

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 company incorporated in the People's Republic of China with limited liability)

(Stock Code: 02727)

**REVISION OF ANNUAL CAPS OF
CONTINUING CONNECTED TRANSACTIONS UNDER
THE FORMER FRAMEWORK FINANCIAL SERVICES AGREEMENTS
CONTINUING CONNECTED TRANSACTIONS UNDER
THE FINANCIAL SERVICES FRAMEWORK AGREEMENT
CONTINUING CONNECTED TRANSACTIONS UNDER THE PURCHASE
FRAMEWORK AGREEMENT, THE SALES FRAMEWORK
AGREEMENT, THE PROVISION OF COMPREHENSIVE SERVICES
FRAMEWORK AGREEMENT AND THE ACCEPTANCE OF
COMPREHENSIVE SERVICES FRAMEWORK AGREEMENT
CONTINUING CONNECTED TRANSACTIONS UNDER THE MESMEE
PURCHASE FRAMEWORK AGREEMENT
AND
NOTICE OF EGM**

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 35 of this circular.

A notice convening the EGM of the Company to be held at Meeting Room, Shanghai Electric Training Base, 2748 Pudong Avenue, Shanghai, the PRC, at 2:00 p.m. on Friday, 2 December 2022 is set out on pages 57 to 59 of this circular.

Form of proxy for use at the EGM has been published on the website of the Hong Kong Stock Exchange (<http://www.hkexnews.hk>) on Tuesday, 15 November 2022. If you intend to appoint a proxy to attend the EGM, you are requested to complete and return the form 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.

* 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;
“Acceptance of Comprehensive Services Framework Agreement”	the comprehensive services framework agreement between the Company and SEGC dated 19 October 2022 for the acceptance of property management, house leasing, training services and other comprehensive services provided by SEGC Group to the Group;
“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 of the Company;
“CBIRC”	China Banking and Insurance Regulatory Commission;
“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;
“controlling shareholder”	has the meaning ascribed to it by the Listing Rules;
“Directors”	the directors of the Company;
“EGM”	the extraordinary general meeting of the Company to be convened at 2:00 p.m. on Friday, 2 December 2022 at Meeting Room, Shanghai Electric Training Base, 2748 Pudong Avenue, Shanghai, the PRC;
“Existing Annual Cap(s)”	as previously disclosed in the announcement dated 29 October 2019, the annual caps for the continuing connected transactions between SE Finance, a subsidiary of the Company, and SEGC Group for the years ending 31 December 2020, 2021 and 2022, which were RMB7,500 million for deposit services, loan and bill discounting services, respectively;

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“Financial Services Framework Agreement”	the financial services framework agreement entered between SEGC Group and SE Finance on 19 October 2022, according to which, SE Finance agreed to provide deposit services, loan and bill discounting services and intermediate services to SEGC;
“Former Framework Financial Services Agreements”	the Former SEGC Framework Deposit Agreement and the Former SEGC Framework Loan Agreement;
“Former 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;
“Former 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;
“Group”	the Company and its subsidiaries from time to time;
“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 revision of the annual caps of the continuing connected transactions under the Former Framework Financial Services Agreements for the year ending 31 December 2022 and the continuing connected transactions contemplated under the Financial Services Framework Agreement regarding the provision of deposit services and loan and bill discounting services by SE Finance to SEGC Group;

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“Independent Financial Adviser”	Lego Corporate Finance Limited, a corporation licensed to carry out Type 6 (advising on corporate finance) regulated activity under the SFO, the independent financial adviser appointed to advise the Independent Board Committee and the Independent Shareholders in respect of the revision of the annual caps of the continuing connected transactions under the Former Framework Financial Services Agreements for the year ending 31 December 2022 and the continuing connected transactions under the Financial Services Framework Agreement regarding the provision of deposit services and loan and bill discounting services by SE Finance to SEGC Group;
“Independent Non-executive Director”	the independent non-executive directors of the Company;
“Independent Shareholders”	the Shareholders other than SEGC and its associates;
“Latest Practicable Date”	14 November 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;
“MESMEE”	Mitsubishi Electric Shanghai Mechanical & Electrical Elevator Co. Ltd. (三菱電機上海機電電梯有限公司), a sino-foreign equity joint venture established in the PRC, as at the Latest Practicable Date, 40% of which is owned by Shanghai Mechanical & Electrical Industry Co., Ltd. (上海機電股份有限公司), a 48.81% owned subsidiary of the Company, 40% of which is owned by Mitsubishi Electric and 20% of which is owned by Mitsubishi Electric Building Techno-service Co., Ltd. (三菱電機大樓技術服務株式會社), a wholly owned subsidiary of Mitsubishi Electric;
“MESMEE Purchase Framework Agreement”	the purchase framework agreement between SMEC and MESMEE dated 19 October 2022 in relation to the purchase of certain products from MESMEE by SMEC;
“Mitsubishi Electric”	Mitsubishi Electric Corporation (三菱電機株式會社), a substantial shareholder of MESMEE, which directly and indirectly holds altogether 60% of the equity interest of MESMEE and 40% of the equity interest of SMEC as at the Latest Practicable Date;
“PBOC”	the People’s Bank of China;

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“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;
“Proposed Revised Annual Cap(s)”	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 Group for the year ending 31 December 2022, both of which are RMB11,500 million;
“Provision of Comprehensive Services Framework Agreement”	the comprehensive services framework agreement between the Company and SEGC dated 19 October 2022 for provision of informationization, professional consultation, entrusted management, house leasing and other services to SEGC Group by the Group;
“Purchase Framework Agreement”	the purchase framework agreement between the Company and SEGC dated 19 October 2022 for purchasing of certain component parts, such as automatic instruments, other mechanical equipment and raw materials from SEGC Group by the Group;
“RMB”	Renminbi, the lawful currency of the PRC;
“Sales Framework Agreement”	the sales framework agreement between the Company and SEGC dated 19 October 2022 for the provision of electrical engineering, mechanical products and other related services to SEGC Group by the Group;
“SE Finance”	Shanghai Electric Group Finance Co., Ltd., (上海電氣集團財務有限責任公司), a 90.25% owned subsidiary of the Company as at the Latest Practicable Date and a limited company incorporated in the PRC;
“SEGC”	Shanghai Electric Holding Group Co., Ltd. (former name “Shanghai Electric (Group) Corporation”, which completed the industrial and commercial change registration on 28 January 2022), the controlling shareholder (as defined in the Listing Rules) of the Company, directly and indirectly holds 49.78% of the total issued share capital of the Company as at the Latest Practicable Date;
“SEGC Group”	SEGC, its subsidiaries and its associates, but excluding the Group;
“SFC”	the Securities and Futures Commission of Hong Kong;

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“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong), as amended, supplemented or otherwise modified from time to time;
“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;
“SMEC”	Shanghai Mitsubishi Elevator Co. Ltd. (上海三菱電梯有限公司), a 52% owned subsidiary of Shanghai Mechanical & Electrical Industry Co. Ltd. (上海機電股份有限公司), which is a 48.81% owned subsidiary of the Company, as at the Latest Practicable Date;
“subsidiary(ies)”	has the meaning ascribed thereto under the Listing Rules;
“substantial shareholder”	has the meaning ascribed thereto under the Listing Rules; and
“%”	per cent.

LETTER FROM THE BOARD



SHANGHAI ELECTRIC GROUP COMPANY LIMITED

上海電氣集團股份有限公司

(A joint stock 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

Non-executive Directors:

Ms. YAO Minfang

Ms. LI An

Independent non-executive Directors:

Dr. XI Juntong

Dr. XU Jianxin

Dr. LIU Yunhong

Registered office:

30th Floor, Maxdo Center

No. 8 Xingyi Road

Shanghai

PRC

*Principal place of business
in Hong Kong:*

Room 901–903,

Tower Two Lippo Centre

89 Queensway

Hong Kong

15 November 2022

To the Shareholders

Dear Sir or Madam,

**REVISION OF ANNUAL CAPS OF
CONTINUING CONNECTED TRANSACTIONS UNDER
THE FORMER FRAMEWORK FINANCIAL SERVICES AGREEMENTS
CONTINUING CONNECTED TRANSACTIONS UNDER
THE FINANCIAL SERVICES FRAMEWORK AGREEMENT
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CONTINUING CONNECTED TRANSACTIONS UNDER THE MESMEE
PURCHASE FRAMEWORK AGREEMENT
AND
NOTICE OF EXTRAORDINARY GENERAL MEETING**

LETTER FROM THE BOARD

I. INTRODUCTION

References are made to the announcements of the Company dated 19 October 2022 in relation to the revision of the annual caps of the continuing connected transactions under the Former Framework Financial Services Agreements, the continuing connected transactions under the Financial Services Framework Agreement, the continuing connected transactions under the Purchase Framework Agreement, the Sales Framework Agreement, the Provision of Comprehensive Services Framework Agreement and the Acceptance of Comprehensive Services Framework Agreement and the continuing connected transactions under the MESMEE Purchase Framework Agreement, respectively.

The purpose of this circular, to which this letter forms a part of, is to give you a notice of EGM, and 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 resolutions at the EGM.

At the EGM, the following ordinary resolutions including: (i) the revision of the annual caps of continuing connected transactions under the Former Framework Financial Services Agreements; (ii) the continuing connected transactions and proposed annual caps under the Financial Services Framework Agreement; (iii) the continuing connected transactions and proposed annual caps under the Purchase Framework Agreement, the Sales Framework Agreement, the Provision of Comprehensive Services Framework Agreement and the Acceptance of Comprehensive Services Framework Agreement; and (iv) the continuing connected transactions and proposed annual caps under the MESMEE Purchase Framework Agreement will be proposed for the Shareholders to approve.

II. THE REVISION OF THE ANNUAL CAPS OF CONTINUING CONNECTED TRANSACTIONS UNDER THE FORMER FRAMEWORK FINANCIAL SERVICES AGREEMENTS

1. Introduction

References are 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 Group, 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 under the Former Framework Financial Services Agreements. As SEGC is the controlling shareholder of the Company directly and indirectly holding approximately 49.78% equity interest in the total issued share capital of the Company as at the date of this circular, SEGC Group is a connected person of the Company as defined under Chapter 14A of the Listing Rules. Therefore, the transactions between SE Finance and SEGC Group constitute continuing connected transactions of the Company under the Listing Rules.

LETTER FROM THE BOARD

Based on reasons mentioned in this circular, 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 Former Framework Financial Services Agreements remaining unchanged.

2. Deposit Services

(1) *Historical Amounts, Existing Annual Cap and Proposed Revised Annual Cap*

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, 2021 and the nine months ended 30 September 2022:

	For the year ended 31 December			For the nine months ended
	2019	2020	2021	30 September 2022
	<i>(RMB million)</i>			
Maximum daily balance of deposits by SEGC Group	6,969	6,969	7,033	6,942

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 the annual cap 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 Cap and the Proposed Revised Annual Cap of the deposit services under the Former SEGC Framework Deposit Agreement for the year ending 31 December 2022:

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

LETTER FROM THE BOARD

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

(2) 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 saving rates set by the PBOC from time to time as well as the rates set by the major commercial banks in the PRC. The table below shows: (i) the saving rates (the “**PBOC Saving Rate(s)**”) updated by PBOC (<http://www.pbc.gov.cn/>) on 24 October 2015; and (ii) the recent quotation saving rates set by several independent commercial banks in the PRC.

Term of deposit	PBOC Saving Rates (%)	Commercial Bank Saving Rates (%)
Demand deposit	0.35	0.25–0.38
Three-month term deposit	1.10	1.10–1.85
Six-month term deposit	1.30	1.43–2.05
1-year term deposit	1.50	1.65–2.25
2-year term deposit	2.10	2.10–2.85
Agreement deposit	1.15	0.90–1.90

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

LETTER FROM THE BOARD

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 specific case, and offer interest rates higher than the benchmark rates set by the PBOC if the factors mentioned above are favourable to SE Finance, when the deposit size is large, the deposit period is long, and the deposit occurs when SE Finance is in high demands of funds. 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 meetings 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 services 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.

(3) *Reasons and Benefits for Revising the Existing Annual Cap for Deposit Services*

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 loans and interbank 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.

LETTER FROM THE BOARD

3. Loan and Bill Discounting Services

(1) *Historical Amounts, Existing Annual Cap and Proposed Revised Annual Cap*

The table below sets out the historical maximum daily balance of outstanding loan and bill discounting services maintained by SEGC Group with SE Finance for the years ended 31 December 2019, 2020, 2021 and the nine months ended 30 September 2022:

	For the year ended 31 December			For the nine months ended
	2019	2020	2021	30 September 2022
	<i>(RMB million)</i>			
Maximum daily balance of loan and bill discounting services provided to SEGC Group by SE Finance	7,492	7,389	7,413	7,400

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 Cap and the Proposed Revised Annual Cap of the loan and bill discounting services under the Former SEGC Framework Loan Agreement for the year ending 31 December 2022:

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

In arriving at the above Proposed Revised Annual Cap, 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.

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(2) *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 (“LPR”) announced by the National Inter-bank Funding Center.

The current loan prime rate announced by the National Inter-bank Funding Center is 3.65% for 1-year Loan Prime Rate and 4.30% for 5-year Loan Prime Rate. 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 below, 3.1% to 4.1% for term of one year or above to three years). The loan interest rates provided to SEGC Group represents a discount to the loan interest rate considering SEGC Group’s qualification and the market competition condition after external market inquiry. 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 also conducts weekly tracking regarding the interest rates of the loan agreements entered into between members of the SEGC Group and its 3 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 table below shows the recent LPR announced by the National Inter-bank Funding Center as well as the borrowing rates in the recent major agreements between SEGC Group and commercial banks.

Term of loan	Relevant LPR (%)	Borrowing Rates in the Recent Major Agreements between SEGC Group and Commercial Banks
		(%)
One year	3.65	2.50–2.55
Three years	— (Note)	2.70

Note: As at the Latest Practicable Date, there was no such relevant LPR applicable to loans with a term of three years.

LETTER FROM THE BOARD

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, which consists of the deputy general manager(chairperson of the credit approval committee), the deputy manager of risk compliance department, the manager of corporate finance department, the manager of financial settlement department and the deputy manager of investment banking department of SE Finance; (2) each grant of loan to SEGC Group will be approved by the senior management of SE Finance, which consists of the general manager and deputy general manager 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.

(3) *Reasons and Benefits for Revising the Existing Annual Cap for Loan and Bill Discounting Services*

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 loan and bill discounting services with SEGC Group, to provide loan and bill discounting services 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. The interest rates of loans and bill discounting 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.

4. Opinions of the Board of Directors

Ms. LENG Weiqing, Mr. LIU Ping and Mr. ZHU Zhaokai, being the Directors of the Company, hold directorship(s) in SEGC and thus has material interests in the continuing connected transactions under the Former Framework Financial Services Agreements. 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 under the Former Framework Financial Services Agreements are concluded on normal commercial terms and conducted in

LETTER FROM THE BOARD

the ordinary and usual course of business of the Group, and that the pricing basis under the continuing connected transactions is appropriate mechanism to ensure that the continuing connected transactions under the Former Framework Financial Services Agreements is 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.

5. Listing Rules Implications

SEGC is the controlling shareholder of the Company directly and indirectly holding approximately 49.78% equity interest in the total issued share capital of the Company as at the date of this circular. 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 under the Former Framework Financial Services Agreements 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.

6. 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, high-end vessels for chemical industry; and provision of solutions for power grid and industrial intelligent power supply system; (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.; industrial internet services; financial services, covering financing leases and insurance brokerage; property management services mainly based on industrial real estate and etc. The ultimate beneficial owner of the Group is Shanghai State-owned Assets Supervision and Administration Commission.

LETTER FROM THE BOARD

As at the date of this circular, SEGC is the controlling shareholder of the Company, directly and indirectly 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 circular. SEGC holds 9.75% equity interest in SE Finance as at the date of this circular. SE Finance was set up in 1995 pursuant to the approval granted by the PBOC under Administrative Measures on Finance Companies of Enterprise Groups (企業集團財務公司管理辦法) 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, namely, Administrative Measures on Finance Companies of Enterprise Groups (企業集團財務公司管理辦法), 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, has been established by the Company to advise the Independent Shareholders in respect of, among others, the Proposed Revised Annual Caps. The Company has appointed an independent financial adviser to advise the Independent Board Committee and Independent Shareholders on the Proposed Revised Annual Caps.

III. CONTINUING CONNECTED TRANSACTIONS AND THE PROPOSED ANNUAL CAPS UNDER THE FINANCIAL SERVICES FRAMEWORK AGREEMENT

1. Introduction

References are 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 other things, the entering into a deposit framework agreement and a loan framework agreement for the years 2020, 2021 and 2022 between the SE Finance and SEGC. These agreements were approved by the extraordinary general meeting on 27 December 2019 and have been executed continuously. As these agreements will expire on December 31, 2022, on 19 October 2022, SE Finance entered into an agreement with SEGC for the provision of deposit services, loan and bill discounting services and intermediary business services by SE Finance to the SEGC Group, namely the Financial Services Framework Agreement. Based on the proposed annual caps for the years of 2023, 2024 and 2025 of the financial services, the deposit services and loan and bill discounting services will

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comprise the continuing connected transactions subject to reporting, announcement, annual review and Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

The continuing connected transactions under the Financial Services Framework Agreement are subject to the approval of the general meeting of the Company pursuant to the listing rules of the Shanghai Stock Exchange.

2. Summary of Financial Services Framework Agreement

Date of agreement : 19 October 2022

Parties :

- SE Finance
- SEGC

Subject Matter : (1) deposit services

SEGC and its associates shall open deposit account in the SE Finance and deposit funds in such account based on the principle of free access to the funds. The deposit can be in the form of current deposit, fixed term deposit, call deposit, agreement deposit or others.

(2) loan and bill discounting services

In compliance with the relevant PRC's laws and regulations, SE Finance provides SEGC and its associates with loan and bill discount business services according to the business and development needs of SEGC and its associates.

(3) intermediary business services

In compliance with the relevant PRC's laws and regulations, SE Finance provides SEGC and its associates with intermediary business services, including but not limited to agency business, foreign exchange business, bill acceptance business, online clearing business, consulting business, etc. in accordance with the business and development needs of SEGC and its associates.

Term : three years effective from 1 January 2023, renewable at the option of SE Finance for a term of three years by giving notice three months prior to the expiry of the term

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According to Rule 14A.52 of the Listing Rules, the term for the agreement must not exceed three years. The Company will re-comply with Chapter 14A of the Listing Rules prior to the Company's exercise of the option to renew the agreements after the three years period for another three years.

The performance of the agreement in relation to these transactions is conditional upon the precedent to obtaining approval at the Company's general meeting and compliance with the Listing Rules and relevant regulations of the place where the Company's shares are listed.

In the event that the aggregate amount of Connected Transactions may exceed the maximum daily balance of financial business for the year approved by the Company in the general meeting, the parties agree that the Company shall comply with the relevant procedures to apply for a revision of the annual caps of the continuing connected transactions. Before completing the relevant procedures, the parties guarantee that the relevant transactions are limited to the financial business annual caps for that year.

(1) Annual caps and basis of determination

The table below sets out the actual amount of historical maximum daily balance of deposits, loans and bill discounting and actual amount of intermediary business services fee of SEGC Group with SE Finance for the years 2020, 2021 and nine months ended 30 September 2022, and the proposed annual cap, for the three years ending 31 December 2023, 2024 and 2025, under the Financial Services Framework Agreement:

	Actual amount of maximum daily balance as of 31 December		Actual amount of maximum daily balance for the nine months ended 30 September 2022	Proposed caps of maximum daily balance for the year ending 31 December		
	2020	2021	2022	2023	2024	2025
	<i>(RMB million)</i>					
Maximum daily balance of deposits of SEGC Group	6,969	7,033	6,942	15,000	15,000	15,000
Maximum daily balance of loans and bill discounting of the SEGC Group	7,389	7,413	7,400	15,000	15,000	15,000
	<i>(RMB million)</i>					
	Actual amount of fee revenue for the year ended 31 December		Actual amount of fee revenue for the nine months ended 30 September 2022	Proposed caps for fee revenue for the year ending 31 December		
	2020	2021	2022	2023	2024	2025
	<i>(RMB million)</i>					
Intermediary business services fee	6	3	2	20	20	20

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In arriving at the proposed annual caps, the following factors have been considered by the Directors:

Deposit services

The proposed annual caps for maximum daily balance of deposit services were determined after considering the factors below:

Based on the business planning and funding situation of SE Finance, SE Finance will increase the deposit centralization scale of SEGC Group. By leveraging the treasury function within the Group, the working capital efficiency is improved and funds are allocated to loans and interbank deposits business which provides higher yields, obtaining additional spread income. The proposed annual caps for deposit services are determined after the mutual discussion between SEGC Group and SE Finance, based on SEGC Group's plan to further increase its deposit concentration in SE Finance, taking into account the potential substantial capital inflow needs of SEGC Group over the next three years, as well as the circumstances of deposit inflows peak from SEGC Group.

Loan services

The proposed annual caps for maximum daily balance of loan services were determined by reference to the factors below:

Based on the business planning and funding situation of SE Finance, SE Finance will expand the loan and bill discounting services business to SEGC Group, effectively allocating the financial resources and increase the return on capital, which in turn increase the interest income. The proposed annual caps for the loan and bill discounting services are based on SE Finance's understanding of the credit demand of member companies of SEGC Group as well as SE Finance's own sound liquidity. SE Finance has formulated adequate and effective risk assessment and control measures to ensure that the related risks are effectively controlled while increasing the loan business and raising the interest income.

Intermediary business services

The annual caps for intermediary business services fee were determined by reference to the factors below:

In the past years, the scale of SE Finance's intermediary business provided to SEGC Group was relatively small. After years of capacity building and business development, SE Finance's financial services capabilities have been continuously enhanced. SE Finance plans to develop more businesses, such as consultation services and agency services, among others, in the next three years, so as to provide more diverse financial services to SEGC Group.

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(2) *Pricing Basis*

Subject to SE Finance obtaining the scope of business approved by the CBIRC, SE Finance will provide financial services business such as deposit services, loan and bill discounting services and intermediary business to SEGC Group, and pay corresponding deposit interest to SEGC Group with reference to the interest rates for similar deposits of the same period published by the People's Bank of China; SEGC Group are charged interest on loans with reference to the quoted market rates for loans published by the National Interbank Offered Rate Center authorized by the People's Bank of China; SEGC Group are charged for intermediary business services with reference to the general commercial market rates and/or the rates charged by third party financial institutions for similar intermediary business for the same period.

Deposit services

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 saving rates set by the PBOC from time to time as well as the rates set by the major commercial banks in the PRC. The table below shows: (i) PBOC Saving Rates; and (ii) the recent quotation saving rates set by several independent commercial banks in the PRC.

Term of deposit	PBOC Saving Rates (%)	Commercial Bank Saving Rates (%)
Demand deposit	0.35	0.25–0.38
Three-month term deposit	1.10	1.10–1.85
Six-month term deposit	1.30	1.43–2.05
1-year term deposit	1.50	1.65–2.25
2-year term deposit	2.10	2.10–2.85
Agreement deposit	1.15	0.90–1.90

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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), 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 rate of the annual interest rates set by SE Finance for demand deposits and agreement deposits to the PBOC benchmark rates is 100% to 139%, the annual interest rates set by SE Finance for deposits with a term of two-year 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 specific case, and offer interest rates higher than the benchmark rates set by the PBOC if the factors mentioned above are favourable to SE Finance, when the deposit size is large, the deposit period is long, and the deposit occurs when SE Finance is in high demands of funds. 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 services 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.

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Loan services

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.

The current loan prime rate announced by the National Inter-bank Funding Center is 3.65% for 1-year Loan Prime Rate and 4.30% for 5-year Loan Prime Rate. 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 below, 3.1% to 4.1% for term of one year or above to three years). The loan interest rates provided to SEGC Group represents a discount to the loan interest rate considering SEGC Group's qualification and the market competition condition after external market inquiry. 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 also conducts weekly tracking regarding the interest rates of the loan agreements entered into between members of the SEGC Group and its 3 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 table below shows the recent LPR announced by the National Inter-bank Funding Center as well as the borrowing rates in the recent major agreements between SEGC Group and commercial banks.

Term of loan	Relevant LPR (%)	Borrowing Rates in the Recent Major Agreements between SEGC Group and Commercial Banks
		(%)
One year	3.65	2.50–2.55
Three years	— (Note)	2.70

Note: As at the Latest Practicable Date, there was no such relevant LPR applicable to loans with a term of three years.

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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, which consists of the deputy general manager (chairperson of the credit approval committee), the deputy manager of risk compliance department, the manager of corporate finance department, the manager of financial settlement department and the deputy manager of investment banking department of SE Finance; (2) each grant of loan to SEGC Group will be approved by the senior management of SE Finance, which consists of the general manager and deputy general manager 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 billing discounting services including the loan terms.

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

Intermediary business services

The handling fees set by SE Finance for SEGC Group's intermediary business services will be subject to the relevant guidelines and regulations of the PBOC, CBIRC and National Development and Reform Commission of the People's Republic of China as published on the websites of the PBOC, CBIRC and National Development and Reform Commission of the People's Republic of China. The major commercial banks have announced the pricing standards for intermediary business services. SE Finance charges the SEGC Group for intermediary business services with reference to the normal commercial market rates and/or the rates charged by 3 third party financial institutions for similar intermediary business for the same period twice a month.

The intermediary business provided by SE Finance mainly includes agency business, foreign exchange business, bill acceptance business, online clearing business and consulting and advisory business. Currently, the guidance price for the agency business provided by SE Finance is no less than 0.1% per annum; the guidance price for foreign exchange business is calculated by applying the cost-plus principle on the basis of the market flat rate to arrive at the client's settlement price; the guidance price for bill acceptance business is 5/10,000 of the par value of drafts; the guidance price for online clearing business is based on the actual amount advanced by SE Finance or with reference to the contractual agreement; the guidance price for consulting and advisory services are based on the average daily labor cost of SE Finance and the length of time spent on projects, and is charged according to the contractual requirements by project type. The intermediary business fees charged by SE Finance are in line with the market fee rates, and will also be adjusted from time to time in

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accordance with the regulations and requirements on service fees of the PBOC, the CBIRC, and the National Development and Reform Commission of the People's Republic of China.

(3) *Reasons and benefits for entering into the Financial Services Framework Agreement*

By providing deposit services to SEGC Group, SE Finance is able to pool the deposits of SEGC Group, improve the efficiency of capital operations by leveraging the treasury function within the Group and allocate the capital to higher yielding loans and interbank deposits business, which can provide additional carry income to SE Finance. The interest rates on deposits offered by SE Finance to SEGC Group are in line with the interest rate policy promulgated by the People's Bank of China from time to time and the transaction is in the interest of the Company and the shareholders as a whole.

As the Group's centralized capital management platform, in order to effectively utilize SE Finance's liquidity and deploy financial resources more efficiently, SE Finance provides loan and bill discounting services to SEGC Group on a priority basis to meet the credit needs of the Group, thereby enhancing the return on capital and thereby increasing SE Finance's interest income. The interest rates on loans and bill discounting provided by SE Finance to SEGC Group are in line with the interest rate policy promulgated by the People's Bank of China from time to time and the transaction is in the interest of the Company and the Shareholders as a whole.

The intermediary business services provided by SE Finance mainly include agency business, foreign exchange business, bill acceptance business, online clearing business and consulting business, etc. The provision of intermediary business services by SE Finance to SEGC Group is beneficial to SE Finance in enhancing its financial services capabilities and increasing SE Finance's revenue. SE Finance charges the SEGC Group for intermediary business services with reference to the normal commercial market rates and/or the rates charged by third party financial institutions for similar intermediary business for the same period. The interests of the Company and minority shareholders will not be damaged. The transaction is in the interest of the Company and the Shareholders as a whole.

3. Listing Rules Implications

SEGC is a controlling shareholder of the Company directly and indirectly holding approximately 49.78% equity interest in the total issued share capital of the Company as at the Latest Practicable Date. Therefore, SEGC is a connected person of the Company as defined under Chapter 14A of the Listing Rules. Given the respective highest applicable percentage ratios for deposit services, loan and bill discounting services under Financial Services Framework Agreement are more than 5% as set out under Chapter 14A of the Listing Rules, these continuing connected transactions are subject to reporting, announcement, annual review and Independent

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Shareholders' approval requirements under Chapter 14A of the Listing Rules. The respective highest applicable percentage ratio for proposed caps for the daily maximum balance of deposit services, loan and bill discounting services under the Financial Services Framework Agreement is expected to be more than 25% but less than 75%, and therefore, such transactions fall under the major transactions as defined in Chapter 14 of the Listing Rules, which are subject to reporting, announcement, circular and Shareholders' approval requirements. The respective highest applicable percentage ratio for intermediary business services under the Financial Services Framework Agreement is less than 0.1%, and therefore, such transactions are fully exempt from reporting, announcement, annual review and Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

4. Opinions of the Board of Directors

Ms. LENG Weiqing, Mr. LIU Ping and Mr. ZHU Zhaokai, all being Directors of the Company, hold directorship(s) in SEGC and thus have material interests in the continuing connected transactions under the Financial Services Framework Agreement. They have therefore abstained from voting on the relevant board resolutions approving such matters. 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 opinion that the continuing connected transactions under the Financial Services Framework Agreement are entered into after arm's length negotiations, are on normal commercial terms and conducted in the ordinary and usual course of business and the terms and annual caps of the continuing connected transactions under the Financial Services Framework Agreement are fair and reasonable, no less favourable than other third party providers to the Company or appropriate mechanisms provided by the Company to third parties, and are in the interests of the Company and its Shareholders as a whole.

5. General Information

For details of the Group, SEGC and SE Finance, please refer to the "Revision of the Continuing Annual Caps of Connected Transactions Under the Former Framework Financial Services Agreements — General Information" in this circular.

The Independent Board Committee, comprising all of the independent non-executive Directors, has been established by the Company to advise the Independent Shareholders in respect of, among others, the continuing connected transactions contemplated under the Financial Services Framework Agreements regarding the provision of deposit services and loan and bill discounting services by SE Finance to the SEGC Group. The Company has appointed an independent financial adviser to advise the Independent Board Committee and Independent Shareholders on, among other things, the continuing connected transactions contemplated under the Financial Services Framework Agreements regarding the provision of deposit services and loan and bill discounting services by SE Finance to the SEGC Group.

IV. CONTINUING CONNECTED TRANSACTIONS UNDER THE PURCHASE FRAMEWORK AGREEMENT, THE SALES FRAMEWORK AGREEMENT, THE PROVISION OF COMPREHENSIVE SERVICES FRAMEWORK AGREEMENT AND THE ACCEPTANCE OF COMPREHENSIVE SERVICES FRAMEWORK AGREEMENT

1. Introduction

The Group's core businesses are design, manufacture, and sales of a wide range of products and services in the new energy equipment, industrial equipment and integration services. Historically, the Group has always been transacting with SEGC Group for products, component parts and services which complement the products and services offered by the Company. In order to continue and ensure the operation and development of the Company in the future, the Group intends to continue various continuing connected transactions with SEGC Group.

On 19 October 2022, the Company entered into the Purchase Framework Agreement with SEGC in relation to the purchase of certain component parts, such as automatic instruments, other mechanical equipment and raw materials from SEGC Group by the Group; the Company entered into the Sales Framework Agreement with SEGC in relation to the provision of electrical engineering, mechanical products and other related services to SEGC Group by the Group; the Company entered into the Provision of Comprehensive Services Framework Agreement with SEGC in relation to the provision of informationization, professional consultation, entrusted management, house leasing and other services to SEGC Group by the Group; the Company entered into the Acceptance of Comprehensive Services Framework Agreement with SEGC in relation to the acceptance of property management, house leasing, training services and other services provided by SEGC Group.

2. Summary of the Purchase Framework Agreement

Date of agreement : 19 October 2022

Parties :

- the Company
- SEGC

Subject matter : purchase framework agreement in relation to the purchase of component parts such as automatic instruments, other mechanical equipment and raw materials from SEGC Group by the Group

Term : three years effective from 1 January 2023, renewable at the option of the Company for a term of three years by giving notice three months prior to the expiry of the term

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According to Rule 14A.52 of the Listing Rules, the term for the agreement must not exceed three years. In the event that the Group decides to continue with the relevant transactions with SEGC after the expiry of the term of the Agreement, the Company will re-comply with Chapter 14A of the Listing Rules.

(1) Annual caps and basis of determination

The table below sets out the historical amounts of purchases by the Group from SEGC Group for the years 2020, 2021 and six months ended 30 June 2022, and the proposed annual caps, for the three years ending 31 December 2023, 2024 and 2025, under the SEGC Purchase Framework Agreement:

	Historical amount for the year ended 31 December		Historical amount for the six months ended 30 June 2022	Proposed annual caps for the year ending 31 December		
	2020	2021	2022	2023	2024	2025
	<i>(RMB million)</i>					
Purchases from SEGC Group	228	96	36	500	500	500

The proposed annual caps for 2023, 2024 and 2025 have been worked out by reference to (1) the estimated growth rate of the purchase from the SEGC Group at around 100% to 200% based on the purchase demand of the Group in 2021 considering the factors that the increase in the scale of businesses of the Group in the future based on the Group's new round of strategic plan focusing on the promotion of the layout in the fields of smart energy and smart manufacturing and the actual purchase amount in the past; and (2) the new continuing connected transactions as a result of the disposal arrangements in the past three years (except for the transactions with fix terms and fix period before the disposal).

(2) Pricing Basis

The various types of products and services under the Purchase Framework Agreement shall be priced according to the following general principles in sequential order: where there is government (including local government) prescribed price, such price shall apply; where there is no such government prescribed price, the price shall fall within the band of government guidance price; where there is no such government guidance price, the price will be determined with reference to the prevailing market price for the same or similar products and services provided by Independent Third Party vendors from time to time. In order to ensure that the prices are fair and reasonable and in line with the prevailing market, the Group will obtain quotations from Independent Third Party vendors providing the same or similar products and services. Such

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quotations will be compared against the quotations from SEGC Group and the Group will only accept SEGC Group's quotation if they are not less favourable to the Group.

Both parties agree that if there is any material change in the market conditions which affects product cost, they shall, subject to compliance with the requirements of the pricing principles as signed between them, amend or cancel the relevant provisions of the agreement through negotiations and enter into a new agreement.

(3) Reasons and benefits for entering into the Purchase Framework Agreement

The Group has a long-established business relationship with SEGC Group and has been purchasing certain components such as automatic instruments, other mechanical equipment and raw materials from SEGC Group over the years. SEGC Group can promptly provide products to meet the needs of the Group, and the prices and payment terms offered by SEGC Group for the products are fair and reasonable.

3. Summary of the Sales Framework Agreement

Date of agreement : 19 October 2022

Parties :

- the Company
- SEGC

Subject matter : Sales Framework Agreement in relation to the provision of electrical engineering products and services, electrical equipment and component parts and other related services to SEGC Group by the Group

Term : three years effective from 1 January 2023, renewable at the option of the Company for a term of three years by giving notice three months prior to the expiry of the term

According to Rule 14A.52 of the Listing Rules, the term for the agreement must not exceed three years. The Company will re-comply with Chapter 14A of the Listing Rules prior to the Company's exercise of the option to renew the agreements after the three years term for another three years.

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(1) Annual caps and basis of determination

The table below sets out the historical amounts of sales by the Group to SEGC Group for the years 2020, 2021 and six months ended 30 June 2022, and the proposed annual cap, for the three years ending 31 December 2023, 2024 and 2025, under the Sales Framework Agreement:

	Historical amount for the year ended		Historical amount for the six months ended	Proposed annual caps for the year ending 31 December		
	2020	2021	30 June 2022	2023	2024	2025
	<i>(RMB million)</i>					
Sales to SEGC Group	369	234	143	700	700	700

The proposed annual caps for 2023, 2024 and 2025 have been worked out by reference to (1) the estimated growth rate of the sales to SEGC at around 50% to 150% based on the sales of 2021 considering the factors that the Group plans to expand business channels, and meanwhile, SEGC Group also expects that the demand for the Group's electrical engineering products, electromechanical products and related services will increase compared with previous years in the next three years, especially the overseas projects and engineer projects undertaken by it; and (2) the new continuing connected transactions as a result of the disposal arrangements in the past three years (except for the transactions with fix terms and fix period before the disposal).

(2) Pricing Basis

The various types of products and services under the Sales Framework Agreement shall be priced according to the following general principles in sequential order: where there is government (including local government) prescribed price, such price shall apply; where there is no such government prescribed price, the price shall fall within the band of government guidance price; where there is no such government guidance price, the price will be determined with reference to the selling price of the same or similar products and services between the Group and Independent Third Party customers from time to time. In order to ensure that the selling prices are fair and reasonable, the Group will compare the price offered by SEGC Group against that between the Group and Independent Third Party customers requiring the same or similar products and services. the Group will only sell to SEGC Group if they are not less favourable to the prices between the Group and Independent Third Parties.

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Both parties agree that if there is any material change in the market conditions which affects product cost, they shall, subject to compliance with the requirements of the pricing principles as signed between them, amend or cancel the relevant provisions of the agreement through negotiations and enter into a new agreement.

(3) Reasons and benefits for entering into the Sales Framework Agreement

The Group has a long-established business relationship with SEGC Group and has been selling electrical engineering, mechanical products and other related services to SEGC Group over the years. The Group is familiar with the product requirements of SEGC Group and is able to provide products in a cost-effective manner in accordance with its requirements, and the prices and payment terms of the products offered by the Group to SEGC Group are fair and reasonable.

4. Summary of the Provision of Comprehensive Services Framework Agreement

Date of agreement : 19 October 2022

Parties :

- the Company
- SEGC

Subject matter : The comprehensive services framework agreement in relation to the provision of informationization, professional consultation, entrusted management, house leasing and other services to SEGC Group by the Group

Term : three years effective from 1 January 2023, renewable at the option of the Company for a term of three years by giving notice three months prior to the expiry of the term

According to Rule 14A.52 of the Listing Rules, the term for the agreement must not exceed three years. The Company will re-comply with Chapter 14A of the Listing Rules prior to the Company's exercise of the option to renew the agreements after the three years term for another three years.

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(1) *Annual caps and basis of determination*

The table below sets out the historical amounts of comprehensive services provided by the Group to SEGC Group for the years 2020, 2021 and six months ended 30 June 2022, and the estimated amount, as proposed annual cap, for the three years ending 31 December 2023, 2024 and 2025, under the Provision of Comprehensive Services Framework Agreement:

	Historical amount for the year ended 31 December		Historical amount for the six months ended 30 June 2022	Proposed annual caps for the year ending 31 December		
	2020	2021	2022	2023	2024	2025
<i>(RMB million)</i>						
Amount of comprehensive services provided to SEGC Group	134	200	103	400	400	400

The proposed annual caps for 2023, 2024 and 2025 have been worked out by reference to the historical business condition and the business development plans of the Group and SEGC Group, and the expected demand in various business divisions of SEGC Group. The proposed annual caps for 2023, 2024 and 2025 represent an increase as compared to historical transaction amounts as the Company anticipates an increase in demand for the SEGC Group's comprehensive services business in the coming years with reference to the estimated growth rate at around 50% to 100% based on the expected demand of the SEGC Group.

(2) *Pricing Basis*

The various types of services under the Provision of Comprehensive Services Framework Agreement shall be priced according to the following general principles in sequential order: where there is government (including local government) prescribed price, such price shall apply; where there is no such government prescribed price, the price shall fall within the band of government guidance price; where there is no such government guidance price, the price will be determined with reference to the price of the same or similar services offered by the Group to Independent Third Party customers from time to time. In order to ensure that the provision prices are fair and reasonable, the Group will compare the price offered by SEGC Group against that between the Group and Independent Third Party customers requiring the same or similar services and the Group will only provide services to SEGC Group if they are not less favourable to the prices between the Group and Independent Third Party customers.

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Both parties agree that if there is any material change in the market conditions which affects cost of services, they shall, subject to compliance with the requirements of the pricing principles as signed between them, amend or cancel the relevant provisions of the agreement through negotiations and enter into a new agreement.

(3) Reasons and benefits for entering into the Provision of Comprehensive Services Framework Agreement

The Group provides SEGC Group with certain comprehensive services including but not limited to informationization, professional consultation, entrusted management and house leasing, and the Group charges reasonable fees for the provision of services that SEGC Group needs. Moreover, the prices and payment terms for the services provided by the Group to SEGC Group are fair and reasonable.

5. Summary of Acceptance of Comprehensive Services Framework Agreement

Date of agreement : 19 October 2022

Parties : ● the Company
● SEGC

Subject matter : The Group accepts the comprehensive services provided by SEGC Group, including but not limited to property management, house leasing, training services, etc.

Term : three years effective from 1 January 2023, renewable at the option of the Company for a term of three years by giving notice three months prior to the expiry of the term

According to Rule 14A.52 of the Listing Rules, the term for the agreement must not exceed three years. The Company will re-comply with Chapter 14A of the Listing Rules prior to the Company's exercise of the option to renew the agreements after the three years term for another three years.

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(1) Annual caps and basis of determination

The table below sets out the historical transaction amounts of the acceptance of the comprehensive services provided by SEGC Group to the Group for the year 2021 and the six months ended 30 June 2022 and the proposed annual caps for the three years ending 31 December 2023, 2024 and 2025 under the Acceptance of Comprehensive Services Framework Agreement:

	Historical amount for the year ended 31 December 2021	Historical amount for the six months ended 30 June 2022	Proposed annual caps for the year ending 31 December		
			2023	2024	2025
	<i>(RMB million)</i>				
Amount of comprehensive services received from SEGC Group	49	14	200	200	200

The Group is expected to accept property management, training services, house leasing and other service provided by SEGC Group in 2023, 2024 and 2025, in order to meet normal production and operation needs. The proposed annual caps are determined with reference to the Group's relevant business development plans with reference to the estimated growth rate at around 100% to 300% based on the expected demand of the Group.

(2) Pricing Basis

The various types of services under the Acceptance of Comprehensive Services Framework Agreement shall be priced according to the following general principles in sequential order: where there is government (including local government) prescribed price, such price shall apply; where there is no such government prescribed price, the price shall fall within the band of government guidance price; where there is no such government guidance price, the price will be determined with reference to the prevailing market price of the same or similar services offered by Independent Third Party vendors from time to time. In order to ensure that the prices are fair and reasonable and in line with the prevailing market, the Group will obtain quotations from Independent Third Parties providing the same or similar services. Such quotations will be compared against the quotations from SEGC Group and the Group will only accept SEGC Group's quotations if they are not less favourable to the Group.

Both parties agree that if there is any material change in the market conditions which affects cost of services, they shall, subject to compliance with the requirements of the pricing principles as signed between them, amend or cancel the relevant provisions of the agreement through negotiations and enter into a new agreement.

LETTER FROM THE BOARD

(3) *Reasons and benefits for entering into the Acceptance of Comprehensive Services Framework Agreement*

The Group accepts the comprehensive services including but not limited to property management, training services and housing leasing provided by SEGC Group in order to meet the needs of the Group's normal production and operation, and the prices and payment terms of the services offered by SEGC Group are fair and reasonable.

6. Listing Rules Implications

SEGC is a controlling shareholder of the Company directly and indirectly holding approximately 49.78% equity interest in the total issued share capital of the Company as at the Latest Practicable Date. Therefore, SEGC is a connected person of the Company as defined under Chapter 14A of the Listing Rules.

As the respective highest applicable percentage ratios of the continuing connected continuing transactions under the Purchase Framework Agreement, the Sales Framework Agreement, the Provision of Comprehensive Services Framework Agreement and Acceptance of Comprehensive Services Framework Agreement are more than 0.1 % but less than 5% as set out under Chapter 14A of the Listing Rules, these continuing connected transactions are subject to reporting, announcement and annual review requirements as set out in Chapter 14A of the Listing Rules but exempted from Independent Shareholders' approval requirements.

7. Opinions of the Board of Directors

Ms. LENG Weiqing, Mr. LIU Ping and Mr. ZHU Zhaokai, all being Directors of the Company, hold directorship(s) in SEGC and thus have material interests in the continuing connected transactions under the Purchase Framework Agreement, the Sales Framework Agreement, the Provision of Comprehensive Services Framework Agreement and the Acceptance of Comprehensive Services Framework Agreement. They have therefore abstained from voting on the relevant board resolutions approving such matters. 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 opinion that the continuing connected transactions are entered into after arm's length negotiations, are on normal commercial terms and conducted in the ordinary and usual course of business and the terms and respective annual caps of the continuing connected transactions under the Purchase Framework Agreement, the Sales Framework Agreement, the Provision of Comprehensive Services Framework Agreement and the Acceptance of Comprehensive Services Framework Agreement are fair and reasonable, no less favourable than other third party providers to the Company or appropriate mechanisms provided by the Company to third parties, and are in the interests of the Company and its Shareholders as a whole.

LETTER FROM THE BOARD

8. General Information

For details of the Group and SEGC, please refer to the “Revision of the Continuing Annual Caps of Connected Transactions Under the Former Framework Financial Services Agreements — General Information” in this circular.

The continuing connected transactions under the Purchase Framework Agreement, the Sales Framework Agreement, the Provision of Comprehensive Services Framework Agreement and the Acceptance of Comprehensive Services Framework Agreement are subject to review and consideration by the general meeting pursuant to the listing rules of the Shanghai Stock Exchange.

V. CONTINUING CONNECTED TRANSACTIONS AND THE PROPOSED ANNUAL CAPS UNDER THE MESMEE PURCHASE FRAMEWORK AGREEMENT

1. Introduction

MESMEE, a sino-foreign equity joint venture established in the PRC, is held as to 40% by Shanghai Mechanical & Electrical Industry Co., Ltd., a 48.81% owned subsidiary of the Company, 40% by Mitsubishi Electric and 20% by Mitsubishi Electric Building Technoservice Co., Ltd., a wholly-owned subsidiary of Mitsubishi Electric, respectively, as at the date of this circular.

SMEC entered into the MESMEE Purchase Framework Agreement with MESMEE on 19 October 2022 for a term of three years in relation to SMEC’s purchase of elevator products and related services provided by MESMEE in the future three years.

2. Summary of the MESMEE Purchase Framework Agreement

Date of agreement : 19 October 2022

Parties : ● SMEC
● MESMEE

Subject matter : the purchase of elevator products and related services from MESMEE by SMEC

Term : three years commencing 1 January 2023

According to Rule 14A.52 of the Listing Rules, the period for the agreement must not exceed three years. The Company will re-comply with Chapter 14A of the Listing Rules upon expiry of the term of the agreement should SMEC decides to continue with such transactions with MESMEE.

LETTER FROM THE BOARD

(1) *Annual caps and basis of determination*

The table below sets out SMEC's historical purchase amounts from MESMEE for the two years ended 31 December 2021 and the six months ended 30 June 2022, and the proposed annual caps for the three years ending 31 December 2025:

	Historical amount for the year ended 31 December		Historical amount for the six months ended 30 June	Proposed annual caps for the year ending 31 December		
	2020	2021	2022	2023	2024	2025
	<i>(RMB in 100 millions)</i>					

Aggregate purchases from MESMEE	21.81	21.24	12.79	30	30	30
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In arriving at the above proposed annual caps for the purchases from MESMEE, the Directors have taken into account, among others, the prediction of high-end elevator market in the next three years with the maximum amount of transaction estimate in the previous years.

(2) *Pricing Policy*

The consideration of the continuing connected transactions under the MESMEE Purchase Framework Agreement between SMEC and MESMEE will be determined based on arm's length commercial negotiations in accordance with general principles of fairness and reasonableness with reference to the market price and the historical transaction price by taking into account the actual or reasonable cost (whichever is lower) incurred thereof plus a reasonable profit margin.

The end users of the elevators produced by MESMEE specifically require SMEC to purchase such elevators from MESMEE and SMEC will make actual purchases from MESMEE only when it secures such orders from the end users and will not make any purchases from MESMEE for any other purpose. SMEC will negotiate with MESMEE at the beginning of every year to set the purchase price for the whole year based on a price or price range calculated by deducting the expected profit to be generated by reselling MESMEE's elevators from the average selling price of MESMEE's elevators sold by SMEC to its end users during the past few years. If MESMEE's required price for any type of elevator during any year is higher than the SMEC's expected price or price range, SMEC will not purchase such type of elevators from MESMEE for that particular year.

To secure a reasonable profit margin, (i) the senior management of SMEC will assess the profitability of each order before the execution of an order, if the gross profit margin of an order falls below the gross profit margin pre-

LETTER FROM THE BOARD

determined by the management of the Group, such order will not proceed and no purchase of the relevant elevator from MESMEE will be carried out; (ii) if MESMEE's required price for any type of elevator during any year is higher than the SMEC's expected price or price range, SMEC will not purchase such type of elevators from MESMEE that year; and (iii) SMEC will make actual purchases from MESMEE only when it secures orders from end users. Since the sales order of SMEC in relation to the resale of elevators manufactured by MESMEE will only be placed when initiated by the customers requesting for MESMEE's elevators, no purchases of products of similar type from Independent Third Parties will be made and so no direct comparison with such products. Nevertheless, the Group has taken sufficient internal control measures to ensure that the gross profit margin of the resale of elevators manufactured by MESMEE will not be less than the predetermined level.

(3) *Reasons and Benefits for the MESMEE Purchase Framework Agreement*

MESMEE principally operates design, manufacturing and sales of high-end elevators and elevator components. MESMEE sold the whole set of high-end elevators it produced to SMEC. Leveraging on the sales network as well as the installation and maintenance management system of SMEC, the existing resources will be reasonably and fully utilised. The self-owned brand products of SMEC and the foreign-invested brand products of MESMEE aim at the requirement of different target customers and realizes differentiation competition, formulate mutual cooperation and successful landscape, and help to consolidate the competitive strengths of the Group in the elevator field.

3. Listing Rules Implications

Mitsubishi Electric, a substantial shareholder of SMEC, directly and indirectly holds aggregate 40% of the equity interest of SMEC, a subsidiary of the Company, as at the date of this circular. Therefore, Mitsubishi Electric and its associates are each regarded as a connected person of the Company as defined under the Listing Rules. As at the date of this circular, Mitsubishi Electric directly and indirectly holds 60% of the equity interest of MESMEE. MESMEE is therefore Mitsubishi Electric's associate and is regarded as a connected person of the Company under Chapter 14A of the Listing Rules, thus the MESMEE Purchase Framework Agreement and the transactions contemplated under it constitute continuing connected transactions of the Company under Chapter 14A of the Listing Rules.

The highest applicable percentage ratio of the continuing connected transactions under the MESMEE Purchase Framework Agreement is more than 5% as set out under Chapter 14A of the Listing Rules, while considering these transactions are transactions between the Group and a connected person at the subsidiary level on normal commercial terms or better, these transactions are therefore exempt from the circular (including independent financial advice) and shareholders' approval requirements, if approved by the Board and confirmed by the independent non-

LETTER FROM THE BOARD

executive directors as required under Rule 14A.101(1) and (2) of the Listing Rules, but are subject to annual review and all disclosure requirements under the Listing Rules.

4. Opinions of the Board of Directors

Ms. LENG Weiqing, being Chairlady of the Company, acts as chairlady in MESMEE and thus has material interests in the continuing connected transactions contemplated under the MESMEE Purchase Framework Agreement. She has therefore abstained from voting on the board resolutions approving such matters (including proposed annual caps). Other than disclosed above, none of the other Directors has a material interest in the continuing connected transactions contemplated under the MESMEE Purchase Framework Agreement.

Having made due and reasonable inquiries, the Directors (including the independent non-executive Directors) are of the opinion that the continuing connected transactions under the MESMEE Purchase Framework Agreement are necessary for the operation of SMEC, and are in accordance with the normal commercial terms, at arm's length and on the basis of framework agreement and relevant specific transaction agreements, and entered into after arm's length negotiations, are on normal commercial terms and conducted in the ordinary and usual course of business and are in the interest of the Company and the shareholders of the Company as a whole, and that the terms and the proposed annual caps of the MESMEE Purchase Framework Agreement are fair and reasonable. On 19 October 2022, the Board (including the independent non-executive directors) approved the MESMEE Purchase Framework Agreement and transactions contemplated under the MESMEE Purchase Framework Agreement.

5. General Information

SMEC is mainly engaged in the following activities: manufacture and sale of elevators, escalators, building automation management and provision of related services.

MESMEE is mainly engaged in the design, manufacture and sales of the high-end elevators and elevator components and the provision of ancillary services.

According to the Listing Rules of the Shanghai Stock Exchange, the transactions under the MESMEE Purchase Framework Agreement are subject to the approval of the Shareholders of the Company.

LETTER FROM THE BOARD

VI. EGM

A notice convening the EGM to be held at Meeting Room, Shanghai Electric Training Base, 2748 Pudong Avenue, Shanghai, the PRC, at 2:00 p.m. on Friday, 2 December 2022, is set out on pages 57 to 59 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 Tuesday, 29, November 2022 to Friday, 2 December 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, 2 December 2022 are entitled to attend the EGM.

In order to attend and vote at the EGM, 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 Monday, 28 November 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.

Form of proxy for use at the EGM have been published on the website of the Hong Kong Stock Exchange (<http://www.hkexnews.hk>) on Tuesday, 15 November 2022 and dispatched to the Shareholders. In order to be valid, the forms 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, and SEGC and Shanghai Electric Group Hongkong Company Limited (上海電氣集團香港有限公司) holds approximately 49.78% interest in the total issued share capital of the Company. SEGC and Shanghai Electric Group Hongkong Company Limited (上海電氣集團香港有限公司), one of the SEGC's subsidiaries, shall, at the EGM, abstain from voting on the resolutions in respect of the revision of the annual caps of the continuing connected transactions under the Former Framework Financial Services Agreements, the continuing connected transactions and proposed annual caps under the Financial Services Framework Agreement and the continuing connected transactions and proposed annual caps under the Purchase Framework Agreement, the Sales Framework Agreement, the Provision of Comprehensive Services Framework Agreement and the Acceptance of Comprehensive Services Framework Agreement. Save as disclosed above and as far as the Directors are aware, no other Shareholder has a material interest in the abovementioned resolutions proposed at the EGM and thus is not required to abstain from voting at the EGM on the resolutions.

LETTER FROM THE BOARD

As at the Latest Practicable Date, SEGC and Shanghai Electric Group Hongkong Company Limited (上海電氣集團香港有限公司), one of the SEGC's subsidiaries, controlled or were entitled to exercise control over the voting rights in respect of 7,442,101,913 A Shares and 313,642,000 H Shares in the Company, representing approximately 49.78% of the entire issued share capital of the Company in total. To the extent that the Company is aware having made all reasonable enquiries, as at the Latest Practicable Date:

- (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 and Shanghai Electric Group Hongkong Company Limited (上海電氣集團香港有限公司), one of the SEGC's subsidiaries, 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.

Ms. LENG Weiqing, Mr. LIU Ping and Mr. ZHU Zhaokai, being Directors, hold directorships in SEGC and thus have material interests in the revision of the annual caps of the continuing connected transactions under the Former Financial Services Framework Agreements, the continuing connected transactions and proposed annual caps under the Financial Services Framework Agreement and the continuing connected transactions and proposed annual caps under the Purchase Framework Agreement, the Sales Framework Agreement, the Provision of Comprehensive Services Framework Agreement and the Acceptance of Comprehensive Services Framework Agreement. They have therefore abstained from voting on the relevant board resolutions.

Ms. LENG Weiqing, being the Director, acts as a director in MESMEE, and thus has material interests in the continuing connected transactions and proposed annual caps under the MESMEE Purchase Framework Agreement. She has therefore abstained from voting on the relevant board resolutions.

Save as disclosed above, none of the other Directors has material interests in all resolutions proposed at the EGM.

LETTER FROM THE BOARD

VII. RECOMMENDATION

The Independent Board Committee, having taken into account of the advice of the independent financial adviser, considers that the revision of the annual caps of continuing connected transactions under the Former Framework Financial Services Agreements for the year ending 31 December 2022 and the continuing connected transactions under the Financial Services Framework Agreement regarding the provision of deposit services and loan and bill discounting services by SE Finance to SEGC Group are on normal commercial terms and in the ordinary and usual course of the business of the Company, 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 resolutions to be proposed at the EGM.

The Directors are of the view that the resolutions described in this circular are in the interests of the Company and the Shareholders as a whole.

Accordingly, the Directors (including the independent non-executive Directors) recommend all the relevant Shareholders to vote in favour of all resolutions to be proposed at the EGM.

VIII. VOTING BY POLL

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

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 revision of the annual caps of the continuing connected transactions under the Former Framework Financial Services Agreements and the Continuing Connected Transactions under Financial Services Framework Agreement.



SHANGHAI ELECTRIC GROUP COMPANY LIMITED

上海電氣集團股份有限公司

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

(Stock Code: 02727)

15 November 2022

To the Independent Shareholders

Dear Sirs or Madams,

REVISION OF ANNUAL CAPS OF CONTINUING CONNECTED TRANSACTIONS UNDER FORMER FRAMEWORK FINANCIAL SERVICES AGREEMENTS CONTINUING CONNECTED TRANSACTIONS UNDER FINANCIAL SERVICES FRAMEWORK AGREEMENT

We refer to the circular dated 15 November 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 revision of the annual caps of the continuing connected transactions under the Former Framework Financial Services Agreements and the continuing connected transactions under Financial Services Framework Agreement regarding the provision of deposit services and loan and bill discounting services are conducted 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 respect of the revision of the annual caps of the continuing connected transactions under the Former Framework Financial Services Agreements for the year ending 31 December 2022 and the continuing connected transactions under Financial Services Framework Agreement regarding the provision of deposit services and loan and bill discounting services by SE Finance to SEGC Group.

LETTER FROM THE INDEPENDENT BOARD COMMITTEE

After taking into account of the advice of Lego Corporate Finance Limited as set out on pages 38 to 56 of the circular, we are of the view that the revision of the annual caps of the continuing connected transactions under the Former Framework Financial Services Agreements for the year ending 31 December 2022 and the continuing connected transactions under Financial Services Framework Agreement regarding the provision of deposit services and loan and bill discounting services by SE Finance to SEGC Group are conducted on normal commercial terms and in the ordinary and usual course of the business of the Company, 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, we recommend the Independent Shareholders to vote in favour of the resolution to be proposed at the EGM to approve the revision of the annual caps of the continuing connected transactions under the Former Framework Financial Services Agreements for the year ending 31 December 2022 and the continuing connected transactions under Financial Services Framework Agreement regarding the provision of deposit services and loan and bill discounting services by SE Finance to SEGC Group.

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 revision of the Existing Annual Caps for the year ending 31 December 2022 and the continuing connected transactions contemplated under the Financial Services Framework Agreement regarding the provision of deposit services and loan and bill discounting services by SE Finance to SEGC Group, which has been prepared for the purpose of inclusion in this circular.



15 November 2022

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

Dear Sirs and Madams,

REVISION OF ANNUAL CAPS FOR CONTINUING CONNECTED TRANSACTIONS UNDER FORMER FRAMEWORK FINANCIAL SERVICES AGREEMENTS AND CONTINUING CONNECTED TRANSACTIONS UNDER FINANCIAL SERVICES FRAMEWORK AGREEMENT

We refer to our appointment as the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders in relation to the revision of the Existing Annual Caps for the year ending 31 December 2022 and the continuing connected transactions contemplated under the Financial Services Framework Agreement, details of which are set out in the letter from the Board (“**Letter from the Board**”) contained in the circular of the Company dated 15 November 2022 (the “**Circular**”), of which this letter forms part. Unless the context otherwise requires, capitalised terms used in this letter shall have the same meanings as defined in the Circular.

References are 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 Company dated 27 December 2019 in relation to the continuing connected transactions between SE Finance, a subsidiary of the Company, and SEGC Group and the Existing Annual Caps for the three years ending 31 December 2022. As the Directors believe that the Existing Annual Caps will not be sufficient for the Group’s current business needs, the Directors proposed to revise the Existing Annual Caps for the maximum daily balance of deposit services and loan and bill discounting services to RMB11,500 million for the year ending 31 December 2022 (respectively, the “**Existing Deposit Annual Cap**” and the “**Existing Loan Annual Cap**”), with the terms of the Former Framework Financial Service Agreements remaining unchanged. On 19 October 2022, the Board considered and approved the resolution in respect of the revision of Existing Annual Caps for the year ending 31 December 2022 under the Former Framework Financial Services Agreements.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

In addition, on 19 October 2022, SE Finance entered into the Financial Services Framework Agreement with SEGC pursuant to which SE Finance shall provide SEGC Group with, among others, deposit services as well as loan and bill discounting services for the three years effective from 1 January 2023.

As at the Latest Practicable Date, SEGC was a controlling shareholder of the Company directly and indirectly holding approximately 49.78% 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. Given the highest applicable percentage ratio (as defined in the Listing Rules) 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. Also, given the respective highest applicable percentage ratio (as defined in the Listing Rules) of the Proposed Revised Annual Caps is expected to be more than 5% and less than 25%, such transactions fall under the discloseable transactions as defined in Chapter 14 of the Listing Rules, which are subject to reporting and announcement requirements.

In addition, given the respective highest applicable percentage ratios (as defined in the Listing Rules) of the Proposed Annual Caps for the daily maximum balance of deposit services and loan and bill discounting services under the Financial Services Framework Agreement are more than 5% as set out under Chapter 14A of the Listing Rules, these continuing connected transactions are subject to reporting, announcement, annual review and Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules. Also, given the respective highest applicable percentage ratio for the transactions of deposit services and loan and bill discounting services under the Financial Services Framework Agreement are more than 25% and less than 75%, such transactions fall under the major transactions as defined in Chapter 14 of the Listing Rules, which are subject to reporting, announcement, circular and Shareholders' approval requirements.

The EGM will be convened and held for the Independent Shareholders to consider and, if thought fit, approve, among others, the revision of the Existing Annual Caps for the year ending 31 December 2022 and the continuing connected transactions contemplated under the Financial Services Framework Agreement regarding the provision of deposit services and loan and bill discounting services by SE Finance to SEGC Group. SEGC and its associates shall abstain from voting at the EGM on the relevant resolution(s) pursuant to Rule 14A.36 of the Listing Rules.

THE INDEPENDENT BOARD COMMITTEE AND OUR INDEPENDENCE

The Independent Board Committee comprising all of the independent non-executive Directors has been established by the Company to advise the Independent Shareholders on the revision of the Existing Annual Caps for the year ending 31 December 2022 and the continuing connected transactions contemplated under the Financial Services Framework Agreement regarding the provision of deposit services and loan and bill discounting services by SE Finance to SEGC Group.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

We, Lego Corporate Finance Limited, have been appointed by the Company as the Independent Financial Adviser in accordance with the requirements of the Listing Rules to advise the Independent Board Committee and the Independent Shareholders in relation to the revision of the Existing Annual Caps for the year ending 31 December 2022 and the continuing connected transactions contemplated under the Financial Services Framework Agreement regarding the provision of deposit services and loan and bill discounting services by SE Finance to SEGC Group, and to make a recommendation as to, among others, whether the terms of the revision of the Existing Annual Caps for the year ending 31 December 2022 and the continuing connected transactions contemplated under the Financial Services Framework Agreement regarding the provision of deposit services and loan and bill discounting services by SE Finance to SEGC Group are fair and reasonable so far as the Independent Shareholders are concerned and the entering into of such transactions are in the interests of the Company and the Independent Shareholders as a whole.

During the past two years, Lego Corporate Finance Limited has acted as the independent financial adviser to the then independent board committee and independent shareholders of the Company in relation to two connected transactions, details of which are set out in the announcements of the Company dated 11 May 2021 and 20 June 2022, respectively. Apart from the normal professional fees paid to us in connection with such engagements and the engagement of us as the Independent Financial Adviser, no arrangements exist whereby we had received any fees or benefits from the Company or any other party to the transactions. As at the Latest Practicable Date, Lego Corporate Finance Limited did not have any relationships or interests with the Company or any other parties that could reasonably be regarded as relevant to the independence of Lego Corporate Finance Limited. We are independent under Rule 13.84 of the Listing Rules to act as the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders in connection with the revision of the Existing Annual Caps for the year ending 31 December 2022 and the continuing connected transactions contemplated under the Financial Services Framework Agreement regarding the provision of deposit services and loan and bill discounting services by SE Finance to SEGC Group.

BASIS OF OUR ADVICE

In formulating our opinions and recommendations, we have reviewed, inter alia, the announcements of the Company dated 19 October 2022 in relation to the proposed revision of the Existing Annual Caps for the year ending 31 December 2022 and the entering into of the Financial Services Framework Agreement, the Former Framework Financial Services Agreements, the Financial Services Framework Agreement, the annual report of the Company for the year ended 31 December 2021 and the interim report of the Company for the six months ended 30 June 2022. We have also reviewed certain information provided by the management of the Company (the “**Management**”) relating to the operations, financial conditions and prospects of the Group. We have also (i) considered such other information, analyses and market data which we deemed relevant; and (ii) conducted verbal discussions with the management of the Company regarding the terms of the revision of the Existing Annual Caps for the year ending 31 December 2022 and the continuing connected transactions contemplated under the Financial Services Framework Agreement regarding the provision of deposit services and loan and bill discounting services by SE Finance to SEGC Group, and the businesses and future outlook of the Group. We have taken reasonable steps to ensure that such

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

information and statements, and any representation made to us, which we have relied upon in formulating our opinions, are true, accurate and complete in all material respects as of the date hereof and the Shareholders will be notified of any material changes (if any) as soon as possible.

The Directors jointly and severally accept full responsibility for the accuracy of the information contained in the Circular and confirm, having made all reasonable inquiries, that to the best of their knowledge, opinions expressed in the Circular have been arrived at after due and careful consideration and there are no other material facts not contained in the Circular, the omission of which would make any statement herein or in the Circular misleading. We consider that we have been provided with, and we have reviewed, all currently available information and documents which are available under present circumstances to enable us to reach an informed view regarding the terms of, and reasons for revising the Existing Annual Caps for the year ending 31 December 2022 and entering into the continuing connected transactions contemplated under the Financial Services Framework Agreement regarding the provision of deposit services and loan and bill discounting services by SE Finance to SEGC Group to justify reliance on the accuracy of the information contained in the Circular so as to provide a reasonable basis of our opinion. We have no reasons to suspect that any material information has been withheld by the Directors or the Management, or is misleading, untrue or inaccurate. We have not, however, for the purpose of this exercise, conducted any independent detailed investigation or audit into the business or affairs or future prospects of the Group. Our opinion is necessarily based on financial, economic, market and other conditions in effect, and the information made available to us, as at the Latest Practicable Date.

PRINCIPAL FACTORS AND REASONS CONSIDERED

In arriving at our recommendations in respect of the revision of the Existing Annual Caps for the year ending 31 December 2022 and the continuing connected transactions contemplated under the Financial Services Framework Agreement regarding the provision of deposit services as well as loan and bill discounting services by SE Finance to SEGC Group, we have taken into consideration of the following principal factors and reasons:

1. Background and reasons for revising the Existing Annual Caps for the year ending 31 December 2022 and entering into the Financial Services Framework Agreement

Information of the Group

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 solutions for power grid and industrial intelligent power supply system; (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

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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 mainly based on industrial real estate and etc. The ultimate beneficial owner of the Group is Shanghai State-owned Assets Supervision and Administration Commission.

Information of SEGC

As at the Latest Practicable Date, SEGC was the controlling shareholder of the Company directly and indirectly holding approximately 49.78% of the total issued share capital of the Company. The principal business of SEGC is the management of state-owned assets and the 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 groups in China.

Information of the SE Finance

SE Finance is a subsidiary of the Company in which the Company held 90.25% equity interest as at the Latest Practicable Date. SEGC held 9.75% equity interest in SE Finance as at the Latest Practicable Date. SE Finance was set up in 1995 pursuant to the approval granted by PBOC under “Administrative Measures on Finance Companies of Enterprise Group (企業集團財務公司管理辦法)” 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, namely, Administrative Measures on Finance Companies of Enterprise Groups (企業集團財務公司管理辦法), 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.

Reasons for and benefits of revising the Existing Annual Caps for the year ending 31 December 2022 and the entering into of the Financial Services Framework Agreement

In performing its ordinary and usual course of business, the Group has been from time to time providing financial services to SEGC Group. On 29 October 2019, SE Finance and SEGC entered into the Former Framework Financial Services Agreements pursuant to which SE Finance conditionally agreed to provide deposit services and loan and bill discounting services to SEGC Group for the then three years ending 31 December 2022. The Existing Deposit Annual Cap and the Existing Loan Annual Cap amount to RMB7,500 million, respectively. As set out in the Letter from the Board and further analysed in the sub-section below headed “3. The Proposed Revised Annual Caps and the Proposed Annual Caps”, it is anticipated that the Existing Annual Caps for the year ending 31 December 2022 may not be sufficient to meet the Group’s current business needs. Accordingly, the Board proposed to revise the Existing Annual Caps for the maximum daily balance of deposit services and loan and bill discounting services to RMB11,500 million for the year ending 31 December 2022, respectively, with the terms of the Former Framework Financial Service Agreements remaining unchanged. On the

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other hand, since the Former Framework Financial Services Agreements will expire on 31 December 2022, the Group intends to continue its provision of financial services to SEGC Group through the entering into of the Financial Services Framework Agreements for governing the terms of the transactions in respect of, among others, the provision of deposit services as well as loan and bill discounting services contemplated thereunder for the three years ending 31 December 2025.

The revision of the Existing Annual Caps for the year ending 31 December 2022 and the entering into of the Financial Services Framework Agreement would be beneficial to the Group. By increasing the Existing Deposit Annual Cap and providing the deposit services under the Financial Services Framework Agreement, it is expected that more funds could be secured by SE Finance from SEGC Group, allowing it to grow its loan portfolio and providing sufficient level of financing to other companies within the Group and SEGC Group. On the other hands, with the increased Proposed Revised Annual Cap under the Former SEGC Framework Loan Agreement for the year ending 31 December 2022 and by providing loan and bill discounting services under the Financial Services Framework Agreement, it is expected that the funds of SE Finance could be utilised in consideration of continuous receipt of interest income, therefore allowing for an efficient allocation of financial resources within the Group.

Considering the above, we are of the view that the revision of the Existing Annual Caps for the year ending 31 December 2022 and the entering into of the Framework Financial Services Agreement in respect of the provision of deposit services as well as loan and bill discounting services are fair and reasonable and in the interests of the Company and the Independent Shareholders as a whole.

2. Principal terms of the Former Framework Financial Services Agreements and the Financial Services Framework Agreement

On 27 December 2019, the Company convened an extraordinary general meeting during which, among others, the continuing connected transactions contemplated under the Former Framework Financial Services Agreements and the Existing Annual Caps were approved by the then independent shareholders of the Company. As confirmed by the Management, notwithstanding the proposed revision of the Existing Annual Caps for the year ending 31 December 2022, all terms of the Former Framework Financial Services Agreements shall remain unchanged, and the interests rates to be set by SE Finance for the provision of deposit services as well as the loan and bill discounting services under the Financial Services Framework Agreement shall share the same determination factors as those under the Former Framework Financial Services Agreements.

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Terms regarding the provision of deposit services

Pursuant to the Former SEGC Framework Deposit Agreement and the Financial Services Framework Agreement, interest rates to be 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 for deposits are not fixed and are 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 specific case, and offer interest rates higher than the benchmark rates set by the PBOC if the factors mentioned above are favourable to SE Finance, when the deposit size is large, the deposit period is long, and the deposit occurs when SE Finance is in high demands of funds.

Given that the interest rates under the Former SEGC Framework Deposit Agreement and the deposits services under the Financial Services Framework Agreement share the same determination factors, for the purpose of our assessment, we have initially attempted to make reference to the actual historical interests rates offered by SE Finance to SEGC Group for deposits with all different deposit terms newly made under the Former SEGC Framework Deposit Agreement during the period from 1 April 2022 up to and including 18 October 2022, being the day preceding the date of the Financial Services Framework Agreement (the “**Review Period**”). Given the fundamental fluctuating nature of interest rates, we consider that the Review Period, being the period of more than six months immediately preceding the date of the Financial Services Framework Agreement, represents a reasonably fair and presentative period that is relevant for assessing the latest principal terms offered by SE Finance to SEGC Group as compared with those offered in the market and/or offered by independent third parties to SEGC Group under similar circumstances. As confirmed by the Management, only six-month term deposits, one-year term deposits and agreement deposit had been newly made by SEGC Group at SE Finance during the Review Period, whereas deposits of other categories including demand deposits, three-month term deposits and two-year term deposits had not been newly made by SEGC Group at SE Finance during the Review Period. Accordingly, in respect of each of the six-month term deposits, one-year term deposits and agreement deposit, we have made reference to all corresponding interest rates (the “**Review Period Saving Rates**”) offered by SE Finance to SEGC Group for such deposits made by SEGC Group at SE Finance during the Review Period. In respect of each of the demand deposits, three-month term deposits and two-year term deposits, given the absence of the corresponding Review Period Saving Rates, we have alternatively made reference to the relevant interest rates listed by SE Finance for its deposit services during the Review Period (the “**Listed Saving Rates**”). Details of the Review Period Saving Rates and the Listed Saving Rates are set out in Table 1 below.

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On the other hand, in conducting our assessment, we have also conducted independent research from the public domain on (i) the PBOC Saving Rates updated by PBOC (<http://www.pbc.gov.cn/>) on 24 October 2015; and (ii) the latest quotation saving rates (the “**Commercial Bank Saving Rate(s)**”) set by ten independent commercial banks in the PRC as at 18 October 2022, details of which are set out in Table 1 below.

Table 1: The Review Period Saving Rates, the Listed Saving Rates, the PBOC Saving Rates and the Commercial Bank Saving Rates

Term of deposit	Review Period Saving Rates (%)	Listed Saving Rates (%)	PBOC Saving Rates (%)	Commercial Bank Saving Rates (%)
Demand deposit	—	0.35	0.35	0.25–0.38
Three-month term deposit	—	1.54	1.10	1.10–1.85
Six-month term deposit	1.75–1.95	—	1.30	1.43–2.05
1-year term deposit	2.10–2.25	—	1.50	1.65–2.25
2-year term deposit	—	2.21–2.31	2.10	2.10–2.85
Agreement deposit	1.38	—	1.15	0.90–1.90

As set out in Table 1 above, in respect of those deposits with the relevant Review Period Saving Rates, it is noted that the Review Period Saving Rates in respect of each of the six-month term deposit, one-year term deposit and agreement deposit are higher than the corresponding PBOC Saving Rates. In respect of those deposits without the relevant Review Period Saving Rates, it is noted that the corresponding Listed Saving Rate of demand deposit is equal to the corresponding PBOC Saving Rate, and the corresponding Listed Saving Rates of three-month term deposit and two-year term deposits are higher than the respective corresponding PBOC Saving Rates. Nevertheless, it is noted that the Review Period Saving Rates or the Listed Saving Rates, as the case may be, fall within the range of the corresponding Commercial Bank Saving Rates in respect of deposits with all respective deposit terms.

Accordingly, despite that the Review Period Saving Rates or the Listed Saving Rates are either higher than or equal to the PBOC Saving Rates in respect of the respective corresponding deposit terms, taking into account that (i) the Review Period Saving Rates or the Listed Saving Rates, as the case may be, fall within the range of the Commercial Bank Saving Rates in respect of deposits with all deposit terms; and (ii) the relatively low potential litigation and dispute risk due to the long established cooperation relationship between the Group and SEGC Group, we are of the view that the terms of the Former SEGC Framework Deposit Agreement (including the Proposed Revised Deposit Annual Cap) and the transactions contemplated under the Financial Services Framework Agreement regarding the provision of deposit services by SE Finance to SEGC Group are on normal commercial terms, fair and reasonable and in the interests of the Company and the Independent Shareholders as a whole.

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Terms regarding the provision of loan and bill discounting services

Pursuant to the Former SEGC Framework Loan Agreement and Financial Services Framework Agreement, interest rates to be 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.

As set out in the Letter from the Board, among others, SE Finance will set 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.

Given that the interest rates under the Former SEGC Framework Loan Agreement and the loan and bill discounting services under the Financial Services Framework Agreement share the same determination factors, for the purpose of our assessment, we have reviewed the interest rates offered by SE Finance to SEGC Group under not less than 30% of the total number of loan agreements executed during the Review Period in respect of each applicable loan duration, the amount of loans involved of which has accounted for not less than 50% of the corresponding total amount of loans borrowed by SEGC Group from SE Finance during the Review Period (the “**Review Period Borrowing Rate(s)**”). We noted that all of the Review Period Borrowing Rates were for loans with a term of either one year or three years, details of which are set out in Table 2 below. We have also conducted research on the latest LPR announced by the PBOC, which is only applicable to loans with a term of one year but inapplicable to loans with a term of three years, details of which are set out in Table 2 below. It is noted that for the loans with a term of one year, the Review Period Borrowing Rates were either lower than or higher than the relevant LPR of 3.65%.

For the purpose of our analysis, we initially attempted to further make reference to the terms of comparable loans provided by SE Finance to independent third parties. Yet, as advised by the Management, no such loan arrangements had been entered into between SE Finance and independent third parties during the three years before the Latest Practicable Date. Accordingly, we have alternatively reviewed not less than 30% of the total number of the loan agreements (the “**Sample Loan Agreements**”) entered into between SEGC Group and independent commercial banks in the PRC in relation to the obtaining of loan facilities for the same corresponding durations by SEGC Group during the Review Period, the amount of loans involved of which has accounted for not less than 50% of the total amount of loans borrowed by SEGC Group from independent commercial banks during the Review Period, details of which are set out in Table 2 below. Based on our review,

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each of the relevant Review Period Borrowing Rates is higher than the corresponding interest rates offered under the Sample Loan Agreements for loans with a term of either one year or three years.

Table 2: The Review Period Borrowing Rates, the PBOC Borrowing Rates and the interests rates offered under the Sample Loan Agreements

Term of loan	Review Period Borrowing Rates (%)	Relevant LPR (%)	Borrowing rates offered by commercial banks under the Sample Loan Agreements (%)
One year	3.10–4.00	3.65	2.50–2.55
Three years	3.10	— (Note)	2.70

Note: As at the Latest Practicable Date, there was no such relevant LPR applicable to loans with a term of three years.

Accordingly, despite that certain Review Period Borrowing Rates in respect of loans with a term of one year represent a discount to the corresponding LPR of 3.65%, having considered that (i) certain Review Period Borrowing Rates in respect of loans with a term of one year represent a premium over the corresponding LPR of 3.65%; (ii) the Review Period Borrowing Rates offered by SE Finance are not more favourable than those offered by independent commercial banks to SEGC Group under the Sample Loan Agreements; and (iii) the potential credit risk and litigation and dispute risks shall be relatively low in light of the long established cooperation relationship between the Group and SEGC Group, we are of the view that the terms of the Former SEGC Framework Loan Agreement (including the Proposed Revised Loan Annual Cap) and the transactions contemplated under the Financial Services Framework Agreement regarding the provision of loan and bill discounting services by SE Finance to SEGC Group are on normal commercial terms, fair and reasonable and in the interests of the Company and the Shareholders as a whole.

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3. The Proposed Revised Annual Caps and the proposed annual caps under the Financial Services Framework Agreement for the three years ending 31 December 2025 (the “Proposed Annual Cap(s)”)

The Proposed Revised Annual Cap of maximum daily balance of the deposit services under the Former SEGC Framework Deposit Agreement for the year ending 31 December 2022 (the “Proposed Revised Deposit Annual Cap”) and the proposed annual caps of maximum daily balance of the deposit services under the Financial Services Framework Agreement for the three years ending 31 December 2025 (the “Proposed Deposit Annual Caps”)

Table 3 below sets out the (i) historical maximum daily balances for deposits made by SEGC Group with SE Finance for the two years ended 31 December 2021 and the nine months ended 30 September 2022; (ii) the Existing Deposit Annual Cap and the Proposed Revised Deposit Annual Cap for the year ending 31 December 2022; and (iii) the Proposed Deposit Annual Caps for the three years ending 31 December 2025.

Table 3: A summary of the historical maximum daily balance for deposits made by SEGC Group with SE Finance, the Existing Deposit Annual Cap, the Proposed Revised Deposit Annual Cap and the Proposed Deposit Annual Caps

Historical maximum daily balance for deposits for the year ended		Historical maximum daily balance for deposit services for the nine months ended	Existing Deposit Annual Cap for the year ending	Proposed Revised Deposit Annual Cap for the year ending	Proposed Deposit Annual Caps for the year ending 31 December		
2020	2021	30 September 2022	31 December 2022	31 December 2022	2023	2024	2025
<i>Approximately</i>	<i>Approximately</i>	<i>Approximately</i>					
<i>(RMB million)</i>	<i>(RMB million)</i>	<i>(RMB million)</i>	<i>(RMB million)</i>	<i>(RMB million)</i>	<i>(RMB million)</i>	<i>(RMB million)</i>	<i>(RMB million)</i>
Amount	6,969	7,033	6,942	7,500	11,500	15,000	15,000

(i) The Proposed Revised Deposit Annual Cap

The Proposed Revised Deposit Annual Cap for the year ending 31 December 2022 amounts to RMB11,500 million, representing an increase of approximately 53.33% as compared to the Existing Deposit Annual Cap. The Management confirmed that as at the Latest Practicable Date, the Existing Deposit Annual Cap had not been exceeded.

As advised by the Management, the Proposed Revised Deposit Annual Cap was determined primarily with reference to (i) the historical maximum daily balance of deposits by SEGC Group with SE Finance under the Former SEGC Framework Deposit Agreement; and (ii) the latest expected demand of SEGC Group for deposit services from SE Finance during the year ending 31 December 2022.

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As shown in Table 3, the historical maximum daily balances of funds deposited by SEGC Group under the Former SEGC Framework Deposit Agreement were approximately RMB6,969 million, approximately RMB7,033 million and approximately RMB6,942 million for each of the two years ended 31 December 2021 and the nine months ended 30 September 2022, respectively, representing respective utilisation rates (the “**Deposit Utilisation Rate(s)**”) of the corresponding historical annual caps in the amount of RMB7,500 of approximately 92.92%, approximately 93.77% and approximately 92.56%. Accordingly, the Deposit Utilisation Rates were consistently significantly high throughout the periods under review.

In determining the Proposed Revised Deposit Annual Cap, the Management has also taken into account of the latest expected demand of SEGC Group for deposit services during the year ending 31 December 2022 after considering the potential improvement in the proportion of SEGC Group’s total deposits made with SE Finance (the “**Deposit Concentration Rate**”) and the expected cash inflow of SEGC Group throughout the year.

Based on our review of the relevant internal document of SEGC Group, a deposit centralisation policy (the “**Deposit Concentration Policy**”) was adopted by SEGC Group in 2015 pursuant to which each member of SEGC Group shall target to maintain not less than 80% of its deposits at SE Finance. We have reviewed the historical deposit information of members of SEGC Group as at 31 December 2021, and noted that the corresponding historical Deposit Concentration Rate was below 80%. According to our discussions with the Management, the Deposit Concentration Policy was not implemented as strictly as planned primarily due to the insufficiency of the existing annual caps under the Former SEGC Framework Loan Agreement (including the Existing Loan Annual Cap), which had resulted in the fact that a substantial amount of funds of SEGC Group had been borrowed from external banks. In order to maintain the relationships with such banks for obtaining borrowings, a substantial amount of deposits of SEGC Group were maintained with them. With the proposed revision of the Existing Annual Caps for the year ending 31 December 2022, if materialised, it is expected that the aforesaid borrowing restriction from SE Finance by SEGC Group due to the limited existing caps could be eased, thereby enhancing the flexibility of SEGC Group when deciding on the receiving banks and/or financial institutions for the deposits to be made at, which shall therefore stimulate the amount of deposits to be made by SEGC Group at SE Finance. In addition, the Management advised that it shall be an ongoing initiative of SEGC Group to strengthen its fund management including its cash position by, among others, strictly implementing the Deposit Centralisation Policy in the future. Going forward, SEGC Group shall target to utilise SE Finance for establishing a unified electronic banking settlement system, under which a substantial portion funds of SEGC Group would be maintained at SE Finance which shall in turn be connected with the settlement systems of other commercial banks. Considering the above, it is expected that the Deposit Concentration Rate would improve in the near future.

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On the other hand, the Management has made reference to the estimated cash inflow of SEGC Group during the year ending 31 December 2022 which shows that, apart from the cash inflow from normal business operations, there will be additional cash inflow of SEGC Group during the year ending 31 December 2022 arising primarily from recovery of other account receivables, the proceeds of which is expected to be received during the two years ending 31 December 2023, which would potentially stimulate the demand of SEGC Group for the deposit services. We note that the size of other account receivables of SEGC has increased, which is generally in line with the increase in its total assets in recent years.

Taking into account (i) the consistently high Deposit Utilisation Rates of over 92% for the two years ended 31 December 2021 and the nine months ended 30 September 2022; and (ii) the expected increase in the demand of SEGC Group for deposit services from SE Finance during the year ending 31 December 2022 as supported by (a) the potential improvement in the Deposit Concentration Rate; and (b) the estimated cash inflow of SEGC Group during the year ending 31 December 2022, we are of the view that the determination of the Proposed Revised Deposit Annual Cap is fair and reasonable.

(ii) the Proposed Deposit Annual Caps

The Proposed Deposit Annual Cap for each of the three years ending 31 December 2025 amounts to RMB15,000 million, representing an increase of 100% from the Existing Deposit Annual Cap and an increase of approximately 30.43 % from the Proposed Revised Deposit Annual Cap.

As advised by the Management, the Proposed Deposit Annual Caps for the three years ending 31 December 2025 were determined primarily with reference to (i) the estimated maximum daily balance of deposits to be made by SEGC Group with SE Finance during the year ending 31 December 2022, i.e., the Proposed Revised Deposit Annual Cap, details of analysis of which are set out in the sub-section headed “(i) The Proposed Revised Deposit Annual Cap” above in this letter; and (ii) the expected demand of SEGC Group for deposit services from SE Finance during the three years ending 31 December 2025.

In anticipating the demand of SEGC Group for deposit services from SE Finance during the three years ending 31 December 2025, the Management has made reference to the potential improvement in the Deposit Concentration Rate in the near future and the expected cash inflow of SEGC Group throughout the three years ending 31 December 2025.

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As analysed in the previous sub-section, the relatively low Deposit Concentration Rates in the past were mainly due to the insufficiency of the Existing Loan Annual Caps, which had resulted in the reliance of SEGC Group upon external commercial banks for the obtaining of funds. With the potential adoption of the Proposed Revised Deposit Annual Cap and the ongoing initiative of SEGC Group to strictly implement the Deposit Concentration Policy, it is expected that the Deposit Centralisation Rate, which is expected to improve in the year ending 31 December 2022, would remain throughout the three years ending 31 December 2025. taking into account that the increase of the Proposed Loan Annual Caps for the three years ending 31 December 2025 as compared to the Proposed Revised Loan Annual Cap for the year ending 31 December 2022, further details of which are set out in the paragraphs below, it is expected that the amount of deposits to be made by SEGC Group at SE Finance shall increase accordingly.

On the other hand, in estimating the expected cash inflow of SEGC Group throughout the three years ending 31 December 2025, the Management has primarily made reference to the estimated cash inflow of SEGC Group during the year ending 31 December 2023, of which additional cash inflow is expected to be generated by SEGC Group for the year ending 31 December 2023 in addition to that for the year ending 31 December 2022. It is expected that such additional cash inflow of SEGC Group during the year ending 31 December 2023 would be mainly resulted from the same factors as discussed above in respect of the Proposed Revised Deposit Annual Cap. In respect of the expected cash inflow of SEGC Group for the two years ending 31 December 2025, the Management has adopted a conservative basis and assume that there will be no additional cash inflow as compared to the year ending 31 December 2023.

Taking into account the (i) the Proposed Revised Deposit Annual Cap of RMB11,500 million, the determination of which is, in our view, fair and reasonable as analysed in the sub-section headed “(i) The Proposed Revised Deposit Annual Cap” above in this letter; and (ii) the expected demand of SEGC Group for deposit services from SE Finance during the three years ending 31 December 2025, we are of the view that the determination of the Proposed Deposit Annual Caps is fair and reasonable.

The Proposed Revised Annual Cap of maximum daily balance of the loan and bill discounting services under the Former SEGC Framework Loan Agreement for the year ending 31 December 2022 (the “Proposed Revised Loan Annual Cap”) and the proposed annual caps of maximum daily balance of the loan and bill discounting services under the Financial Services Framework Agreement for the three years ending 31 December 2025 (the “Proposed Loan Annual Caps”)

Table 4 below sets out the (i) historical maximum daily balances for loan and bill discounting services provided to SEGC Group by SE Finance for the two years ended 31 December 2021 and the nine months ended 30 September 2022; (ii) the Existing Loan Annual Cap and the Proposed Revised Loan Annual Cap for the year ending 31 December 2022; and (iii) the Proposed Loan Annual Caps for the three years ending 31 December 2025.

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Table 4: A summary of the historical maximum daily balance for loan and bill and discounting services provided to SEGC Group by SE Finance, the Existing Loan Annual Cap, the Proposed Revised Loan Annual Cap and the Proposed Loan Annual Caps

	Historical maximum daily balance for loan and bill discounting services for the year ended		Historical maximum daily balance for loan and bill discounting services for the nine months ended	Existing Loan Annual Cap for the year ending	Proposed Revised Loan Annual Cap for the year ending	Proposed Loan Annual Caps for the year ending 31 December		
	31 December 2020	2021	30 September 2022	31 December 2022	31 December 2022	2023	2024	2025
	Approximately (RMB million)	Approximately (RMB million)	Approximately (RMB million)	(RMB million)	(RMB million)	(RMB million)	(RMB million)	(RMB million)
Amount	7,389	7,413	7,400	7,500	11,500	15,000	15,000	15,000

(i) The Proposed Revised Loan Annual Cap

The Proposed Revised Loan Annual Cap for the year ending 31 December 2022 amounts to RMB11,500 million, representing an increase of approximately 53.33% as compared to the Existing Loan Annual Cap. The Management confirmed that as at the Latest Practicable Date, the Existing Loan Annual Cap had not been exceeded.

As advised by the Management, the Proposed Revised Loan Annual Cap was determined primarily with reference to (i) the latest expected demand of loans by SEGC Group under the Former SEGC Framework Loan Agreement; and (ii) the expected increase in the financial capacity of SE Finance for providing loan and bill discounting services during the year ending 31 December 2022.

In anticipating the expected demand of loans by SEGC Group during the year ending 31 December 2022, the Management has made reference to the historical maximum daily balances of loan and bill discounting services provided to SEGC Group with SE Finance as well as the future development plan of SEGC Group. From Table 4, the respective historical maximum daily balances of the loan and bill discounting services provided to SEGC Group by SE Finance for the two years ended 31 December 2021 and the nine months ended 30 September 2022 were approximately RMB7,389 million, approximately RMB7,413 million and approximately RMB7,400 million, demonstrating consistently high utilisation rates (the “**Loan Utilisation Rate(s)**”) of approximately 98.52%, approximately 98.84% and approximately 98.67% of the corresponding historical annual caps of RMB7,500 million, respectively. In fact, upon our review of the relevant documents and based on our calculations, the historical Loan Utilisation Rates had consistently reached a level of over 97% for each year since 2017.

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In addition, as advised by the Management based on its discussions with the SEGC Group, it is intended that part of the loan services currently demanded by SEGC Group from the external banks would be gradually replaced by those provided by SE Finance after the maturity of the respective loans in the future and the approval of the Proposed Revised Loan Annual Cap. We have, in this regard, reviewed certain loan agreements previously entered into by SEGC Group with the external banks, under which part or all of the repayment of loans would be due in the year ending 31 December 2022 and replaced by the financing to be obtained from SE Finance after expiry, the aggregate amount of which has accounted for not less than 50% of the increase in the Proposed Revised Loan Annual Cap as compared to the Existing Loan Annual Cap. We have also reviewed the expected funding requirements plan of different members of SEGC Group and noticed that a substantial portion of the total funding requirements of SEGC Group for the year ending 31 December 2022 is intended to be used for repaying the loans currently maintained by SEGC Group with external banks, and that the Existing Loan Annual Cap would be insufficient for meeting such requirements.

On the other hand, considering the expected increase in deposits to be made by SEGC Group with SE Finance for the year ending 31 December 2022 with reference to, among others, the consistently significantly high Deposit Utilisation Rates throughout the two years ended 31 December 2021 and the nine months ended 30 September 2022, as well as the potential improvement in the Deposit Centralisation Rate, as previously analysed, it is expected that SE Finance will be able to have more capital which will in turn help enhance its financial capacity for providing loan and bill discounting services.

Taking into account the (i) the latest expected demand of loans by SEGC Group under the Former SEGC Framework Loan Agreement; and (ii) the expected increase in the financial capacity of SE Finance for providing loan and bill discounting services during the year ending 31 December 2022, we are of the view that the determination of the Proposed Revised Deposit Annual Cap is fair and reasonable.

(ii) the Proposed Loan Annual Caps

The Proposed Deposit Annual Cap for each of the three years ending 31 December 2025 amounts to RMB15,000 million, representing an increase of 100% from the Existing Loan Annual Cap and an increase of approximately 30.43% from the Proposed Revised Loan Annual Cap.

As advised by the Management, the Proposed Loan Annual Caps for the three years ending 31 December 2025 were determined primarily with reference to (i) the estimated maximum daily balance of loan and bill discounting services to be provided to SEGC Group by SE Finance during the year ending 31 December 2022, i.e., the Proposed Revised Loan Annual Cap, details of analysis of which are set out in the sub-section headed “(i) The Proposed Revised Loan Annual Cap” above in this letter; (ii) the expected demand of SEGC Group for loan services from SE

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Finance during the three years ending 31 December 2025; and (iii) the expected financial capacity of SE Finance for providing loan and bill discounting services during the three years ending 31 December 2025.

In anticipating the demand of SEGC Group for loan and bill discounting services from SE Finance during the three years ending 31 December 2025, the Management has made reference to the historical Loan Utilisation Rates and the expected funding requirements of SEGC Group throughout the three years ending 31 December 2025.

As disclosed previously, the historical Loan Utilisation Rates had been consistently remained at a high level of 97% for each year since 2017. With respect to the expected funding requirements of SEGC Group throughout the three years ending 31 December 2025, it is estimated that the funding requirements of SEGC Group would increase for the year ending 31 December 2023 from that for the year ending 31 December 2022 and remain relatively constant thereafter throughout the two years ending 31 December 2025. Based on our discussions with the Management and review of the relevant documents including but not limited to the expected funding requirement plans of SEGC Group, the estimated funding requirements of SEGC Group for the three years ending 31 December 2025 would be primarily used for repaying the maturing loans of SEGC Group currently maintained with external banks. In particular, it is noted that SEGC Group has entered into certain loan agreements with external banks earlier in 2022 with the maturity dates to be due in the year ending 31 December 2023, and the underlying aggregate principal amount of loans has accounted for not less than 80% of the increase in the estimated funding requirements of SEGC Group and therefore the Proposed Loan Annual Cap for the year ending 31 December 2023 as compared to that for the year ending 31 December 2022.

On the other hand, considering the expected increase in the deposits to be made by SEC Group with SE Finance for the three years ending 31 December 2025 as compared to that for the year ending 31 December 2022, as previously analysed, it is expected that SE Finance would have increased capital, which would be sufficient for meeting the expected funding requirements of SEGC Group and providing loan and bill discounting services during the three years ending 31 December 2025.

Taking into account the (i) the Proposed Revised Loan Annual Cap of RMB11,500 million, the determination of which is, in our view, fair and reasonable as analysed in the sub-section headed “(i) The Proposed Revised Loan Annual Cap” above in this letter; (ii) the expected demand of loans by SEGC Group during the three years ending 31 December 2025; and (iii) the expected increase in capital of SE Finance for providing loan and bill discounting services; we are of the view that the determination of the Proposed Loan Annual Caps is fair and reasonable.

4. Internal control procedures

The Group has been and will be adopting several internal control procedures to ensure that the pricing basis under the Former Framework Financial Services Agreements and/or the Financial Services Framework Agreement are complied, details of which are set out in the sections headed “2. Deposit Services — 2) Pricing Basis”, “3. Loan and Bill Discounting Services — 2) Pricing Basis” and “2. Financial Services Framework Agreement Summary — 2) Pricing Basis” of the Letter from the Board respectively.

For our due diligence purpose, we have obtained several relevant documents in respect of the aforesaid procedures including but not limited to the minutes of meeting of the general manager office of SE Finance for reviewing and approving the deposit rates offered to SEGC Group and the relevant approval documents, the reports issued by credit approval committee and senior management of SE Finance on the assessment and approval of the interest rates for loans services offered to SEGC Group, and the resolution of the audit committee of the Company in respect of the continuing connected transactions conducted under the Former Framework Financial Services Agreements. We have further obtained several other relevant documents including but not limited to (i) the quarterly internal reports issued by SE Finance on the services provided under the Former Framework Financial Services Agreements including, among others, the maximum daily balances reached, the pricing policies adopted and the compliance status in the relevant preceding quarters; (ii) the reminder and reports generated by the monitoring system adopted by SE Finance in ensuring that the annual caps under the Former Framework Financial Services Agreements are not exceeded; and (iii) the internal approvals on the interests rates for loan facilities offered to SEGC Group as issued by the finance department and the risk and compliance department of SE Finance. Based on our review, there is nothing contained in the aforesaid procedures that needs to be brought to the attention of the Independent Shareholders.

In addition, the Proposed Revised Annual Caps and the Proposed Annual Caps will be subject to the annual review by the independent non-executive Directors, details of which must be included in the Company’s subsequent published annual report and accounts. Also, pursuant to the Listing Rules, the auditors of the Company must provide a letter to the Board confirming, among others, that the continuing connected transactions contemplated under the Former Framework Financial Services Agreements and the Financial Services Framework Agreement are conducted in accordance with their terms and that the Proposed Revised Annual Caps and the Proposed Annual Caps, as the case may be, not being exceeded. Moreover, pursuant to the Listing Rules, the Company shall publish an announcement if it knows or has reason to believe that the independent non-executive Directors and/or its auditors will not be able to confirm the terms of such transactions or the relevant annual caps not being exceeded.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

In light of the foregoing, we are of the view that there are appropriate measures in place to govern the conduct of the continuing connected transactions contemplated under the Former Framework Financial Services Agreements (including the Proposed Revised Annual Caps) and the Financial Services Framework Agreement regarding the provision of deposit services and loan and bill discounting services by SE Finance to SEGC Group, as well as to safeguard the interests of the Independent Shareholders

RECOMMENDATIONS

Having considered the above principal factors and reasons, we are of the view that the continuing connected transactions contemplated under the Former Framework Financial Services Agreements and the Financial Services Framework Agreement regarding the provision of deposit services and loan and bill discounting services by SE Finance to SEGC Group will be conducted in the ordinary and usual course of business of the Group, and the terms of the revision of the Existing Annual Caps for the year ending 31 December 2022 and the continuing connected transactions contemplated under the Financial Services Framework Agreement regarding the provision of deposit services and loan and bill discounting services by SE Finance to SEGC Group are on normal commercial terms, fair and reasonable and 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 advise the Independent Shareholders, to vote in favour of the resolution(s) to be proposed for approving the revision of the Existing Annual Caps for the year ending 31 December 2022 and the continuing connected transactions contemplated under the Financial Services Framework Agreement regarding the provision of deposit services and loan and bill discounting services by SE Finance to SEGC Group at the EGM.

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 Securities and Futures Ordinance (Chapter 571 of the laws of Hong Kong). He has over 20 years of experience in the accounting and investment banking industries.

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 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 Meeting Room, Shanghai Electric Training Base, 2748 Pudong Avenue, Shanghai, the PRC, at 2:00 p.m. on Friday, 2 December 2022 for the purpose of considering and, if thought fit, approving the following resolutions:

ORDINARY RESOLUTIONS:

1. To consider and approve the revision of the annual caps of the continuing connected transactions under the Former Framework Financial Services Agreements.
2. To consider and approve the continuing connected transactions and proposed annual caps under the Financial Services Framework Agreement.
3. To consider and approve the continuing connected transactions and proposed annual caps under the Purchase Framework Agreement, the Sales Framework Agreement, the Provision of Comprehensive Services Framework Agreement and the Acceptance of Comprehensive Services Framework Agreement.
4. To consider and approve the continuing connected transactions and proposed annual caps under the MESMEE Purchase Framework Agreement.

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

Shanghai, the PRC, 15 November 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 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.

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 Tuesday, 29 November 2022 to Friday, 2 December 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, 2 December 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 Monday, 28 November 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 or her behalf. A proxy need not be a Shareholder. Each Shareholder who wishes to appoint one or more proxies should first review the Circular in respect of the EGM.
4. The instrument appointing a proxy must be in writing under the hand of a Shareholder or his 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 one 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.
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.

NOTICE OF EXTRAORDINARY GENERAL MEETING

- (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. CONSOLIDATED FINANCIAL INFORMATION OF THE GROUP

The audited financial statements of the Group for the year ended 31 December 2021 are set out on pages 75 to 319 of the 2021 annual report of the Company, which was published on both the website of the Stock Exchange (<http://www.hkexnews.hk>) and the website of the Company (<https://www.shanghai-electric.com/>).

The audited financial statements of the Group for the year ended 31 December 2020 are set out on pages 77 to 309 of the 2020 annual report of the Company, which was published on both the website of the Stock Exchange (<http://www.hkexnews.hk>) and the website of the Company (<https://www.shanghai-electric.com/>).

The audited financial statements of the Group for the year ended 31 December 2019 are set out on pages 79 to 260 of the 2019 annual report of the Company, which was published on both the website of the Stock Exchange (<http://www.hkexnews.hk>) and the website of the Company (<https://www.shanghai-electric.com/>).

2. INDEBTEDNESS

(1) Loans

As at September 30, 2022, the Group has outstanding loans of approximately RMB49.215 billion, details of which are set out below:

(RMB100 million)

Secured loans	76.88
Credit loans	249.01
Guaranteed loans	123.83
Credit bonds	42.43

(2) Lease Liabilities

As at September 30, 2022, the lease liabilities of the Group were approximately RMB1,171 million.

(3) Pledged Assets

As at September 30, 2022, the Group's bank deposits amounted to RMB1,610 million, receivables financing amounted to RMB603 million, notes receivable with a carrying amount of RMB148 million, investment real estate with a carrying amount of RMB7 million, and certain properties and equipment with a carrying amount of RMB2,303 million were secured to banks to obtain bank borrowings or credit facilities.

In addition, as at September 30, 2022, none of the Group's bank borrowings was secured by the Group's inventory; part of the Group's bank borrowings was secured by the Group's accounts receivable, with a carrying amount of RMB1,612 million; part of the Group's bank borrowings was secured by the Group's long-term receivables, with a carrying amount of RMB336 million.

(4) Contingent Liabilities

In June 2008, the Company signed the Equipment Supply and Service Contract (the “**contract**”) with a UK subsidiary (the “**buyer**”) of an Indian company to provide major equipment and related services to a coal-fired power station project in Sasan, India, with a total contract amount of USD1,311 million, and a guarantee letter from the Indian company was provided for the UK subsidiary's payment obligations under the contract.

In December 2019, due to long-term default in the payment of equipment expenses and other related expenses by the owner, the Company submitted an arbitration application to the Singapore International Arbitration Centre (SIAC), requiring the guarantor to pay the Company at least USD135 million of equipment expenses and other related payables as prescribed in the guarantee letter, and in December 2020, the Company submitted an application to the local High Court for property preservation of the guarantor.

On February 23, 2021, the Company received a notice from SIAC for the acceptance of the arbitration application, and the buyer and its related parties requested the Company to compensate their losses of approximately USD416 million, mainly including the losses of USD132 million in power plant operation, losses of USD221 million in electricity revenue and other related expenses. In June 2021, the Company received a notice from SIAC, informing that since the buyer and its related parties have submitted a “Cancellation Letter”, SIAC has now confirmed the termination of this arbitration, and no further actions were required for both parties.

In August 2021, the Company received an indictment filed in Mumbai High Court sent by lawyers of Sasan Power Plant operator. According to the indictment, the operator sued the buyer, its related parties as well as the Company, demanding that all defendants shall be held jointly accountable for losses of approximately RMB2,133 million caused by defects in equipment provided by the Company, including power plant operation losses, electricity revenue losses, interests, etc. In addition, the plaintiff filed an application for interim relief with Mumbai High Court, demanding the Company disclose assets clues.

In December 2021, the Company received the arbitration acceptance notice issued by the SIAC. The buyer of the above-mentioned Indian project applied for arbitration against the Company. The loss of approximately USD389 million mainly includes the loss of electricity revenue from the operation of the power plant, maintenance costs, and liquidated damages for delivery delays.

In July 2022, the Company's attorneys were informed through public information that First Litigation has been disposed by the Bombay High Court of India on the grounds that the plaintiff did not meet the requirements for filing a complaint and failed to amend the complaint within the prescribed time.

As at 30 September 2022, the above arbitration cases and lawsuits have not yet been finalized. The Company believed that it was unlikely that the court would uphold the claims against the Company and thus no provisions were made for the lawsuits.

Except for the above-mentioned litigation matters, as at September 30, 2022, the Group had approximately RMB1,409 million of contingent liabilities arising from pending litigation and arbitration. As the Company believes that the opponent's claim is unlikely to be supported, no provision for estimated liabilities was made for the accused cases.

(5) Guarantees

As at September 30, 2022, the Group actually provided borrowing guarantees of approximately RMB251 million to related parties.

(6) Disclaimer

Save as aforesaid, and apart from intra-group liabilities and normal trade payables, the Group did not have any outstanding bank overdrafts, loans, debt securities, borrowings or other similar indebtedness, liabilities under acceptances or acceptance credits, bonds, mortgages, charges, finance lease, hire purchases commitments, guarantees or other material contingent liabilities or guarantees at the close of business on September 30, 2022.

3. WORKING CAPITAL

The Directors are of the opinion that, taking into account of the Group's available financial resources including the internally generated funds, the working capital available to the Group is sufficient for the Group's fund requirements for a least twelve months from the date of this circular.

4. FINANCIAL AND TRADING PROSPECT OF THE GROUP

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, high-end vessels for chemical industry; and provision of solutions for power grid and industrial intelligent power supply system; (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.; industrial internet services; financial services, covering financing leases and insurance brokerage; property management services mainly based on industrial real estate and etc..

The Group will promote the transformation of new and old drivers for development, increase the layout and investment in the new paths, accelerate the transformation and upgrade of advantageous industries to high-end, green, digital, service-oriented and internationalized directions. The Group will organize the technology, products, engineering and services in the fields of new energy, and enhance the overall solution capability in the field of intelligent manufacturing. The Group will also increase investment and build core competitiveness in science and technology. The Group will continue to focus on the main responsibility and main business, concentrate on advantages, and strive to achieve healthy and sustainable development.

5. FINANCIAL EFFECT

The annual caps for the deposit, loan and bill discounting services to be provided by SE Finance to SEGC under Financial Services Framework Agreement for each of the three years ending 31 December 2025 are expected to not exceed RMB15 billion. The Company expects that the income to be earned from the deposit and loan and bill discounting services will be affected by the level of interest rates. However, taking into account the prevailing interest rates for loan and bill discounting services in the PRC, the potential interest income to be earned from the loan and bill discounting services for each of the three years ending 31 December 2025 is expected to represent an insignificant portion of the Group's earnings and assets. As such, the Company anticipates that such potential interest income to be earned from the deposit and loan and bill discounting services under the Financial Services Framework Agreement for each of the three years ending 31 December 2025 will not have any material impact on the Group's earnings, assets and liabilities.

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 expert above 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. MATERIAL ADVERSE CHANGE

References are made to the interim results announcement and the interim report of the Company for the six months ended 30 June 2022 published on 29 August 2022 and 28 September 2022, respectively. The Company recorded a net loss attributable to owners of the Company of RMB991 million.

The net loss for the six months ended 30 June 2022 was mainly attributable to the continuous impact of the COVID-19 pandemic, which caused raw material prices increased and costs such as logistics and labor costs increased on a year-on-year basis; some of the Company's production and operation subsidiaries experienced suspension of

operation and production, logistics difficulties and delivery delays etc., resulting in a year-on-year decrease in revenue; the production and operation results of the Company's associates and joint ventures decreased on a year-on-year basis.

Saved as disclosed above, as at the Latest Practicable Date, there were no material adverse changes 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 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, Mr. LIU Ping and Mr. ZHU Zhaokai's positions in SEGC and Ms. LENG Weiqing's position in MESMEE, 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 date of this circular and significant in relation to the business of the Group.

As at the Latest Practicable Date, none of the Directors, Supervisors or chief executive(s) of the Company had any interests or short positions in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which was required to be notified to the Company and the Hong Kong Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which any such Directors, Supervisors or chief executive(s) is taken or deemed to have under such provisions of the SFO) or which was required to be entered in the register required to be kept by the Company pursuant to Section 352 of the SFO or which was otherwise required to be notified to the Company and the Hong Kong Stock Exchange pursuant to the Model Code for Securities Transactions adopted by the Company.

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. LITIGATION

References are made to the announcements on the litigations and arbitrations and relevant progress of the Company dated 16 January 2018, 17 January 2018, 1 November 2019, 17 December 2019, 29 December 2020, 31 May 2021, 18 October 2021, 15 November 2021, 30 December 2021, 4 January 2022, 1 April 2022, 7 July 2022 and 19 July 2022, respectively, in relation to, among others, the litigations of the Company involving the Company and Shanghai Electric Rongchuang Financial Leasing Co., Ltd. (上海電氣融創融資租賃有限公司), the litigations of Shanghai Electric Communication Technology Co., Ltd. (上海電氣通訊技術有限公司) and the arbitrations and litigations of the Company involving the project of Sasan 6*600MW Ultra Large Supercritical Coal-fired Power Station in India. The Group is subject to the litigations, arbitrations and claims of material importance to the Group. The Company will perform its obligation of information disclosure based on the progress of the arbitrations and litigations.

As of the Latest Practicable Date, save as disclosed above, to the best of the Directors' knowledge, information and belief, no member of the Group was engaged in any litigation, arbitration or claim of material importance to the Group, and no litigation, arbitration or claim of material importance to the Group was pending or threatened against any member of the Group.

8. OTHERS

The joint company secretaries of the Company are Mr. Zhou Zhiyan and Ms. Leung Kwan Wai. Ms. Leung possesses professional qualifications including a chartered secretary, a chartered corporate governance professional, an associate of The Hong Kong Chartered Governance Institute, and an associate of The Chartered Governance Institute (CGI). Mr. Zhou graduated from the School of Accounting of Shanghai Industry and Commerce Institute majoring in finance and accounting and obtained an MBA degree from Shanghai Jiao Tong University. He is a senior accountant.

9. MATERIAL CONTRACTS

Within the two years immediately preceding the date of this circular and up to the Latest Practicable Date, save as the contracts disclosed in the announcements dated 17 August 2021 and 20 June 2022, no contracts that are or may be material (not being contracts entered into in the ordinary course of business) were entered into by the Group.

10. DOCUMENTS ON DISPLAY

The following documents are 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) Letter from the Independent Financial Adviser, Lego Corporate Finance Limited;
- (2) The letter of consent from the expert referred to in the paragraph headed “EXPERTS AND CONSENTS” in this Appendix;
- (3) Former Framework Financial Services Agreements;
- (4) Financial Services Framework Agreement;
- (5) Purchase Framework Agreement;
- (6) Sales Framework Agreement;
- (7) Provision of Comprehensive Services Framework Agreement;
- (8) Acceptance of Comprehensive Services Framework Agreement; and
- (9) MESMEE Purchase Framework Agreement.