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SHANGHAI ELECTRIC GROUP COMPANY LIMITED

上海電氣集團股份有限公司

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

(Stock Code: 02727)

REVISION OF ANNUAL CAPS FOR CONTINUING CONNECTED TRANSACTIONS

Reference is made to the announcement of the Company dated 29 October 2019, the circular of the Company dated 6 December 2019 and the poll results announcement of the extraordinary general meeting of the Company dated 27 December 2019 in relation to, among others, the Continuing Connected Transactions between SE Finance, a subsidiary of the Company, and SEGC and the Existing Annual Caps for three years ending 31 December 2022. On 19 October 2022, the Board considered and approved the resolution in respect of the revision of annual caps for the Continuing Connected Transactions with SEGC. As SEGC is the controlling shareholder holding approximately 49.78% equity interest in the total issued share capital of the Company as at the date of this announcement, SEGC is a connected person of the Company as defined under Chapter 14A of the Listing Rules. Therefore, the transactions between SE Finance and SEGC constitute continuing connected transactions of the Company under the Listing Rules.

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

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

INTRODUCTION

Reference is made to the announcement of the Company dated 29 October 2019, the circular of the Company dated 6 December 2019 and the poll results announcement of the extraordinary general meeting of the Company dated 27 December 2019 in relation to, among others, the Continuing Connected Transactions between SE Finance, a subsidiary of the Company, and SEGC and the Existing Annual Caps for three years ending 31 December 2022. On 19 October 2022, the Board considered and approved the resolution in respect of the revision of annual caps for the Continuing Connected Transactions with SEGC. As SEGC is the controlling shareholder holding approximately 49.78% equity interest in the total issued share capital of the Company as at the date of this announcement, SEGC is a connected person of the Company as defined under Chapter 14A of the Listing Rules. Therefore, the transactions between SE Finance and SEGC constitute continuing connected transactions of the Company under the Listing Rules.

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I. SEGC FRAMEWORK DEPOSIT AGREEMENT

Historical Amounts, Existing Annual Caps and Proposed Revised Annual Caps

The table below sets out the historical actual maximum daily balance of deposits made by SEGC Group with SE Finance for the years ended 31 December 2019, 2020 and 2021:

	For the year ended 31 December		
	2019	2020	2021
	(RMB million)		
Maximum daily balance of deposits by SEGC Group	6,969	6,969	7,033

After consideration, in order to further improve the fund utilization efficiency of the Group and to obtain additional income through fund allocation, it is proposed to increase in the annual caps for maximum daily balance of SEGC Group's deposits with SE Finance from RMB7,500 million to RMB11,500 million for the year of 2022. The table below sets out the Existing Annual Caps and the Proposed Revised Annual Caps under the SEGC Framework Deposit Agreement for the year ending 31 December 2022:

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

In arriving at the above Proposed Revised Annual Caps, the Directors of the Company have considered that subject to the business plan and capital situation of SE Finance, SE Finance will increase the fund centralization scale of SEGC Group. To improve the working capital efficiency and allocate the funds to interbank loans and deposits business which provides higher yields by leveraging the treasury function within the Group, additional spread income can be obtained.

Pricing Basis

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

Interest rates set by SE Finance for deposits by SEGC Group will be subject to the relevant guidelines and regulations of the PBOC set out on the website of the PBOC. SE Finance will set its interest rates with reference to the relevant savings rates set by the PBOC from time to time as well as the rates set by the major commercial banks in the PRC. The current interest rates offered to SEGC Group by SE Finance in respect of RMB deposits, which range from 0.35% to 2.31% per annum depending on amount and terms of deposits (0.35% for demand deposits, 1.75% to 1.95% for six-month term deposits, 2.1% to 2.25% for one-year term deposits, 2.31% for two-year term deposits and 1.38% to 1.5985% for agreement deposits) (the "Current Deposit Interest Rates"), are with reference to the prevailing interest rates set and updated by the PBOC as at the date of 24 October 2015 and are in line with the market rates and are subject to adjustment as per regulations and requirements of the PBOC on the interest rates. The annual interest rates set by SE Finance for demand deposits and agreement deposits represent 100% to 139% of the PBOC benchmark rates, the annual interest rates set by SE Finance for deposits with a term of two years or shorter represent 110% to 150% of the PBOC benchmark rates. The current interest rates for deposits are not fixed and is subject to adjustment. SE Finance will consider the size, term and time of deposits and funding needs of SE Finance at the time of taking deposits for each individual case, and offer interest rates higher than the benchmark rates set by the PBOC if the factors mentioned above are favourable to SE Finance.

The Directors considered the higher interest rates than the benchmark rates set by the PBOC is still fair and reasonable based on (i) the interest rates offered by SE Finance is within the range of deposit interest rates offered by the major commercial banks in the PRC; and (ii) SE Finance applies the same factors above to all kinds of its clients and offers no preferential treatment to members of SEGC Group.

The Company adopts the following procedures to ensure that the pricing basis disclosed above is complied with: (1)The finance department of SE Finance will check the deposit interest rates published by the major commercial banks in the PRC monthly and review the rates offered to SEGC Group by SE Finance accordingly; (2)SE Finance will hold a meeting of the General Manager Office to determine and adjust the interest rates to be offered for deposits; and (3)The audit committee of the Company will review the relevant deposit service between SE Finance and SEGC Group quarterly.

Interest for deposits (other than term deposits) is usually payable by SE Finance to SEGC Group on a quarterly basis. Interest for term deposits is usually payable by SE Finance to SEGC Group on the maturity date.

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

In order to provide sufficient funds to the Group, SE Finance must ensure sufficient liquidity to meet the needs of granting loans and bill discounting, conducting interbank deposit business, etc. SE Finance may increase the fund centralization scale of SEGC Group through increasing the amount of connected transaction for the deposit services provided by SE Finance to SEGC Group. To improve the working capital efficiency and allocate the funds to interbank loans and deposits business which provides higher yields by leveraging the treasury function within the Group, providing SE Finance with additional spread income. These deposit interest rates offered by SE Finance to SEGC Group are in line with the interest rate policies promulgated by the PBOC from time to time, are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

II. SEGC FRAMEWORK LOAN AGREEMENT

Historical Amounts, Existing Annual Caps and Proposed Revised Annual Caps

The table below sets out the historical maximum daily balance of outstanding loans and bill discounting services maintained by SEGC Group with SE Finance for the years ended 31 December 2019, 2020 and 2021:

	For the year ended 31 December		
	2019	2020	2021
		(RMB million)	
Maximum daily balance of loan and bill discounting services provided to SEGC Group by SE Finance	7,492	7,389	7,413

After consideration, in order to further improve the fund utilization efficiency of the Group and to obtain additional income through fund allocation, it is proposed to revise the maximum daily balance cap of the loan and bill discounting services of SEGC Group with SE Finance from RMB7,500 million to RMB11,500 million for the year 2022. The table below sets out the Existing Annual Caps and the Proposed Annual Caps under the SEGC Framework Loan Agreement for the year ending 31 December 2022:

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

In arriving at the above Proposed Revised Annual Caps, the Directors have considered that subject to the business plan and capital situation of SE Finance, SE Finance will expand loan and bill discounting services provided to SEGC Group, which can effectively utilize the liquidity, increase the return on capital of SE Finance, which in turn provide more interest income.

Pricing Basis

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

Interest rates set by SE Finance for all loan and bill discounting services provided to SEGC Group will be subject to the relevant guidelines and regulations of the PBOC set out on the website of the PBOC. SE Finance determines the relevant interest rates for loans based on the loan prime rate announced by the National Inter-bank Funding Center. Currently, SE Finance provides RMB loans to SEGC Group, the current interest rates of which range from 3.1% to 4.1% per annum (3.1% to 4.1% for term of one year or shorter, 3.1% to 4.1% for term of longer than one year to three years). Such interest rates are in line with the market rates and are subject to adjustment in accordance with the regulations and requirements of the PBOC on the relevant loan rates from time to time.

Similar to the major commercial banks in the market, SE Finance sets different loan interest rates for different customers after considering major factors including the PBOC benchmark interest rates for each type of loan, the loan prime rate, the credit status of the customer and the amount of funds available for loans. In the meantime, SE Finance also makes reference to the loan interest rates obtained by members of SEGC Group from the major commercial banks in the market before determining the loan interest rate applicable to members of SEGC Group. SE Finance will also make reference to the interest rates of the loan agreements entered into between members of the SEGC Group and its major commercial banks, so as to ensure that the interest rates of the loans provided by SE Finance are not lower than those provided by other commercial banks.

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

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

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

As a centralized fund management platform of the Group, in order to effectively utilize the liquidity of SE Finance and to better allocate financial resources, through increasing the amount of SE Finance's loans and bill discounting connected transactions with SEGC Group, to provide loans and bill discounting service to SEGC Group with the priority of meeting the credit needs of the Group, which can increase the return on capital, which in turn provide more interest income for SE Finance. These loans and bill discounting interest rates offered by SE Finance to SEGC Group are in line with the interest rate policies promulgated by the PBOC from time to time, are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

III. OPINIONS OF THE BOARD OF DIRECTORS

Ms. LENG Weiqing, Mr. LIU Ping and Mr. ZHU Zhaokai, being the Directors of the Company, holds directorship(s) in SEGC and thus has material interests in the Continuing Connected Transactions. They have therefore abstained from voting on the relevant board resolutions approving such matters (including the Proposed Revised Annual Caps). Other than as disclosed above, none of the other Directors has material interests in these transactions.

The Directors (including the independent non-executive Directors) are of the view that the Existing Annual Caps for deposit services as well as the loan and bill discounting services will not be able to meet the current business needs of the Group, the Continuing Connected Transactions are concluded on normal commercial terms and conducted in the ordinary and usual course of business of the Group, and that the pricing basis under the Continuing Connected Transactions is an appropriate mechanism to ensure that the Continuing Connected Transactions will be fair, reasonable and no less favourable to the Group than those offered by other third parties. Therefore, the Directors (including the independent non-executive Directors) are of the view that the proposed

revision of the Existing Annual Caps for the year ending 31 December 2022 is fair and reasonable and is in the interest of the Company and the Shareholders as a whole.

IV. LISTING RULES IMPLICATIONS

SEGC is the controlling shareholder holding approximately 49.78% equity interest in the total issued share capital of the Company as at the date of this announcement. Therefore, SEGC is a connected person of the Company as defined under Chapter 14A of the Listing Rules. Given the highest applicable percentage ratio of the Proposed Revised Annual Caps is expected to be more than 5% as set out under Chapter 14A of the Listing Rules, the Proposed Revised Annual Caps are subject to reporting, announcement, annual review and Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules. The respective highest applicable percentage ratio of the Proposed Revised Annual Caps under the Continuing Connected Transactions is expected to be more than 5% and less than 25%, and therefore, such transactions fall under the discloseable transactions as defined in Chapter 14 of the Listing Rules, which are subject to reporting and announcement requirements.

V. 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 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: energy, environmental protection and automation engineering and services, covering traditional and new energy, comprehensive use of solid wastes, sewage treatment, flue gas treatment, rail transit and etc.; industrial internet services; financial services, covering financing leases and insurance brokerage; property management services based on industrial real estate and etc. The ultimate beneficial owner of the Group is Shanghai State-owned Assets Supervision and Administration Commission. As at the date of this announcement, SEGC is the controlling shareholder of the Company, holding approximately 49.78% equity interests 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 the Shanghai State-owned Assets Supervision and Administration Commission and one of the largest comprehensive equipment manufacturing groups in China.

SE Finance is a subsidiary of the Company in which the Company holds 90.25% equity interest as at the date of this announcement. SEGC holds 9.75% equity interest in SE Finance as at the date of this announcement. SE Finance was set up in 1995 pursuant to the approval granted by the PBOC under "The Regulations Governing Finance Companies of Conglomerates" to provide financial services to the Group and SEGC Group. SE Finance has obtained all approvals, permits and licenses necessary for its operations. Currently, the governing body for financial institutions in the PRC (including SE Finance) is the China Banking and Insurance Regulatory Commission. Under the relevant PRC regulations, SE Finance, as a non-bank finance company, is allowed to provide treasury services to, in addition to the Group, companies where SEGC holds at least 20% shareholding or in which SEGC has a control.

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

A circular containing, among other things, a letter from the Board setting out the details of the revision of the annual caps for the continuing connected transactions, a letter from the Independent Board Committee and a letter of advice from the independent financial adviser, is being prepared and is expected to be dispatched to the shareholders before 15 days of the convening of the general meeting of the Company.

DEFINITIONS

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

“Associate(s)”	has the meaning ascribed thereto under the Listing Rules;
“Board”	the board of Directors of the Company;
“Company”	Shanghai Electric Group Company Limited (上海電氣集團股份有限公司), a joint stock limited company duly incorporated in the PRC with limited liability, the H shares of which are listed on the Stock Exchange of Hong Kong Limited under stock code 02727 and the A shares of which are listed on the Shanghai Stock Exchange under stock code 601727;
“Connected person(s)”	has the meaning ascribed thereto under the Listing Rules;
“Continuing Connected Transaction(s)”	As disclosed in the announcement dated 29 October 2019, SE Finance, a subsidiary of the Company, entered into the Framework Deposit Agreement and the Framework Loan Agreement, with SEGC to provide SEGC Group with deposit services and loan and bill discounting services;
“controlling shareholder”	has the meaning ascribed to it by the Listing Rules;
“Director(s)”	the directors of the Company;
“Existing Annual Caps”	as previously disclosed in the announcement dated 29 October 2019, the existing annual caps for the maximum daily balances of deposit services, loans and discounting services for the Continuing Connected Transactions between SE Finance, a subsidiary of the Company, and SEGC for the years ending 31 December 2020, 2021 and 2022, which were RMB7,500 million, respectively;
“Framework Financial Service Agreements”	collectively, the SEGC Framework Deposit Agreement and the SEGC Framework Loan Agreement;
“Group”	the Company and its subsidiaries from time to time;
“Hong Kong”	the Hong Kong Special Administrative Region of the People’s Republic of China;
“Listing Rules”	The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited;
“PBOC”	People's Bank of China;
“PRC” or “China”	the People’s Republic of China, but for the purposes of this announcement only, excludes Hong Kong Special Administrative Region, Macau Special Administrative Region and Taiwan;

“Proposed Revised Annual Caps”	the annual caps for maximum daily balance of deposit services and the annual caps for maximum daily balance of loan and bill discounting services to be revised for the Continuing Connected Transactions between SE Finance, a subsidiary of the Company, and SEGC for the year ending 31 December 2022, which are RMB11,500 million and RMB11,500 million, respectively;
“RMB”	Renminbi, the lawful currency of the PRC;
“SE Finance”	Shanghai Electric Group Finance Co., Ltd., (上海電氣集團財務有限責任公司), a subsidiary of the Company owned as to 90.25% as at the date of this announcement and a limited company incorporated in 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 49.78% of the total issued share capital of the Company as at the date of this announcement;
“SEGC Framework Deposit Agreement”	the framework deposit agreement between SE Finance and SEGC dated 29 October 2019 for provision of deposit services by SE Finance to SEGC Group;
“SEGC Framework Loan Agreement”	the framework loan agreement between SE Finance and SEGC dated 29 October 2019 for provision of loan and bill discounting services by SE Finance to SEGC Group;
“SEGC Group”	SEGC and its subsidiaries and associates, but excluding the Group;
“Subsidiary(ies)”	has the meaning ascribed thereto under the Listing Rules; and
“%”	percent.

By order of the Board

Shanghai Electric Group Company Limited

LENG Weiqing

Chairlady of the Board

Shanghai, the PRC, 19 October 2022

As at the date of this announcement, 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 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*