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SHANGHAI ELECTRIC GROUP COMPANY LIMITED

上海電氣集團股份有限公司

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

(Stock Code: 02727)

ANNOUNCEMENT ON ADJUSTMENT OF PERFORMANCE COMMITMENT OF SUBSIDIARY

Reference is made to the announcement of Shanghai Electric Group Company Limited (the “**Company**”) dated 11 November 2019 in relation to, among other things, the Share Transfer Agreement entered into by the Company with Mr. Wang Weidong and Ms. Xu Xiaojun, pursuant to which, the Company acquiring shares of Shenzhen Yinghe Technology Co., Ltd (深圳市赢合科技股份有限公司) held by Mr. Wang Weidong and Ms. Xu Xiaojun. Unless otherwise stated herein, terms used in this announcement have the same meanings as those defined in the aforementioned announcement.

On 30 June 2023, the fifth session of the Board of Directors of the Company considered and approved at the 81st meeting the “Proposal on Adjusting the Performance Commitment of Shenzhen Yinghe Technology Co., Ltd.”, and agreed to the signing of the “Supplementary Agreement to the Performance Commitment Agreement” (the “**Supplementary Agreement**”) among the Company, Mr. Wang Weidong and Ms. Xu Xiaojun, and adjust the performance commitment of Yinghe Technology to realizing a net profit of RMB1,379 million during the four-year period from 2020 to 2023. According to the relevant laws and regulations in the PRC, the performance commitment adjustment is subject to the Company’s general meeting of shareholders for consideration.

I. Overview of Original Commitments

On 11 November 2019, as approved by the fifth Board of Directors of the Company at the 23rd meeting, the Company entered into the Share Transfer Agreement, Performance Commitment Agreement (the “**Original Agreement**”) and Share Pledge Agreement with Mr. Wang Weidong and Ms. Xu Xiaojun, while Mr. Wang Weidong and Ms. Xu Xiaojun signed the Commitment on Waiver of All Voting Rights. As of the date of this announcement, the Company holds 28.39% shares of Yinghe Technology and is its controlling shareholder.

Pursuant to the Performance Commitment Agreement, Mr. Wang Weidong and Ms. Xu Xiaojun guaranteed to the Company that:

The committed net profit of Yinghe Technology for the years of 2020, 2021 and 2022 shall be not less than RMB275 million, RMB330 million and RMB429 million respectively, and not less than RMB1,034 million in aggregate for the three years.

The Company may review the difference between the actual net profit (the net profit attributable to shareholders of the parent company on the basis of the consolidated financial statements, being the lower

of the net profit before or after the deduction of non-recurring gains or losses) and committed net profit of Yinghe Technology after the end of each accounting year during the performance commitment period. Such difference shall be subject to confirmation through the audit report on the consolidated financial statements of Yinghe Technology issued by the accounting firm approved to be appointed at shareholders' meeting of Yinghe Technology.

According to the Performance Commitment Agreement, Mr. Wang Weidong and Ms. Xu Xiaoju shall perform their compensation obligations in the following manners:

1. Compensation obligations in respect of performance commitment for 2020 or 2021

If the fulfillment rate of the performance commitment of Yinghe Technology in either 2020 or 2021 (the calculation formula: the fulfillment rate of the performance commitment = the actual net profit of the year ÷ the committed net profit of the year × 100%) is less than 100%, Mr. Wang Weidong and Ms. Xu Xiaoju shall undertake the following performance compensation obligations:

If the fulfillment rate of the performance commitment of Yinghe Technology in either 2020 or 2021 is over 80% but less than 100%, Mr. Wang Weidong and Ms. Xu Xiaoju shall not make performance compensation temporarily;

If the fulfillment rate of the performance commitment of Yinghe Technology in either 2020 or 2021 is less than 80%, Mr. Wang Weidong and Ms. Xu Xiaoju shall make performance compensation in respect of the unfulfilled net profit of Yinghe Technology in the year to the Company. The amount to be compensated in the year shall be calculated according to the following formula:

The amount to be compensated in the year = the committed net profit of the year × 80% — the actual net profit of the year

2. Final compensation obligations in respect of performance commitment in 2020, 2021 and 2022

If the cumulative fulfillment rate of the performance commitment of Yinghe Technology in 2020, 2021 and 2022 (the calculation formula: the cumulative fulfillment rate of the performance commitment = the total actual net profit of the performance commitment period ÷ the total committed net profit of the performance commitment period × 100%) is less than 100%, Mr. Wang Weidong and Ms. Xu Xiaoju shall undertake the final compensation obligations on performance commitment. The final compensation amount shall be calculated according to the following formula:

The final compensation amount = (the total committed net profit of the performance commitment period — the total actual net profit of the performance commitment period) ÷ the total committed net profit of the performance commitment period × the total price of the share transfer transaction — the cumulative amount actually paid based on the sum of the total amount of compensation payable calculated according to the above formula (if any). If the final compensation amount calculated according to the above formula is less than or equal to 0, take the value as 0.

If Mr. Wang Weidong and Ms. Xu Xiaoju shall undertake the performance compensation obligations, the Company shall issue a written notice to Mr. Wang Weidong and Ms. Xu Xiaoju after the official issuing of the audit report on the consolidated financial statements of Yinghe Technology for each year during the performance commitment period. Mr. Wang Weidong and Ms. Xu Xiaoju shall pay the compensation to the Company within fifteen days after the arrival of the notice in accordance with relevant requirements in the notice.

II. The fulfillment progress of the original performance commitment and the reasons for unfulfillment

1. The fulfillment progress of the original performance commitment

The results of Yinghe Technology in 2020, 2021 and 2022 are as follows:

Item	2020 (audited)	2021 (audited)	2022 (audited)	Cumulative amount
Committed net profit (RMB100 million)	2.75	3.30	4.29	10.34
Realized net profit (RMB100 million)	1.61	2.88	4.71	9.20
Realization rate	58.55%	87.27%	109.79%	88.97%

In 2020, the actual net profit by Yinghe Technology was lower than 80% of the committed net profit. Mr. Wang Weidong and Ms. Xu Xiaojun have compensated the Company in cash of RMB59 million in accordance with the Performance Compensation Agreement.

2. Reasons for unfulfillment of original performance commitments

The main business of Yinghe Technology is the research and development, production and sales of lithium battery equipment. On the one hand, in 2020, due to the impact of external factors such as disruptions in the parts supply chain, restrictions on production base start-ups and delayed deliveries requested by customers, the shipment of Yinghe Technology's equipment has slowed down and sales and profit have fallen short of expectations, and there has been significant difference between its actual performance for 2020 and its performance commitments for 2020. On the other hand, since the second half of 2022, facing the constantly intensified industry competition, Yinghe Technology has taken the initiative to strengthen the management of business cycles such as commodity flow and capital flow, strengthened management and control of operating leverage, and practiced high quality development goal from the perspective of maintaining its own steady development, which has affected the revenue scale and operating performance in 2022 to a certain extent. The above reasons ultimately resulted in the failure to meet the overall objective of original performance commitments.

III. Main contents of performance commitment adjustment

On 30 June 2023, the Company signed the Supplementary Agreement to the Performance Commitment Agreement with Mr. Wang Weidong and Ms. Xu Xiaojun. The main contents are as follows:

Party A: Shanghai Electric Group Company Limited

Party B (I): Mr. Wang Weidong

Party B (II): Ms. Xu Xiaojun

After consultation and consensus, in order to promote the sustainable development of Yinghe Technology, the parties reached a supplementary agreement on the performance commitment compensation under the Original Agreement as follows:

1. Adjustment of performance commitment under the Original Agreement

Under the Original Agreement, Party B guaranteed that Yinghe Technology shall realize a committed net profit of not less than RMB275 million, RMB330 million and RMB429 million in 2020, 2021 and 2022, respectively, with the cumulative committed net profit realized in three years being not less than RMB1,034 million in aggregate. Party B's commitment is now adjusted to a committed net profit of Yinghe Technology of not less than RMB275 million, RMB330 million and RMB429 million in 2020, 2021 and 2022, respectively, with the cumulative committed net profit realized in four years of 2020, 2021, 2022 and 2023 being not less than RMB1.379 billion in aggregate.

2. Adjustment of determination method of difference in profit forecast under the Original Agreement

In addition to the determination method of difference in profit forecast agreed by the parties under the Original Agreement, the Company may review the actual net profit realized by Yinghe Technology in 2023 (the net profit attributable to shareholders of the parent company on the basis of the consolidated financial statements, being the lower of the net profit before or after the deduction of non-recurring gains

or losses) after 31 December 2023, subject to confirmation through the audit report on the consolidated financial statements of Yinghe Technology issued by the accounting firm approved to be appointed at shareholders' meeting of Yinghe Technology.

For the avoidance of ambiguity, Party A shall bear the cost of engaging an audit agency to provide services and other expenses incurred in auditing the actual net profit realized by Yinghe Technology in 2023.

3. Change in compensation methods under the Original Agreement

(1) Compensation obligations in respect of performance commitment for 2020, 2021 and 2022

The parties confirm that the fulfillment of the performance commitment obligations undertaken by Party B in 2020, 2021 and 2022 under the Original Agreement is as follows:

Year of performance commitment	Net profit target of commitment	Performance results	Compensation progress
2020	Not less than RMB275 million	RMB161 million	The fulfillment rate of performance commitment was lower than 80%, and the compensation for 2020 has been fulfilled: the committed net profit of the year \times 80% - the actual net profit of the year = $275 \times 80\% - 161 = \text{RMB}59$ million. Party B has compensated RMB59 million to Party A.
2021	Not less than RMB330 million	RMB288 million	The performance commitment fulfillment rate was higher than 80% but less than 100%, and performance compensation was not required for the time being.
2022	Not less than RMB429 million	RMB471 million	Performance compensation was not required for the time being.

Both parties agree that Party B shall not claim from Party A the return of the performance commitment compensation of RMB59 million due to the triggering of the 2020 performance compensation obligation to Party A.

(2) Final compensation obligations in respect of performance commitment in 2020, 2021, 2022 and 2023

If the cumulative fulfillment rate of the performance commitment of Yinghe Technology in 2020, 2021, 2022 and 2023 (the calculation formula: the cumulative fulfillment rate of the performance commitment = the total actual net profit of the performance commitment period \div the total committed net profit of the performance commitment period \times 100%) is less than 100%, Party B shall undertake the final compensation obligations on performance commitment. The final compensation amount shall be calculated according to the following formula:

The final compensation amount = (the total committed net profit of the performance commitment period — the total actual net profit of the performance commitment period) \div the total committed net profit of the performance commitment period \times the total price of the share transfer transaction — the cumulative amount actually paid based on the sum of the total amount of compensation payable (if any). If the final compensation amount calculated according to the above formula is less than or equal to 0, take the value as 0. For the avoidance of ambiguity, if the final compensation amount is set to 0, the compensated amount will not be reversed, that is, Party B shall not require Party A to return the performance compensation of RMB59 million for 2020 paid by Party B for any reason.

If Party B shall undertake the performance compensation obligations in accordance with this agreement,

Party A shall issue a written notice to Party B after the official issuing of the audit report on the consolidated financial statements of Yinghe Technology for 2023. Party B shall pay the compensation to Party A within fifteen days after the arrival of the notice from Party A in accordance with relevant requirements in the notice.

For avoidance of ambiguity, the above-mentioned total committed net profit of the performance commitment period is RMB1,379 million. The total price of the share transfer transaction is the total consideration paid by Party A on the transfer of the shares of Yinghe Technology from Party B and its related parties (including parties acting in concert) up to 31 December 2022. All parties confirmed that the total consideration paid by Party A on the transfer of the shares of Yinghe Technology held by Party A from Party B and its related parties (including parties acting in concert) up to 31 December 2022 is RMB2,107,488,608.37.

4. Term of the pledge

The parties agree that since both parties have adjusted the performance commitment period under the Supplementary Agreement, the definition of the performance commitment period involved in the Share Pledge Agreement shall be subject to the agreement in the Supplementary Agreement.

5. Effectiveness and termination

The Supplementary Agreement shall come into force on the date when it is signed by the legal representatives/persons or authorized representatives and affixed with the common seal of the Company of both parties, and the above clauses shall become effective when the Supplementary Agreement is approved at the shareholders' general meeting of Party A.

IV. Reasons for changes of performance commitment and its impact on the Company

The lithium-ion battery intelligent manufacturing industry is one of the main directions of the Company set to facilitate national strategies during the "14th Five-Year Plan" period, and Yinghe Technology, as the main enterprise of the Company's lithium-ion battery intelligent manufacturing industry chain, will be supported by the Company to grow into a global leading provider of complete solutions for lithium-ion battery equipment production lines. Therefore, considering the impact of the macro environment on the performance results of Yinghe Technology, after discussion with Mr. Wang Weidong and Ms. Xu Xiaojun, the former controlling shareholders, the Company intends to adjust the performance commitment of Yinghe Technology from the perspective of realizing its own industrial layout and strategic planning, which is conducive to the sustainable development of Yinghe Technology.

The performance commitment adjustment will not adversely affect Company's production, operation and financial conditions. From a long-term perspective, the performance commitment adjustment is beneficial to the stable operation and sustainable development of Yinghe Technology, and is also in line with the long-term interests of the Company and all shareholders. The adjustment is not detrimental to the interests of the Company and the shareholders of the Company, in particular the interests of minority shareholders.

V. Consideration procedures of the issue

1. Consideration procedures of the Board and the Supervisory Committee

On 30 June 2023, the fifth session of the Board of Directors of the Company and the Supervisory Committee considered and approved at the 81st meeting and the 58th meeting, respectively, the "Proposal on Adjusting the Performance Commitment of Shenzhen Yinghe Technology Co., Ltd.". According to the relevant laws and regulations in the PRC, this issue will be submitted to the Company's general meeting of shareholders for consideration.

2. Opinion of independent non-executive Directors

The independent non-executive Directors of the Company express the following independent opinion: We believe that the adjustment of the performance commitment of Yinghe Technology is in line with the Regulatory Guidelines for Listed Companies No. 4 – Undertakings of Listed Companies and their Related Parties of China Securities Regulatory Commission and other relevant laws, regulations and regulatory documents. It is conducive to the stable operation and sustainable development of Yinghe Technology, and is in line with the long-term interests of the Company, and there is no situation that will damage the interests of the Company and shareholders. All Directors have agreed to this proposal upon consideration. The Board's consideration and voting procedures were in compliance with the laws, administrative regulations, the rules of the stock exchange where the Company's shares are listed and the relevant provisions of the Articles of Association. We agree with the "Proposal on Adjusting the Performance Commitment of Shenzhen Yinghe Technology Co., Ltd." and agree to submit the proposal to the shareholders' general meeting of the Company for consideration.

3. Opinion of the Supervisory Committee

The Supervisory Committee of the Company expresses the following opinion: We believe that the adjustment of the performance commitment of Yinghe Technology is an appropriate adjustment made according to the actual situation of Yinghe Technology, which complies with the provisions of relevant laws, regulations and regulatory documents, and there is no situation that will damage the interests of the Company and shareholders. The procedures for the consideration and voting of the issue were in compliance with the laws, administrative regulations, the rules of the stock exchange where the Company's shares are listed and the relevant provisions of the Articles of Association.

By order of the Board

Shanghai Electric Group Company Limited

LENG Weiqing

Chairlady of the Board

Shanghai, the PRC, 30 June 2023

As at the date of this announcement, the executive directors of the Company are Ms. LENG Weiqing, Mr. LIU Ping and Mr. ZHU Zhaokai; the non-executive directors of the Company are Ms. YAO Minfang and Ms. LI An; and the independent non-executive directors of the Company are Dr. XI Juntong, Dr. XU Jianxin and Dr. LIU Yunhong.

** For identification purpose only*