of the Company and the Shareholders as a whole. The Directors are of the view that the Guarantee Arrangement in this circular are fair and reasonable mainly due to the following reasons: i) according to the existing guarantee contracts, the Company has the obligation to continue to perform the original guarantee contracts to the Target Company until all the relevant guarantee contracts expire; ii) the Company will not be subject to additional guarantee risk compared to that before the Transaction as the relevant guarantee amount, guarantee period, guarantee conditions and other guarantee terms remain unchanged; and iii) the Guarantee Arrangement and the Share Transfer Agreement are a whole package deal where SEGC had taken the Guarantee Arrangement into consideration when determining whether to acquire the shares in the Target Company from the Company.

Accordingly, the Directors (including the members of the Independent Board Committee) recommend all the relevant Shareholders to vote in favour of the resolution to be proposed at the EGM.

V. VOTING BY POLL

According to Rule 13.39(4) of the Listing Rules, the resolution at the general meeting of the Company will be taken by way of poll.

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

By order of the Board
Shanghai Electric Group Company Limited
Chairlady of the Board
LENG Weiqing

Shanghai, the PRC

LETTER FROM THE INDEPENDENT BOARD COMMITTEE

The following is the text of a letter from the Independent Board Committee setting out its recommendation to the Independent Shareholders in relation to the transactions contemplated under the Share Transfer Agreement.



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)

6 July 2022

To the Independent Shareholders

Dear Sirs or Madams,

DISCLOSEABLE TRANSACTION AND CONNECTED TRANSACTION DISPOSAL OF 15.24% SHARES IN THVOW TECHNOLOGY

We refer to the circular dated 6 July 2022 issued by the Company to the Shareholders (the “**Circular**”), of which this letter forms part. Terms defined in the Circular shall have the same meanings herein unless the context otherwise requires.

We have been appointed by the Board as members of the Independent Board Committee to advise the Independent Shareholders on whether the transactions contemplated under the Share Transfer Agreement are on normal commercial terms, in the ordinary and usual course of business, fair and reasonable and are in the interests of the Company and the Shareholders as a whole.

Lego Corporate Finance Limited has been appointed as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders in the transactions contemplated under the Share Transfer Agreement.

After taking into account of the advice of Lego Corporate Finance Limited as set out on pages 22 to 44 of the circular, we are of the view that although the entering into of the Share Transfer Agreement is not in the ordinary and usual course of business of the Group, the terms of the Share Transfer Agreement are on normal commercial terms, fair and reasonable so far as the Independent Shareholders are concerned, and in the interests of the Company and the Shareholders as a whole.

LETTER FROM THE INDEPENDENT BOARD COMMITTEE

Accordingly, we recommend the Independent Shareholders to vote in favour of the resolution(s) to be proposed at the EGM to approve the transactions contemplated under the Share Transfer Agreement.

Yours faithfully

The Independent Board Committee

Dr. XI Juntong

Dr. XU Jianxin

Dr. LIU Yunhong

Independent non-executive Directors

* *For identification purpose only*

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

The following is the full text of the letter from the Independent Financial Adviser setting out the advice to the Independent Board Committee and the Independent Shareholders in relation to the Share Transfer Agreement and the transactions contemplated thereunder, which has been prepared for the purpose of inclusion in this circular.



6 July 2022

To: *The Independent Board Committee and the Independent Shareholders
of Shanghai Electric Group Company Limited*

Dear Sir or Madam,

DISCLOSEABLE TRANSACTION AND CONNECTED TRANSACTION DISPOSAL OF 15.24% SHARES IN THVOW TECHNOLOGY

INTRODUCTION

We refer to our appointment as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in respect of the terms of the Share Transfer Agreement and the transactions contemplated thereunder, details of which are set out in the “Letter from the Board” (the “**Letter from the Board**”) contained in the circular issued by the Company to the Shareholders dated 6 July 2022 (the “**Circular**”), of which this letter forms apart. Terms used in this letter shall have the same meanings as defined in the Circular unless the context otherwise requires.

On 20 June 2022, the Company and SEGC entered into the Share Transfer Agreement pursuant to which the Company agreed to transfer 132,458,814 shares in Thvow Technology held by it to SEGC at a consideration of RMB4.26 per share, totaling RMB564,274,547.64 by way of non-public agreement transfer. The Transaction is subject to the fulfillment of the relevant procedures of state-owned assets supervision and administration and the consideration and approval by the independent shareholders of the Company at the EGM.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

As at the Latest Practicable Date, SEGC, the transferee of the share transfer in the Transaction, is the controlling shareholder of the Company, holding approximately 54.82% equity interest in the total issued share capital of the Company. Therefore, SEGC is a connected person of the Company as defined under Chapter 14A of the Listing Rules and the Transaction constitutes a connected transaction of the Company under Chapter 14A of the Listing Rules. As the highest applicable percentage ratio (as defined in the Listing Rules) for the Transaction is more than 5%, the Share Transfer Agreement and the transactions contemplated thereunder are subject to the reporting, announcement, circular (including independent financial advice) and the independent shareholders' approval requirements under Chapter 14A of the Listing Rules. As the highest applicable percentage ratio (as defined in the Listing Rules) for the Transaction is more than 5% but is less than 25%, and therefore the Transaction also constitutes a discloseable transaction of the Company under Chapter 14 of the Listing Rules.

The EGM will be convened and held for the Independent Shareholders to consider and, if thought fit, approve the transactions contemplated under the Share Transfer Agreement. In accordance with Rule 14A.36 of the Listing Rules, SEGC and its relevant associates will abstain from voting at the EGM.

THE INDEPENDENT BOARD COMMITTEE

The Independent Board Committee, comprising all the independent non-executive Directors, namely Dr. Xi Juntong, Dr. Xu Jianxin and Dr. Liu Yunhong, has been formed to advise the Independent Shareholders as to whether the Transaction is conducted in the ordinary and usual course of business of the Group, on normal commercial terms, fair and reasonable so far as the Company and the Independent Shareholders are concerned and is in the interests of the Company and the Independent Shareholders as a whole, and as to how to vote in respect of the relevant resolution(s) to be proposed at the EGM to approve the Share Transfer Agreement and the transactions contemplated thereunder. As the Independent Financial Adviser, our role is to give an independent opinion to the Independent Board Committee and the Independent Shareholders in such regard.

As at the Latest Practicable Date, Lego Corporate Finance Limited did not have any relationships or interests with the Company that could reasonably be regarded as relevant to the independence of Lego Corporate Finance Limited. During the past two years, Lego Corporate Finance Limited was engaged to act as the independent financial adviser to the then independent board committee and independent shareholders of the Company in relation to a continuing connected transaction, details of which are set out in the announcement of the Company dated 11 May 2021. Save for the aforesaid and the engagement in connection with the Transaction, we had not been engaged by the Company for the provision of other services that would affect our independence. As at the Latest Practicable Date, save for the normal professional fees for our services provided to the Company in relation to the engagements described above, there were no other arrangements whereby we would receive any fees and/or benefits from the Group, therefore we consider such relationship would not affect our independence. Apart from normal professional fees paid or payable to us in connection with the engagement described above and this appointment as the Independent Financial Adviser, no arrangements exist whereby we have received or will receive any fees or benefits from the Group. Accordingly, we are independent under Rule 13.84 of the Listing Rules and qualified to give independent advice in respect of the terms of the Share Transfer Agreement and the transactions contemplated thereunder.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

BASIS OF OUR OPINION

In formulating our opinion and advice, we have relied on (i) the information and facts contained or referred to in the Circular; (ii) the information provided by the Group; (iii) the opinions expressed by and the representations of the Directors and the management of the Group; and (iv) our review of the relevant public information. We have assumed that all the information provided and representations and opinions expressed to us by the Directors and/or the management of the Group for which they are solely and wholly responsible for, or contained or referred to in the Circular were true, accurate and complete in all respects as at the date hereof and may be relied upon. We have also assumed that all statements contained and representations made or referred to in the Circular are true at the time they were made and continue to be true as at the date thereof and may be relied upon. We have also assumed that all such statements of belief, opinions and intentions of the Directors and the management of the Group and those as set out or referred to in the Circular were reasonably made after due and careful enquiry. We have no reason to doubt the truth, accuracy and completeness of the information and representations provided to us by the Directors and/or the management of the Group. We have also sought and received confirmation from the Company that no material facts have been withheld or omitted from the information provided and referred to in the Circular and that all information or representations provided to us by the Directors and the management of the Group are true, accurate, complete and not misleading in all respects at the time they were made and continued to be so until the date of the EGM. The Company shall inform the Independent Shareholders as soon as practicable if there is any material change to such information in accordance with the Listing Rules on or before the date of the EGM.

We consider that we have reviewed sufficient information currently available to reach an informed view and to justify our reliance on the accuracy of the information contained in the Circular so as to provide a reasonable basis for our recommendation. We have not, however, carried out any independent verification of the information provided, representations made or opinion expressed by the Directors and the management of the Group, nor have we conducted any form of in-depth investigation into the business, affairs, operations, financial position or future prospects of the Company or any of their respective subsidiaries or associates.

PRINCIPAL FACTORS AND REASONS CONSIDERED

In arriving at our recommendation in respect of the Share Transfer Agreement and the transactions contemplated thereunder, we have considered the following principal factors and reasons.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

1. Background and financial information on the Group

The Group is one of the largest industrial equipment manufacturing conglomerates in the PRC engaged in the following principal activities: (i) energy equipment business, including coal-fired power generation and auxiliary equipment, gas power generation equipment, wind power equipment, nuclear power equipment, energy storage equipment, high-end chemical equipment, power grid and industrial intelligent power supply system solutions; (ii) industrial equipment business, including elevators, large and medium sized electrical motors, intelligent manufacturing equipment, industrial base parts, construction and industrialization equipment; and (iii) integration service business, including energy, environmental protection and automation engineering and services, including all kinds of traditional and new energy, solid waste comprehensive utilization, sewage treatment, flue gas treatment, rail transit, etc.; industrial Internet services; financial services, including finance lease, insurance brokers; property management services, etc.

The following table is a summary of the consolidated audited financial information of the Group for the three years ended 31 December 2019, 2020 and 2021 as extracted from the annual reports of the Company for the year ended 31 December 2020 (the “**2020 Annual Report**”) and for the year ended 31 December 2021 (the “**2021 Annual Report**”), respectively.

	For the year ended 31 December		
	2021	2020	2019
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
		<i>(Restated)</i>	<i>(Restated)</i>
Revenue	131,387,852	137,285,056	127,508,964
Net (loss)/profit for the year attributable to owners of the Company	(9,987,908)	3,758,175	3,501,037

	As at 31 December		
	2021	2020	2019
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Non-current assets	91,026,346	87,456,785	81,322,644
Current assets	209,775,844	227,945,949	199,200,945
Current liabilities	168,879,341	183,492,354	164,061,142
Net current assets	40,896,503	44,453,595	35,139,803
Non-current liabilities	33,778,496	25,061,038	24,873,275
Net assets	98,144,353	106,849,342	91,589,172

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

For the year ended 31 December 2020

For the year ended 31 December 2020, total revenue of the Group was approximately RMB137,285.06 million, representing an increase of approximately 7.67% as compared to that of approximately RMB127,508.96 million for the year ended 31 December 2019. With reference to the 2020 Annual Report, such increase in revenue was mainly resulted from the growth in revenue from both energy equipment business and integrated services due to the increased revenue of wind power business achieved as compared to the previous year.

For the year ended 31 December 2020, the Group recognised net profit for the year attributable to the owners of the Company of approximately RMB3,758.18 million, representing an increase of approximately 7.34% as compared to that of approximately RMB3,501.04 million for the year ended 31 December 2019. Such increase in net profit was mainly attributable to the growth in revenue as described in the above paragraph.

As at 31 December 2020, the Group recorded net current assets and net assets of approximately RMB44,453.60 million and approximately RMB106,849.34 million, respectively.

For the year ended 31 December 2021

For the year ended 31 December 2021, total revenue of the Group was approximately RMB131,387.85 million, representing a decrease of approximately 4.30% as compared to that of approximately RMB137,285.06 million for the year ended 31 December 2020. With reference to the 2021 Annual Report, the decrease in revenue was mainly due to decrease in revenue from the integrated services business which was resulted from the drop in revenue from engineering service as compared to the previous year.

For the year ended 31 December 2021, the Group recognised net loss attributable to owners of the Company of approximately RMB9,987.91 million for the year ended 31 December 2021 as opposed to the net profit attributable to owners of the Company of approximately RMB3,758.18 million for the previous year. Based on the 2021 Annual Report, it is noted that such loss-making performance was primarily resulted from the enlargement in credit impairment losses with respect to significant projects recognised by the Group for the year ended 31 December 2021 as compared to the previous year.

As at 31 December 2021, the Group recorded net current assets and net assets of approximately RMB40,896.50 million and RMB98,144.35 million, respectively.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

2. Background and financial information on Thvow Technology

As disclosed in the Letter from the Board, Thvow Technology is a controlled subsidiary of the Company and its principal business consists of three segments namely energy engineering services, manufacturing of high-end equipment and military-civilian integration. Thvow Technology is a joint stock limited company established in the PRC and the A shares of which are listed on the SZSE under the stock code 002564.

Set out below is a summary of the consolidated financial information of Thvow Technology and its subsidiaries (“**Thvow Technology Group**”) for the two years ended 31 December 2020 and 2021 and for the three months ended 31 March 2021 and 2022 respectively, which was prepared in accordance with PRC accounting standard, as extracted from the published annual reports of Thvow Technology Group for the year ended 31 December 2021 and the first quarterly report of Thvow Technology Group for the three months ended 31 March 2022:

	For the three months ended		For the year ended	
	31 March		31 December	
	2022	2021	2021	2020
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
	<i>(unaudited)</i>	<i>(unaudited)</i>	<i>(audited)</i>	<i>(audited)</i>
Revenue	1,380,765	2,019,022	6,806,791	7,712,474
Profit/(loss) for the year/period	4,950	8,736	(823,243)	(1,401,920)
Profit/ (loss) for the year/period attributable to the shareholders of Thvow Technology	1,871	4,821	(693,320)	(1,159,517)
	As at	As at	As at	
	31 March	31 December	31 December	
	2022	2021	2020	
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	
	<i>(unaudited)</i>	<i>(audited)</i>	<i>(audited)</i>	
Non-current assets	6,353,973	6,326,076	6,059,202	
Current assets	21,483,095	22,146,279	24,328,693	
Current liabilities	22,663,832	22,473,239	22,345,065	
Net current assets/(liabilities)	(1,180,737)	(326,960)	1,983,628	
Non-current liabilities	2,930,808	3,761,856	4,956,353	
Net assets	2,242,428	2,237,261	3,086,477	

Note: The above figures are subject to rounding adjustments.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

For the year ended 31 December 2021

For the year ended 31 December 2021, total revenue of Thvow Technology Group was approximately RMB6,806.79 million, representing a decrease of approximately 11.74% as compared to that of approximately RMB7,712.47 million for the year ended 31 December 2020. As disclosed in the annual report of Thvow Technology for the year ended 31 December 2021, it is noted that such decrease in revenue was mainly due to the decrease in revenue from the business of energy engineering services and the manufacturing of high-end equipment caused by delays in projects commencement time amid the rising construction cost within the new energy industry.

For the year ended 31 December 2021, Thvow Technology Group recognised loss for the year of approximately RMB823.24 million, which has narrowed by approximately 41.28% as compared to the loss of approximately RMB1,401.92 million for the year ended 31 December 2020. With reference to the annual report of Thvow Technology for the year ended 31 December 2021, it is noted that such loss-making performance was mainly attributable to (i) the lower-than-expected revenue from the energy engineering services business; and (ii) the increase in provisions of credit impairment and asset impairment due to delays in receipt of government subsidies with respect to power plants received by customers and therefore corresponding delays in payment collection from customers. The loss attributable to shareholders of Thvow Technology for the year ended 31 December 2021 amounted to approximately RMB693.32 million, showing a decrease of approximately 40.21% from that of approximately RMB1,159.52 million for the previous year.

As at 31 December 2021, Thvow Technology Group recorded net current liabilities and net assets of approximately RMB326.96 million and approximately RMB2,237.26 million, respectively. It is noted that the turnaround from net current asset as at 31 December 2020 to net current liabilities position as at 31 December 2021 was primarily due to the increase in current liabilities as a result of the change in recognition of partial long-term loans which become fall due within one year from non-current liabilities to current liabilities and the decrease in current assets as a result the reduced level of accounts receivables and prepayments, which was partially offset by the decrease in contract liabilities as at 31 December 2021.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

For the three months ended 31 March 2022

For the three months ended 31 March 2022, total revenue of Thvow Technology Group was approximately RMB1,380.77 million, representing a decrease of approximately 31.61% as compared to that of approximately RMB2,019.02 million for the three months ended 31 March 2021. With reference to the first quarterly report of Thvow Technology for the three months ended 31 March 2022, the decrease in revenue was mainly attributable to the decrease in revenue generated from the energy engineering services business as compared to the previous corresponding period.

For the three months ended 31 March 2022, Thvow Technology Group recognised profit for the period of approximately RMB4.95 million, representing a decrease of approximately 43.36% as compared to that of approximately RMB8.74 million for the previous corresponding period. According to the first quarterly report of Thvow Technology for the three months ended 31 March 2022, such drop in profit was mainly due to (i) the decrease in revenue as described in the above paragraph; and (ii) the increase in provisions of credit impairment and asset impairment as compared to the previous corresponding period. The profit attributable to shareholders of Thvow Technology for the three months ended 31 March 2022 amounted to approximately RMB1.87 million, showing a decrease of approximately 61.20% from that of approximately RMB4.82 million for the previous corresponding period.

As at 31 March 2022, Thvow Technology Group recorded net current liabilities and net assets of approximately RMB1,180.74 million and RMB2,242.43 million, respectively. It is noted that the further increase in net current liabilities was mainly resulted from the increase in current liabilities as a result of the change in recognition of partial long-term loans which become fall due within one year from non-current liabilities to current liabilities.

3. Reasons for and benefits of entering into the Share Transfer Agreement

In considering the Share Transfer Agreement, we have principally taken into account the historical financial performance of Thvow Technology.

On the fundamental aspect, we noted from the 2021 Annual Report that despite the Group holds 132,458,814 shares (representing 15.24% of the total share capital of Thvow Technology) and voting rights of 131,290,074 shares (representing 15.10% of the total share capital of Thvow Technology) through voting right proxy, which is less than 50% of the voting rights of Thvow Technology, the total number of voting shares of the Group accounted for 30.34% and therefore the Group has substantial control over the Thvow Technology Group and it has been treated as a subsidiary of the Group where its financial results have been consolidated into the consolidated financial statements of the Group. It is noted that Thvow Technology has been recording declining revenue and consecutive loss-making performance for the years ended 31 December 2020 and 2021 (as discussed in the above section headed “2. Background and financial information on Thvow Technology”), and therefore loss attributable to its shareholders (including the Group). It is also notable that the revenue generated from the energy engineering services, being a major income driver, demonstrated year-on-year and period-on-period decreases. As enquired with the management of the Company, we learnt that since 2020, the Thvow Technology Group has been facing various operational challenges brought by the COVID-19 pandemic as well as the rising procurement and construction costs, leading to delays in commencement of energy engineering projects and therefore the scale of business of Thvow Technology has contracted. Hence, the profitability of Thvow Technology has been severely affected, resulted in consecutive loss-making performance in 2020 and 2021. In order to improve the sustainable operation capability and profitability of Thvow Technology, the Company originally intended to improve the asset quality of Thvow Technology by injecting 100% equity interest in Shanghai Boiler Works Co. Ltd. (上海鍋爐廠有限公司) into Thvow Technology. However, due to the recent changes in the external market environment, it is highly uncertain to continue to promote the above transaction. After prudent research and analysis and negotiation between the parties to the Transaction, the Company proposed to terminate the asset reorganisation. As the indirect controlling shareholder of Thvow Technology, and to further support the development of Thvow Technology by relying on the resources of SEGEC, SEGEC agreed to acquire the Company’s shares in Thvow Technology after due negotiation between the parties.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

We understand that the Company has initially invested in Thvow Technology since May 2018 -with an average investment cost of approximately RMB7.11 per share. As further discussed in the below section headed “4. Principal terms of the Share Transfer Agreement”, notwithstanding the trading price of the shares of Thvow Technology has started to increase from around April 2022, the trading price has been largely fluctuating during the Review Period (as defined below). In general, we noted that the trading price of the shares of Thvow Technology has been on an overall downtrend since the Company’s initial investment in 2018, during which the trading price of the shares displayed a notable decline from the initial investment cost of RMB7.28 per share to the lowest of RMB2.72 per share on 8 February 2021, representing a drop in value of approximately 62.64% during the period. Further, we noticed that no dividend income had been received by the Group from its investment in Thvow Technology.

Accordingly, the Transaction represents an exit opportunity for the Group to realise its investment in the shares of Thvow Technology at a net gain of RMB139 million, which would potentially prevent the Group from incurring further investment loss. As disclosed in the Letter from the Board, the proceeds from the Transaction would be applied to replenish the general working capital of the Group in support of its daily business operation.

In view of the above and considering that (i) the Transaction would allow the Group to unlock its investment in the Thvow Technology at a gain and avoid any further potential negative impact to the financial performance of the Group associated with the Thvow Technology Group considering its consecutive loss-making performance in 2020 and 2021; (ii) the trading price of the shares of Thvow Technology has been on an overall downward trend since the Company’s initial investment; and (iii) the proceeds from the Transaction would be used to replenish the Group’s general working capital and enhance its liquidity, we are of the view that the entering into of the Share Transfer Agreement and the transactions contemplated thereunder is in the interests of the Company and the Independent Shareholders as a whole.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

4. Principal terms of the Share Transfer Agreement

Pursuant to the Share Transfer Agreement, the Company agreed to transfer 132,458,814 shares of Thvow Technology (representing 15.24% of total share capital of Thvow Technology) held by it to SEGC at a consideration of RMB4.26 per share, totaling at RMB564,274,547.64 by way of non-public agreement transfer, subject to conditions precedent to the Transaction. For further details of the principal terms of the Share Transfer Agreement, please refer to the section headed “Share Transfer Agreement” in the Letter from the Board.

The consideration of RMB4.26 per share represents:

- (i) a discount of approximately 9.94% to the closing price of RMB4.73 per share as quoted on the SZSE on 20 June 2022, being the date of the Share Transfer Agreement;
- (ii) a discount of approximately 8.19% to the average closing price of approximately RMB4.64 per share as quoted on the SZSE for the last five consecutive trading days immediately prior to the date of the Share Transfer Agreement;
- (iii) a discount of approximately 10.32% to the average closing price of approximately RMB4.75 per share as quoted on the SZSE for the last ten consecutive trading days immediately prior to the date of the Share Transfer Agreement;
- (iv) a discount of approximately 4.48% to the average closing price of approximately RMB4.46 per share as quoted on the SZSE for the last 20 consecutive trading days immediately prior to the date of the Share Transfer Agreement;
- (v) a discount of approximately 1.84% to the closing price of RMB4.34 per share as quoted on the SZSE on the Latest Practicable Date; and
- (vi) a premium of approximately 104.81% over the unaudited consolidated net asset value per share attributable to the shareholders of Thvow Technology as at 31 March 2022 of approximately RMB2.08 per share (as computed by dividing the unaudited consolidated net asset value of approximately RMB1,812.34 million as at 31 March 2022 attributable to owners by the number of issued shares of 869,375,282).

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

As disclosed in the Letter from the Board, the consideration of RMB4.26 per share was determined in accordance with the relevant rules and provisions in respect of the off-market sale and purchase of listed securities on the SZSE. In particular, the parties have agreed that the transfer price shall be determined based on the higher of:

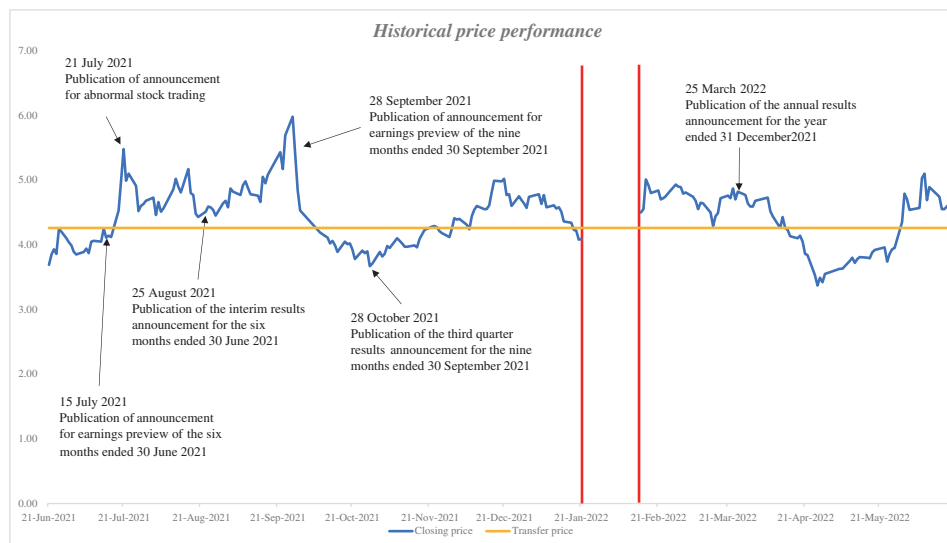
- (1) 90% of the closing price of the shares of the target company on the trading day immediately preceding the date of entering into the Share Transfer Agreement, which is RMB4.14 per share;
- (2) the arithmetic average of the daily weighed average price of the target company for the 30 trading days prior to the indicative announcement date of the Transaction dated June 21, 2022, which is RMB4.26 per share; and
- (3) the audited net asset value per share of the target company for the latest accounting year, which is RMB2.08 per share.

Evaluation of the transfer price

In further assessing the fairness and reasonableness of the transfer price, we have considered the historical performance and trading liquidity of the shares of Thvow Technology during the one-year period prior to and including the date of the Share Transfer Agreement (the “**Review Period**”). We consider that the Review Period which covers the one-year period prior to the date of the Share Transfer Agreement is reasonable and represents a sufficient period of time to provide a general reference on the recent market performance of the shares of Thvow Technology for the purpose of our analysis.

4.1 Historical price performance

The chart below shows the historical movements of daily closing prices of the shares of Thvow Technology during the Review Period:



Source: Thomson Reuters Eikon

Note:

Trading of the shares was suspended during the period from 24 January 2022 to 14 February 2022 pending publication of the announcement in relation to the issuance of shares to purchase assets.

As illustrated in the chart above, the closing price of the shares of Thvow Technology ranged from the lowest of RMB3.37 per share on 26 April 2022 and the highest of RMB5.98 per share on 27 September 2021, with an average closing price of approximately RMB4.42 per share during the Review Period. Following publication of announcement for earnings preview for the six months ended 30 June 2021 of Thvow Technology on 15 July 2021, the closing price of the shares surged from approximately RMB4.12 per share on 16 July 2021 and reached the peak at approximately RMB5.48 per share on 21 July 2021. Subsequently, the closing price of the shares started to exhibit a downward trend before re-bouncing in August 2021. Following publication of the interim results announcement for the six months ended 30 June 2021, the closing share price oscillated since late August 2021, and reached the peak of approximately RMB5.98. Since the publication of the announcement for earnings preview for the nine months ended 30 September 2021 on 28 September 2021, the closing share price continue to decline until the third quarter results announcement for the nine months ended 30 September 2021 was published on 28 October 2021. The share price then fluctuated significantly and bottomed at the lowest price of RMB3.37 per share on 26 April 2022. Subsequently, the closing share price began to recover following a publication

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

of announcement for creditors of reduction in registered capital due to cancellation of repurchased shares on 26 May 2022. Then, the closing price of the shares continued to fluctuate within the range of closing price of approximately RMB4.54 per share to approximately RMB5.10 per share and up to the date of the Share Transfer Agreement.

The transfer price of RMB4.26 per share lies within the range of the closing price during the Review Period, and represents a premium of approximately 26.41% over the lowest closing price of RMB3.37, a discount of approximately 28.76% to the highest closing price of RMB5.98 and a discount of approximately 3.62% to the average closing price of RMB4.42 during the Review Period.

4.2 Trading liquidity

Set out below is the average daily trading volumes of the shares of Thvow Technology during the Review Period:

Table 1: Average daily trading volume of shares during the Review Period

Period/month	Total volume of the shares traded <i>(Shares)</i>	Number of trading days <i>(days)</i>	Average daily volume <i>(Shares) (Note 1)</i>	Percentage of average daily trading volume over total number of issued shares <i>% (Note 2)</i>
2021				
June (starting from 21 June)	291,322,748	8	36,415,344	4.19%
July	1,204,845,020	22	54,765,683	6.30%
August	876,978,278	22	39,862,649	4.59%
September	1,059,638,908	20	52,981,945	6.09%
October	431,335,740	16	26,958,484	3.10%
November	429,825,216	22	19,537,510	2.25%
December	829,323,137	23	36,057,528	4.15%

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Period/month	Total volume of the shares traded <i>(Shares)</i>	Number of trading days <i>(days)</i>	Average daily volume <i>(Shares) (Note 1)</i>	Percentage of average daily trading volume over total number of issued shares <i>% (Note 2)</i>
2022				
January	268,578,577	14	19,184,184	2.21%
February	603,789,924	11	54,889,993	6.31%
March	439,938,475	23	19,127,760	2.20%
April	199,472,767	19	10,498,567	1.21%
May	152,989,586	19	8,052,083	0.93%
June (up to and including the date of the Share Transfer Agreement)	845,035,966	13	65,002,767	7.48%

Source: Thomson Reuters Eikon

Notes:

1. Computed by dividing the monthly trading volumes of the shares by the total number of trading days of the respective corresponding months.
2. Computed by dividing the average daily trading volumes of the shares by the issued share capital of Thvow Technology of 869,375,282 shares as at the date of the Share Transfer Agreement.

As illustrated in the above table, the average daily trading volume of the shares of Thvow Technology ranged from approximately 8.1 million shares to approximately 65.0 million shares, representing approximately 0.93% to 7.48% of the total number of shares in issue as at the end of the relevant month/period, during which the percentage of shares traded in most of the months were below 5% of the total number of shares in issue.

While the trading liquidity of the shares was considered moderate, it still may not be practicable for the Company to dispose of the entire block of the shares subject to the Transaction in the open market without exerting downward pressure to the market price of the shares. As such, the Company considers that setting the transfer price at a discount to the prevailing market price of the shares which serves as an incentive for SEGC is justifiable.

4.3 *Comparable analysis*

In assessing the fairness and reasonableness of the transfer price, we have also carried out an analysis by comparing market valuation of peer companies listed in the PRC. Having considered the principal business activities that Thvow Technology engaged in (being the provision of energy engineering services, which contributed to more than 50% of its total revenue), we have, on a best-effort basis, identified comparable companies based on the information extracted from public domain which are (i) listed on the Shanghai Stock Exchange or the SZSE; (ii) established and principally operating in the PRC; and (iii) principally engaged in provision of energy engineering, procurement and construction (“EPC”) contracting and power engineering design within the new energy sector with more than 50% of the latest reported annual revenue generated from such business. Based on our selection criteria, we have identified an exhaustive list of four companies (the “**Comparable Companies**”) which are considered representative and appropriate for comparison purpose as they are all engaged in the same or similar business sector in the PRC as Thvow Technology and derived majority of their respective revenues from this business.

As Thvow Technology is loss-making which render the price-to-earnings multiple inapplicable, we have considered the price-to-book (“P/B”) multiple which measures the book value of common owner equity, being an important indicator of shareholders’ value, which we considered appropriate for our analysis purpose. As such, we have computed and compared the P/B ratio of Thvow Technology represented by the transfer price of RMB4.26 per share against the P/B ratios of the Comparable Companies, details of which are set out in Table 2 below.

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Table 2: Summary of the Comparable Companies

Listed issuer	Stock code	Market	P/B
		capitalisation (Note 1) (RMB' billion) (approximate)	(Note 2) (times) (approximate)
湖南百利工程科技股份有限公司 (Hunan Baili Engineering Sci & Tech Co., Ltd.*)	603959.SH	6.25	9.20
福建永福電力設計股份有限 公司 (Fujian Yongfu Power Engineering Co., Ltd.*)	300712.SZ	8.84	7.73
中國電力建設股份有限公司 (Power Construction Corporation of China*)	601669.SH	123.76	1.03
晶科電力科技股份有限公司 (Jinko Power Technology Co., Ltd.*)	601778.SH	16.20	1.33
		Minimum	1.03
		Maximum	9.20
		Average	4.82
Thvow Technology	002564.SZ	3.70 (Note 3)	2.04 (Note 4)

Sources: The official websites of the SZSE (<http://www.szse.cn>) and the Shanghai Stock Exchange (<http://www.sse.com.cn/>)

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Notes:

1. Computed based on the total issued share capital and the closing share price of the Comparable Companies as at the date of the Share Transfer Agreement.
2. Computed by dividing the respective market capitalisations of the Comparable Companies as at the date of the Share Transfer Agreement by the respective net asset values attributable to shareholders as at the respective latest financial period end of the Comparable Companies as extracted from the latest published financial reports of the Comparable Companies.
3. This represents the implied value of the consideration of the Transaction with respect to 100% equity interest in Thvow Technology which is computed by dividing the consideration of the Transaction of RMB564,274,547.64 by the proportion of equity interest in Thvow Technology to be disposed of under the Transaction of 15.24%.
4. This represents the implied P/B ratio of Thvow Technology, which is computed by dividing the implied value of the consideration with respect to 100% equity interest in Thvow Technology by the reported net asset value attributable to the shareholders as at 31 March 2022.

As illustrated in Table 2 above, the P/B ratios of the Comparable Companies ranged from approximately 1.03 times to approximately 9.20 times, with an average P/B ratio of approximately 4.82 times.

Notwithstanding that (i) the transaction price of RMB4.26 represented a discount to (a) the closing price during the period from 30 May 2022 up to the date of the Share Transfer Agreement and (b) the average closing price of RMB4.42 during the Review Period; and (ii) the implied P/B ratio of Thvow Technology of approximately 2.04 times is below the average P/B ratio of the Comparable Companies, having considered that (i) the prevailing trading price of the shares of Thvow Technology has been on an overall downtrend since the Company's initial investment in 2018; (ii) the transfer price falls within the range and approximates to the average closing price of the shares during the Review Period amid the fluctuating share price performance throughout the period; (iii) the implied P/B ratio of Thvow Technology falls within the range of the P/B ratios of the Comparable Companies; (iv) the transfer price represents a significant premium of approximately 104.81% over the unaudited consolidated net asset value per share attributable to the shareholders of Thvow Technology as at 31 March 2022; (v) the consecutive loss-making performance of Thvow Technology for 2020 and 2021 which have brought negative financial impact to the Group, and accordingly the disposal of Thvow Technology would enable the Group to avoid any further potential negative financial impact brought by Thvow Technology as a subsidiary; (vi) the Transaction would enable the Group to realise a gain from disposal; and (vii) the uncertainty in moving forward the proposed transaction regarding the injection of Shanghai Boiler Works Co. Ltd. (上海鍋爐廠有限公司) into Thvow Technology to improve its business operation due to recent change of market environment, while SEGC as the indirect controlling shareholder of Thvow Technology is willing to take up additional shares and further support the development of Thvow Technology, we are of the view that the transfer price under the Transaction is fair and reasonable.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Guarantee arrangement

As at the Latest Practicable Date, the aggregate amount of guarantee contracts provided by the Company to Thvow Technology and its controlled subsidiaries which were in the term of the guarantees was RMB4,614 million, (among which the amount due within 1 year is RMB3,494 million, the amount due between 1-2 years is RMB1,020 million, and the amount due over 2 years is RMB100 million), for the purposes of their loans from connected (related) parties and various types of financing applications from various financial institutions. The Company has not and will not receive any guarantee fee from the above-mentioned guarantee contracts. In order to ensure the fairness and equality of the guarantee, Thvow Technology and its designated third parties have provided the Company with counter-guarantee including but not limited to equity interests in subsidiaries, credit guarantees, assets pledge, etc. as the counter-guarantee to cover each guarantee contract the Company involved, where the counter-guarantee amount and counter-guarantee period is the same as the guarantee amount and guarantee period that the Company is responsible for. However, the Company may be still subject to the guarantee risk under current guarantee arrangement especially when the counter-guarantee from Thvow Technology and its designated third parties could not cover the guarantee amount. Meanwhile, the Company is not subject to additional guarantee risk compared to that before the Transaction as the relevant guarantee amount, guarantee period, guarantee conditions and other guarantee terms remain unchanged. As the controlling shareholder, SEGC will endeavour to protect the Company from the above-mentioned guarantee risks. SEGC will support the healthy development of Thvow Technology and strive to reduce its debt ratio, which in turn to protect the Company from the above-mentioned guarantee risks. Upon the completion of the Transaction, SEGC with its abundant resources could conduct reorganization to improve the business operation and the financial performance of Thvow Technology, which in turn will lower the guarantee risk of the Company. After the completion of the Transaction, the Company will continue to perform the existing guarantee contracts within the validity period (the “**Guarantee Arrangement**”). Upon the expiry of the validity period of each guarantee, the Company will no longer provide guarantee for Thvow Technology and its controlled subsidiaries.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Despite that no guarantee fee had been and will be received by the Company for the Guarantee Arrangement, taking into consideration and balancing with the facts that (i) the Guarantee Arrangement and the Share Transfer Agreement are a whole package deal where SEGC had taken the Guarantee Arrangement into consideration when determining whether to acquire the shares in the Thvow Technology from the Company, especially when the financial performance of the Thvow Technology is deteriorating; (ii) Thvow Technology and its designated third parties have provided the Company with counter-guarantee which serves to protect the interests of the Company; (iii) the guarantee risk on the part of the Company is relatively limited given the aggregate amount under the guarantee represented only around 1.53% of the total assets of the Company as at 31 December 2021 and a substantial portion of the guarantee will mature within one or two years upon which the Company will no longer provide guarantee for Thvow Technology and its controlled subsidiaries; and (iv) given the relatively strong financial capability and abundant resources of SEGC, SEGC is willing to offer support to Thvow Technology to improve its business operation and financial position, which would mitigate any potential risks arising from the Guarantee Arrangement, we are of the view that the Guarantee Arrangement following completion of the Transaction is on normal commercial term, fair and reasonable and in the interests of the Company and the Independent Shareholders as a whole.

Non-competition undertaking

Before the Transaction, the Company issued relevant undertakings to avoid horizontal competition in August 2018 and December 2019, respectively, as the controlling shareholder of Thvow Technology making arrangements on avoiding horizontal competition regarding the field of new energy power engineering general contracting by relying on the differentiated competitive advantages of both parties. To safeguard the interests of minority shareholders of the Company, the Company will terminate the aforesaid undertakings upon completion of the Transaction, which we consider such arrangement to be fair and reasonable.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Loan extension agreement

On 28 January 2022, the Company and Thvow Technology entered into the Loan Extension Agreement of RMB1.3 billion and the Loan Extension Agreement of RMB0.7 billion, respectively, pursuant to which the Company agreed to extend the above loans totaling RMB2 billion to Thvow Technology for 12 months by 21 February 2023 and 28 February 2023, respectively, and the loan interest rate during the extension period is 3.85% per annum. As an A share listed company, the Company is not allowed to provide loans to the controlling shareholder in accordance with the article 10 of Notice of the State Council on Approving and Forwarding the Opinions of the China Securities Regulatory Commission on Improving the Quality of Listed Companies, therefore the Company will terminate the above Loan Extension Agreement before the completion of the Transaction in an appropriate manner subject to compliance with relevant laws and regulations. Thvow Technology will repay the loan principal together with relevant interests to the Company. The termination of the Loan Extension Agreement is not a condition precedent to the Share Transfer Agreement.

Notwithstanding that the termination of the Loan Extension Agreement is not a condition precedent to the Share Transfer Agreement, as advised by the Company and having considered the relevant facts and circumstances, it is a mutual understanding between the parties to the Share Transfer Agreement that the Loan Extension Agreement be terminated before completion of the Transaction in order to ensure compliance with the relevant laws and regulations where the Company as an A share listed company is not allowed to provide loan to its controlling shareholder (including Thvow Technology which will become a subsidiary of SEGC upon completion of the Transaction), which we consider such arrangement to be acceptable.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

5. Financial effects of the Transaction

Upon completion of the Transaction, the Company will no longer be the controlling shareholder of Thvow Technology and Thvow Technology will cease to be a subsidiary of the Company. The Company will only hold the voting rights of 131,290,074 shares of Thvow Technology (representing approximately 15.10% of total share capital of Thvow Technology) by voting rights proxy.

(a) Liquidity

The cash level of the Group amounted to approximately RMB26,305.42 million as at 31 December 2021. Upon completion of the Transaction and save for the relevant expenses arising therefrom, the cash level of the Group will increase as the proceeds from the Transaction will be used to replenish the general working capital of the Group, therefore improving the cashflow of the Group.

(b) Earnings

As stated in the Letter from the Board, it is expected that the Company will recognise a net gain of approximately RMB139 million as a result of the Transaction in the consolidated profit and loss statement of the Group. Further, considering the historical loss-making financial results of Thvow Technology which had been consolidated to the Group's consolidated financial statements, it is expected that the Group's earnings will improve following completion of the Transaction.

Having considered (i) that the Transaction provides an exit opportunity to the Group to unlock its investment at a net disposal gain considering the loss-making performance of Thvow Technology since 2020 and overall declining trading performance of the shares of Thvow Technology since the Group's initial investment and the prevailing market price of the shares; and (ii) the potential enhancement in liquidity and earnings of the Group, we are of the view that the entering into of the Share Transfer Agreement is fair and reasonable.

Independent Shareholders should note that the above expected financial effects are for illustrative purposes only and do not represent how the financial position of the Group will be upon completion of the Transaction.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

RECOMMENDATIONS

Having considered the principal factors and reasons as discussed above, we are of the view that although the entering into of the Share Transfer Agreement is not in the ordinary and usual course of business of the Group, the terms of the Share Transfer Agreement are on normal commercial terms and are fair and reasonable so far as the Independent Shareholders are concerned, and the entering into of the Share Transfer Agreement is in the interests of the Company and the Independent Shareholders as a whole. Accordingly, we advise the Independent Shareholders, as well as the Independent Board Committee to recommend the Independent Shareholders, to vote in favour of the relevant resolution(s) to be proposed at the EGM to approve the Share Transfer Agreement and the transactions contemplated thereunder.

Yours faithfully,
For and on behalf of
Lego Corporate Finance Limited
Billy Tang
Managing Director

Mr. Billy Tang is a licensed person registered with the Securities and Futures Commission and a responsible officer of Lego Corporate Finance Limited to carry out Type 6 (advising on corporate finance) regulated activity under the SFO. He has over 20 years of experience in the accounting and investment banking industries.

* *For identification purpose only*

NOTICE OF EXTRAORDINARY GENERAL MEETING



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)

NOTICE OF EXTRAORDINARY GENERAL MEETING

NOTICE IS HEREBY GIVEN that an extraordinary general meeting (the “EGM”) of Shanghai Electric Group Company Limited (the “Company”) will be held at 2:00 p.m. on Friday, 22 July 2022 at Meeting Room, Shanghai Electric Training Base, 2748 Pudong Avenue, Shanghai, the PRC for the purpose of considering and, if thought fit, approving the following resolution:

ORDINARY RESOLUTION:

1. To consider and approve the resolution in relation to the connected transaction regarding Shanghai Electric Group Company Limited transferring 15.24% shares of Suzhou Thvow Technology Co., Ltd. to Shanghai Electric Holding Group Co., Ltd.

By order of the Board

Shanghai Electric Group Company Limited

LENG Weiqing

Chairlady of the Board

Shanghai, the PRC, 6 July 2022

As at the date of this notice, the executive directors of the Company are Ms. LENG Weiqing, Mr. LIU Ping and Mr. ZHU Zhaokai; the non-executive directors of the Company are Mr. GAN Pin, 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

NOTICE OF EXTRAORDINARY GENERAL MEETING

Notes to Notice of EGM:

1. The voting at the EGM shall be conducted by way of poll.
2. The holders of A Shares and H Shares will vote as one class of shareholders. The Company's register of members for the H Shares will be closed from Wednesday, 20 July 2022 to Friday, 22 July 2022, both days inclusive, during which period no transfer of H Shares will be effected. The holders of H Shares whose names appear on the Company's register of members on Friday, 22 July 2022 are entitled to attend the EGM. In order to qualify for attending the EGM, the holders of H Shares whose transfers have not been registered must deposit transfer documents together with the relevant share certificates at the H share registrar of the Company, Computershare Hong Kong Investor Services Limited, no later than 4:30 p.m. on Tuesday, 19 July 2022. The address of Computershare Hong Kong Investor Services Limited is Shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong.
3. Each Shareholder entitled to attend and vote at the EGM may appoint one or more proxies to attend and vote on his/her behalf. A proxy need not be a Shareholder. Each Shareholder who wishes to appoint one or more proxies should first review the circular of the Company in respect of the EGM.
4. The instrument appointing a proxy must be in writing under the hand of a Shareholder or his/her attorney duly authorised in writing. If the Shareholder is a corporation, that instrument must be either under its common seal or under the hand of its director(s) or duly authorised attorney(s). If that instrument is signed by an attorney of the Shareholder, the power of attorney authorising that attorney to sign or other authorisation document must be notarised.
5. In order to be valid, the form of proxy together with the power of attorney or other authorisation document (if any) signed by the authorised person or notarially certified power of attorney must be deposited to Computershare Hong Kong Investor Services Limited for holders of H Shares at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong not less than 24 hours before the time fixed for holding the EGM or any adjournment thereof (as the case may be). Completion and return of a form of proxy will not preclude a Shareholder from attending and voting in person at the EGM if he/she so wishes.
6. The EGM is expected to last for no more than half a day. Shareholders (or their proxies) attending the meeting are responsible for their own transportation and accommodation expenses. Shareholders (or their proxies) attending the meeting shall produce their identity documents.
7. All times refer to Hong Kong local time, except as otherwise stated.

NOTICE OF EXTRAORDINARY GENERAL MEETING

8. MISCELLANEOUS

- (1) Shareholders or proxies attending the meeting onsite must pay attention in advance and abide by the national and Shanghai's regulations and requirements regarding health status declaration, isolation, and observation during the epidemic prevention and control period. The Company will take anti-epidemic measures such as attendance registration, temperature detection, health code inspection, itinerary code inspection (the specific epidemic prevention requirements may be adjusted according to the epidemic situation at that time), certificate of negative covid-19 nucleic acid test result inspection and other epidemic prevention and control measures for the shareholders or proxies attending the meeting onsite. Shareholders or proxies attending the meeting onsite are required to cooperate with the arrangements of the on-site staff and wear masks throughout the meeting. Shareholders or proxies who have symptoms such as fever or who do not comply with the epidemic prevention and control requirements will not be able to enter the site of the EGM. If the number of shareholders or proxies attending the meeting onsite has reached the upper limit set by the relevant government departments on the day of the EGM in accordance with the epidemic prevention and control requirements, the shareholders or proxies will be required to enter the venue according to the principle of "first sign in, first entry". Shareholders or proxies who attend the meeting later may not be able to enter the meeting site.
- (2) The EGM will adopt a combination of both onsite and online voting (online voting is only applicable to A shareholders). In order to facilitate shareholders to exercise their voting rights, avoid mass gathering and safeguard the physical wellness of shareholders, A shareholders are recommended to consider appointing the chairman of the meeting as their proxy to vote on their behalf on site, or to vote at the meeting by way of online voting; and H shareholders are recommended to consider appointing the chairman of the meeting as their proxy to vote on their behalf on site.

1. RESPONSIBILITY STATEMENT

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

2. EXPERTS AND CONSENTS

The following are the qualifications of the expert who has given opinions and advice contained in this circular:

Name	Qualification
Lego Corporate Finance Limited	A corporation licensed to carry out Type 6 (advising on corporate finance) regulated activity under the SFO

As at the Latest Practicable Date, the above expert has given and has not withdrawn their respective written consents to the issue of this circular with the inclusion of their reports or letters and/or references in the form and context in which they are included.

As at the Latest Practicable Date, the expert above had no shareholding in any member of the Group nor had any right (whether legally enforceable or not) to subscribe for or nominate persons to subscribe for any securities in any member of the Group.

As at the Latest Practicable Date, the expert above did not have any direct or indirect interest in any assets which have been acquired or disposed of by, or leased to any member of the Group, or are proposed to be acquired or disposed of by, or leased to any member of the Group since 31 December 2021, being the date to which the latest published audited annual financial statements of the Company were made up.

3. NO MATERIAL ADVERSE CHANGE

The Directors are not aware of any material adverse change in the financial or trading position of the Group since 31 December 2021, being the date to which the latest published audited annual financial statements of the Company were made up.

4. SERVICE CONTRACTS OF DIRECTORS

As at the Latest Practicable Date, none of the Directors or Supervisors of the Company had any existing or proposed service contract with the Company or any member of the Group (excluding contracts expiring or determinable by the Group within one year without payment of compensation other than statutory compensation).

5. DISCLOSURE OF INTERESTS

As at the Latest Practicable Date, none of the Directors, Supervisors of the Company has any direct or indirect interest in any asset which has been acquired or disposed of by or leased to any member of the Group, or were proposed to be acquired or disposed of by or leased to any member of the Group since 31 December 2021, being the date to which the latest published audited annual financial statements of the Company were made up.

Except Ms. Leng Weiqing, the chairlady of SEGC, Mr. Gan Pin, the chairman of Shanghai Microelectronics Equipment (Group) Co., Ltd., an associate of SEGC, Mr. Liu Ping, the vice chairman of SEGC and Mr. Zhu Zhaokai, the employee director of SEGC, hold positions in SEGC Group and its associates, none of the Directors or Supervisors has material interests in any contract or arrangement which has been entered by any member of the Group since 31 December 2021, being the date to which the latest published audited annual financial statements of the Company were made up, was subsisting as at the Latest Practicable Date and significant in relation to the business of the Group.

As at the Latest Practicable Date, the interests and short positions of the Directors, supervisors and chief executives of the Company (as defined in the Listing Rules) of the Company in the shares, underlying shares and debentures of the Company and its associated corporations (as defined in the Part XV of the SFO) as to be notified to the Company and the Stock Exchange pursuant to the Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO) or as recorded in the register of interests

required to be kept by the Company pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the “Model Code for Securities Transactions by Directors of Listed Issuers” (the “**Model Code**”) set out in Appendix 10 of the Listing Rules were as follows:

Name of director	Class of shares	Capacity	No. of shares	Nature of interests	Approximate percentage of the relevant class of shares	Approximate percentage of the total share capital of the Company
					(%)	(%)
GAN Pin	A	Beneficial owner	20,000	Long position	0.000	0.000

Save as disclosed above, as at the Latest Practicable Date, none of the Directors, supervisors or chief executives of the Company had any interest or short position in the shares, underlying shares or debentures of the Company or its associated corporations as recorded pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Hong Kong Stock Exchange pursuant to the Model Code.

6. COMPETING INTERESTS

As at the Latest Practicable Date, none of the Directors or proposed directors of the Company and any of their associate(s) had interest in a business which competes or may compete with the business of the Group or may have any conflicts of interest with the Group pursuant to Rule 8.10 of the Listing Rules.

7. DOCUMENTS AVAILABLE FOR INSPECTION

The following documents will be available at (i) the website of the Company (www.shanghai-electric.com) and (ii) the website of the Stock Exchange (www.hkexnews.hk) for a period of 14 days from the date of this circular (both days inclusive):

- 1) Share Transfer Agreement;
- 2) Letter from the Independent Board Committee;
- 3) Letter from the Independent Financial Adviser; and
- 4) The letter of consent from the expert referred to in the paragraph headed “EXPERTS AND CONSENTS” in this Appendix.