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

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

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**SHANGHAI ELECTRIC GROUP COMPANY LIMITED****上海電氣集團股份有限公司***(a joint stock limited company incorporated in the People's Republic of China with limited liability)***(Stock Code: 02727)**

**CONTINUING CONNECTED TRANSACTIONS UNDER
FRAMEWORK FINANCIAL SERVICES AGREEMENTS
CONTINUING CONNECTED TRANSACTIONS UNDER
MESMEE FRAMEWORK PURCHASE AGREEMENT
AND
NOTICE OF EXTRAORDINARY GENERAL MEETING**

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

A notice convening the EGM of the Company to be held at Xingyuan Hall, 3/F, B Block, Ramada Plaza Shanghai Caohejing, No. 509 Caobao Road, Shanghai, the PRC, at 9:00 a.m. on Friday, 27 December 2019 is set out on pages 38 to 39 of this circular.

A reply slip and a form of proxy for use at the EGM and a reply slip have been published on the website of the Hong Kong Stock Exchange (<http://www.hkexnews.hk>) on Tuesday, 12 November 2019. If you intend to appoint a proxy to attend the EGM, you are requested to complete and return the forms of proxy in accordance with the instructions printed thereon not less than 24 hours before the time fixed for holding the EGM or any adjournment thereof (as the case may be). Completion and return of the forms of proxy will not preclude you from attending the EGM and voting in person if you so wish. Shareholders who intend to attend the EGM in person or by proxy should complete and return the reply slip in accordance with the instructions printed thereon on or before Saturday, 7 December 2019.

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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;
“associate(s)”	has the meaning ascribed thereto under the Listing Rules;
“Board”	the board of Directors of the Company;
“Company”	Shanghai Electric Group Company Limited (上海電氣集團股份有限公司), a joint stock limited company duly incorporated in the PRC with limited liability, the H shares of which are listed on the Stock Exchange of Hong Kong Limited under stock code 02727 and the A shares of which are listed on the Shanghai Stock Exchange under stock code 601727;
“connected person(s)”	has the meaning ascribed thereto under the Listing Rules;
“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 9:00 a.m. on Friday, 27 December 2019 at Xingyuan Hall, 3/F, B Block, Ramada Plaza Shanghai Caohejing, No. 509 Caobao Road, Shanghai, the PRC;
“Framework Financial Services Agreements”	the SEC Framework Deposit Agreement and the SEC Framework Loan Agreement;
“Group”	the Company and its subsidiaries from time to time;
“Hong Kong”	the Hong Kong Special Administrative Region of the People’s Republic of China;
“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. Chu Junhao, Dr. Xi Juntong, and Dr. Xu Jianxin formed to consider, among others, the terms of the Framework Financial Services Agreements;

DEFINITIONS

“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 Independent Shareholders in respect of the the continuing connected transactions under Framework Financial Services Agreements;
“Independent Non-executive Director”	the independent non-executive directors of the Company;
“Independent Shareholders”	the Shareholders other than SEC and its associates;
“Latest Practicable Date”	2 December 2019, 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 Framework Purchase Agreement”	the framework purchase agreement between SMEC and MESMEE dated 29 October 2019 in relation to the purchase of certain products from MESMEE by the Group;
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;
“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;

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“RMB”	Renminbi, the lawful currency of the PRC;
“SE Finance”	Shanghai Electric Group Finance Co., Ltd., (上海電氣集團財務有限責任公司), a 89% owned subsidiary of the Company as at the Latest Practicable Date and a limited company incorporated in the PRC;
“SEC”	Shanghai Electric (Group) Corporation (上海電氣(集團)總公司), the controlling shareholder of the Company (as defined in the Listing Rules) holding 59.18% equity interest in the total issued share capital of the Company as at the Latest Practicable Date;
“SEC Framework Deposit Agreement”	the framework deposit agreement between the Company and SEC dated 29 October 2019 for provision of deposit services by the Group to SEC Group;
“SEC Framework Loan Agreement”	the framework loan agreement between the Company and SEC dated 29 October 2019 for provision of loan and bill discounting services by the Group to SEC Group;
“SEC Group”	SEC, its subsidiaries and its associates, but excluding the Group;
“SFC”	the Securities and Futures Commission of Hong Kong;
“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 in turn 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;

DEFINITIONS

“Surplus Fund(s)” the temporary surplus fund of the Group comprising mainly of advance payments from customers to the Group less advance payments to suppliers by the Group; 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 limited company incorporated in the People's Republic of China with limited liability)
(Stock Code: 02727)

Executive Directors:

Mr. ZHENG Jianhua
Mr. HUANG Ou
Mr. ZHU Zhaokai
Mr. ZHU Bin

Registered office:

30th Floor, Maxdo Center
No. 8 Xingyi Road
Shanghai
PRC

Non-executive Directors:

Ms. YAO Minfang
Ms. LI An

Principal place of business in Hong Kong:

Room 901-903, Tower Two Lippo Centre
89 Queensway
Hong Kong

Independent non-executive Directors:

Dr. CHU Junhao
Dr. XI Juntong
Dr. XU Jianxin

6 December 2019

To the Shareholders

Dear Sir or Madam,

**CONTINUING CONNECTED TRANSACTIONS UNDER
FRAMEWORK FINANCIAL SERVICES AGREEMENTS
CONTINUING CONNECTED TRANSACTIONS UNDER
MESMEE FRAMEWORK PURCHASE AGREEMENT
AND
NOTICE OF EXTRAORDINARY GENERAL MEETING**

I. INTRODUCTION

References are made to the announcements of the Company dated 29 October 2019 in relation to the continuing connected transactions under the Framework Financial Services Agreement and the continuing connected transactions under the MESMEE Framework Purchase Agreement, respectively.

LETTER FROM THE BOARD

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 continuing connected transactions and proposed annual caps under the SEC Framework Deposit Agreement; (ii) the continuing connected transactions and proposed annual caps under the SEC Framework Loan Agreement; and (iii) the continuing connected transactions and proposed annual caps under the MESMEE Framework Purchase Agreement will be proposed for the Shareholders to approve.

II. CONTINUING CONNECTED TRANSACTIONS AND THE PROPOSED ANNUAL CAPS UNDER THE FRAMEWORK FINANCIAL SERVICES AGREEMENTS

1. Introduction

The Company's core businesses are design, manufacture, and sales of a wide range of products and services in the new energy and environmental protection equipment, high efficiency and clean energy equipment, industrial equipment, as well as provision of modern services. Historically, the Company has always been transacting with SEC and other connected persons for products, component parts and services which complement the products and services offered by the Company. In order to continue and ensure the growth and development of the Company in the future, the Group intends to continue various continuing connected transactions with SEC.

References are made to the announcement of the Company dated 14 November 2016, the circular of the Company dated 11 December 2016 and the poll voting results announcement of the Company dated 29 December 2016, in relation to, among other things, the entering into a framework deposit agreement and a framework loan agreement for the years 2017, 2018 and 2019 between the SE Finance and SEC. These agreements were approved by the 2nd extraordinary general meeting of 2016 and have been executed continuously. As these agreements will expire on 31 December 2019, SE Finance will renew these agreements with SEC and they will be submitted to the general meeting of the Company for consideration.

Therefore, on 29 October 2019, SE Finance, a subsidiary of the Company, entered into two financial services agreements, namely the SEC Framework Deposit Agreement and the SEC Framework Loan Agreement, with SEC to continue the provision of financial services by SE Finance to SEC Group. Based on the forecasted transaction amounts of the financial services, these transactions will comprise the continuing connected transactions subject to reporting, announcement, annual review and Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules for the years 2020, 2021 and 2022.

LETTER FROM THE BOARD

2. SEC Framework Deposit Agreement

2.1 Summary

Agreement	:	SEC Framework Deposit Agreement
Date of agreement	:	29 October 2019
Parties	:	<ul style="list-style-type: none">• SE Finance • SEC
Subject Matter	:	SE Finance will provide deposit services to SEC Group
Term	:	three years effective from 1 January 2020, renewable at the option of SE Finance for a term of three years by giving three months' notice prior to the expiry of the term

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, including the disclosure and Independent Shareholders' approval requirements prior to the Company's exercise of the option to renew the agreements after the three years period for another three years.

LETTER FROM THE BOARD

2.2 Annual caps and basis of determination

The table below sets out the historical maximum daily balance of funds (including interests) deposited by SEC Group with SE Finance for the years 2017, 2018 and six months ended 30 June 2019, and the estimated amount, as proposed annual cap, for the three years ending 31 December 2020, 2021 and 2022, under the SEC Framework Deposit Agreement:

	Historical maximum daily balance for deposit services for the year ended 31 December		Historical maximum daily balance for deposit services for the six months ended 30 June	Proposed maximum daily balance annual cap for the year ending 31 December		
	2017	2018	2019	2020	2021	2022
	<i>(RMB in millions)</i>					
Actual and estimated maximum daily balance of deposit by SEC Group	4,147	4,089	4,355	7,500	7,500	7,500

In determining the proposed annual caps for deposit services for 2020, 2021 and 2022, the Directors mainly considered the historical maximum daily balance of deposit by SEC Group and the expected increase in demand for such services driven by the stricter implementation of SEC Group's deposit concentration policy, pursuant to which at least 80% of deposits of SEC Group are targeted to be concentrated at SE Finance. As of 30 June 2019, SEC Group had only 56% of its deposits centralized in SE Finance.

For the years ending 31 December 2020, 2021 and 2022, the Company understands that SEC will pay close attention to SEC Group's fund management in light of the complex overall macro economy in the present. As such, the Company expects SEC Group would increase the level of concentration in respect of deposits in SE Finance. On the other hand, SE Finance also plans to increase deposit centralization through multiple measures including improving frequency of communication with clients, improving the quality of service to SEC Group, establishing a rapid response mechanism and initiating cross-department collaborative processing, etc.

Taking into account the above, the Directors are of the view that the proposed annual caps for 2020, 2021 and 2022 are fair and reasonable.

LETTER FROM THE BOARD

Pursuant to the Measures for the Administration of Finance Companies of Enterprise Groups (企業集團財務公司管理辦法), SE Finance cannot take deposit from any party outside the Group and SEC Group. Save for the member companies of the Group and SEC Group, no other parties deposited funds with SE Finance since the Company's listing of its H shares on the Main Board of the Hong Kong Stock Exchange.

2.3 Pricing Basis

In determining the deposit interest rates offered by SE Finance, the Company takes into account relevant savings rates set by PBOC together with deposit interest rates offered by commercial banks in the market as well as the actual needs for funding of SE Finance. The audit committee of the Company will periodically review the deposit interest rates offered by SE Finance to ensure the actual deposit interest rates are allowed by PBOC and fall within the range of deposit interest rates offered by other commercial banks.

Interest rates set by SE Finance for deposits by SEC Group will be subject to the relevant guidelines and regulations of PBOC set out on the website of PBOC. SE Finance will set its deposit interest rates with reference to the relevant savings rates set by PBOC from time to time as well as the deposit interest rates set by the commercial banks in the PRC. The current interest rates offered by SE Finance in respect of RMB deposits, which range from 0.35% to 2.73% per annum depending on amount and terms of deposits (0.35% for savings deposits, 1.54% to 1.65% for three-month term deposits, 1.75% to 1.95% for six-month term deposits, 2.1% to 2.25% for one-year term deposits, 2.31% to 2.73% for two-year term deposits and 1.15% for agreement deposits) the (“**Current Interest Rates**”), are with reference to the prevailing interest rates set and updated by 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 PBOC on the interest rates. The annual interest rates set by SE Finance for savings deposits and agreement deposits are the same with PBOC benchmark rates, the annual interest rates set by SE Finance for deposits with a term of one year or shorter represent 140% to 150% of the PBOC benchmark rates and the annual interest rates set by SE Finance for two-year term deposits represent 110%-130% of the PBOC benchmark rates. SE Finance will consider the size, term and time of deposits and funding needs of SE Finance at the time of taking deposits for each individual case, and offer interest rates higher than the benchmark rates set by PBOC if the factors mentioned above are favourable to SE Finance. The Directors considered the higher interest rates than the benchmark rates set by PBOC is still fair and reasonable based on (i) the interest rates offered by SE Finance is within the range of interest rates offered by commercial banks in the PRC; and (ii) SE Finance applies the same factors above to all kinds of its clients and offers no preferential treatment to members of SEC Group.

LETTER FROM THE BOARD

The Current Deposit Interest Rates are not fixed and are subject to adjustment. The finance department of SE Finance will check the deposit interest rates published by the commercial banks in the PRC monthly and review the rates offered by SE Finance accordingly. In addition, SE Finance has a general manager meeting to determine and adjust the rates to be offered by SE Finance. The general manager meeting decides, implements and monitors the rates to be offered with consideration of (i) the relevant laws and regulations such as the Decision of the People's Bank of China to Lower the Benchmark Interest Rate for Deposits and Loans and the Reserve Requirement Ratio (中國人民銀行決定下調存貸款基準利率並降低存款準備金率) published by PBOC on 23 October 2015; and (ii) terms provided by the commercial banks in the market. The general manager meeting also provides guidance to the financial clearing department, the deposit business department and other relevant supporting departments. SE Finance will also apply the above interest rates to all the customers equally.

The deposit interest rates currently offered by SE Finance are within the range allowed by PBOC and are basically in line with the rates set by the commercial banks in the PRC for the same types of deposits.

The Directors believe that such interest rates offered by the Company will be comparable to those provided by commercial banks in the market, are on normal commercial terms and are in the interests of the Shareholders and the Company as a whole. The audit committee of the Company will review the relevant deposit service agreements or provisions entered into between SE Finance and SEC Group quarterly to ensure the pricing basis disclosed above is complied with. Interest for deposits (other than term deposits) is usually payable by SE Finance to SEC Group on a quarterly basis. Interest for term deposits is usually payable by SE Finance to SEC Group on the maturity date.

2.4 Reasons and benefits for entering into the SEC Framework Deposit Agreement

It is common for group companies in the PRC to set up and maintain a finance company to provide treasury services to the group as this assists group companies in reducing financing costs and investment risks. As intra-group loans are prohibited under PRC laws, an intra-group finance company is established to allow financial resources to be better distributed within the group.

LETTER FROM THE BOARD

SE Finance has been providing deposit services to SEC Group in order to optimize the Surplus Fund utilization, which in turn would benefit the Group as a whole. In order to provide sufficient level of financing to other companies within the Group and SEC Group, SE Finance would need to ensure that it has sufficient free cash flow to allow itself to operate freely. Therefore, taking deposits from member companies with excess free cash flow within the Group and SEC Group would allow SE Finance to achieve this goal and grow its loan portfolio. The Directors confirm that each of these deposits will be taken in the ordinary and usual course of business of the Group and on normal commercial terms.

The Directors are not aware of any material disadvantages of the SEC Framework Deposit Agreement that need to be brought to the attention of the Shareholders.

3. SEC Framework Loan Agreement

3.1 Summary

Agreement	:	SEC Framework Loan Agreement
Date of agreement	:	29 October 2019
Parties	:	<ul style="list-style-type: none">• SE Finance • SEC
Subject matter	:	SE Finance will provide loan and bill discounting services to SEC Group
Term	:	three years effective from 1 January 2020, renewable at the option of SE Finance for a term of three years by giving three months' notice prior to the expiry of the term

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, including the disclosure and Independent Shareholders' approval requirements prior to the Company's exercise of the option to renew the agreements after the three years period for another three years.

LETTER FROM THE BOARD

3.2 Annual caps and basis of determination

The table below sets out the historical maximum daily balance of outstanding loans (including interests) maintained by SEC Group with SE Finance for the years 2017, 2018 and six months ended 30 June 2019, and the estimated amount, as proposed annual cap, for the three years ending 31 December 2020, 2021 and 2022, under the SEC Framework Loan Agreement:

Historical maximum daily balance for loan and bill discounting services for the year ended 31 December	Historical maximum daily balance for loan and bill discounting services for the period ended 30 June	Proposed maximum daily balance for the year ending 31 December		annual cap		
2017	2018	2019	2020	2021	2022	
<i>(RMB in millions)</i>						
Actual and estimated maximum daily balance of loan and bill discounting provided to SEC Group	7,316	7,453	7,468	7,500	7,500	7,500

In determining the proposed annual caps for loans and bills discounting services for 2020, 2021 and 2022, the Directors mainly considered the historical maximum daily balance for loans and bills discounting services. As the proposed annual caps for loans and bills discounting services for 2020, 2021 and 2022 are approximately 0.6% higher than the historical maximum daily balance in 2018, the Directors are of the view that the proposed annual caps for the three years ending 31 December 2022 are fair and reasonable.

Pursuant to the Administration of Finance Companies of Enterprise Groups (企業集團財務公司管理辦法), SE Finance cannot provide loans to any parties outside the Group and SEC Group, except for customers of companies of the Group or SEC Group which will apply the entire amount so obtained as loans from SE Finance to purchase certain products of the Group or SEC Group.

LETTER FROM THE BOARD

3.3 Pricing Basis

Interest rates set by SE Finance for all loan services provided to SEC Group will be subject to the relevant guidelines and regulations of PBOC set out on the website of PBOC. SE Finance will set its loan interest rates with reference to the relevant loan interest rates set by PBOC from time to time. Currently, SE Finance provides RMB loans to SEC Group with a term within one year, the current interest rates of which range from 3.9150% to 4.5675% per annum, representing 90% to 105% of the prevailing interest rates set and updated by PBOC on 24 October 2015. Such interest rates are in line with the market rates and are subject to adjustments as per regulations and requirements of PBOC on the interest rates from time to time.

Like the commercial banks in the market, SE Finance sets different loan interest rates for different customers after considering major factors including the PBOC benchmark rates for each type of loan, the credit status of the customer and the amount of funds available for loans. In the meantime, SE Finance also makes reference to the loan interest rates obtained by members of SEC Group from the commercial banks in the market before determining the loan interest rate applicable to members of SEC Group. SE Finance reviews at least 50%, in terms of borrowing amounts, of the loan agreements entered into between the SEC Group and its major commercial banks on a monthly basis, to which the reference would be made when processing SEC Group's borrowing applications to ensure that the loan interest rates offered by SE Finance are not lower than those offered by other commercial banks.

The Directors believe that such interest rates offered by SE Finance to SEC Group, including those lower than the benchmark interest rates set by PBOC, are fair and reasonable and on normal commercial terms based on that (i) SE Finance deploys an internal credit rating model which was developed by Deloitte to evaluate a customer's credit risk based on such risk identification factors applicable in financial industry as market default samples and a customer's financial status, external financing capability, industry condition, business operations, product characteristic and product awareness, and SEC Group obtained the highest rating; and (ii) SE Finance understands that SEC Group is offered with at most 15% discount to the benchmark rate set by PBOC by certain commercial banks, which is even below the lowest interest rate offered by SE Finance (i.e. 90% of the benchmark rates set by PBOC).

The Company adopts the following procedures to ensure that the pricing basis disclosed above is complied with: (i) the amount of the total facilities to SEC Group and the relevant terms will be reviewed and approved by the credit approval committee of SE Finance which consists of five members, including an operation controller, a vice president, a risk controller, a manager of financial department and a vice manager

LETTER FROM THE BOARD

of financial settlement department of SE Finance and is chaired by the operation controller of SE Finance; (ii) each grant of loan to SEC Group will be approved by the senior management of SE Finance which normally includes the general manager of SE Finance, the chairman and other two members of the credit approval committee of SE finance and (iii) the audit committee of the Company will review the loan services between SE Finance and SEC Group on a quarterly basis. There is no common directors between the Company and the SEC Group would be involved in reviewing and approving the loan services including the loan terms.

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

3.4 Reasons and benefits for entering into the SEC Framework Loan Agreement

SE Finance has been providing loan services to SEC Group in order to optimize the Surplus Fund utilization, which in turn would benefit the Group as a whole. In order to utilise excess free cash flow and allow for more efficient allocation of financial resources, offering loans and similar financial services to companies within SEC Group would benefit the Company by reallocating the resources and providing interest income to the Group.

Due to the long history and close working relationship between the Group and SEC Group, the risk of providing loans to SEC Group is low as SE Finance has a clear understanding of the financial conditions of companies within SEC Group. There is also a low possibility of any dispute or litigation between SE Finance and SEC Group regarding repayment terms of the loans as all the companies within SEC Group are familiar with terms and practice of loans services provided by SE Finance. In order to minimize the credit risk of the transactions under the SEC Framework Loan Agreement, the Company takes the following procedures: (1) the credit approval committee of SE Finance will review the amount of the total facilities to be granted to SEC Group and the relevant terms; (2) the senior management of SE Finance will review the decisions and approvals of its internal credit approval committee before providing loan services to SEC Group; (3) the audit committee of the Company will review the loan services between SE Finance and SEC Group quarterly; (4) in order to assess the financial position and credit status of SEC Group, the corporate finance department of SE Finance requests for financial statements from SEC Group on a quarterly basis and also requests for monthly management account immediately before granting any loan to SEC Group. Therefore, the Company considers that there is sufficient risk control measures in place and the transactions under the SEC Framework Loan Agreement are in the interest of the Company and the shareholders as a whole.

LETTER FROM THE BOARD

The Directors are not aware of any material disadvantages of the SEC Framework Loan Agreement that need to be brought to the attention of the Shareholders.

4. Listing Rules Implications

SEC is a controlling shareholder holding approximately 59.18% equity interest in the total issued share capital of the Company as at the Latest Practicable Date. Therefore, SEC is a connected person of the Company as defined under Chapter 14A of the Listing Rules. Given the respective highest applicable percentage ratios of the transactions under the SEC Framework Deposit Agreement and the SEC Framework Loan Agreement are expected to be 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. The respective highest applicable percentage ratio of the transactions under the SEC Framework Deposit Agreement and the SEC Framework Loan Agreement is expected to be more than 5% but 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.

5. General Information

The Group is one of the largest industrial equipment manufacturing conglomerates in China engaged in the following principal activities: (i) design, manufacture and sale of nuclear power nuclear island equipment products, wind power equipment products and heavy machinery including large forging components, and provision of solution package for comprehensive utilisation of solid waste, sewage treatment, power generation environment protection and distributed energy systems; (ii) design, manufacture and sale of thermal power equipment products and auxiliary equipment, nuclear power conventional island equipment products and power transmission and distribution equipment products; (iii) design, manufacture and sale of elevators, electric motors, machine tools, marine crankshafts and other electromechanical equipment products; and (iv) provision of integrated engineering services for power station projects and other industries, financial products and services, and functional services including international trading services, financial lease and related consulting services and insurance brokerage services.

The principal business of SEC is the management of state-owned assets and investment activities. SEC is an enterprise wholly-owned by Shanghai Municipal State-owned Assets Supervision and Administration Commission and is one of the largest comprehensive equipment manufacturing conglomerates in China.

LETTER FROM THE BOARD

SE Finance is a subsidiary of the Company in which the Company holds 89% equity interest of the issued share capital as at the Latest Practicable Date. SEC holds 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 “The Regulations Governing Finance Companies of Conglomerates” to provide financial services to the Group and SEC Group. SE Finance has obtained all approvals, permits and licenses necessary for its operations. Currently, the governing body for financial institutions in the PRC (including SE Finance) is the China Banking and Insurance Regulatory Commission. Under the relevant PRC regulations, SE Finance, as a non-bank finance company, is allowed to provide financial services services to, in addition to the Group, companies where SEC holds at least 20% shareholding or in which SEC has a control.

An Independent Board Committee has been formed to advise the Independent Shareholders in respect of, among others, the continuing connected transactions contemplated under the SEC Framework Deposit Agreement and the SEC Framework Loan Agreement. Lego Corporate Finance Limited has been appointed as the Independent Financial Adviser to advise the Independent Board Committee and Independent Shareholders on, among other things, the continuing connected transactions contemplated under the SEC Framework Deposit Agreement and the SEC Framework Loan Agreement.

III. CONTINUING CONNECTED TRANSACTIONS AND THE PROPOSED ANNUAL CAPS UNDER THE MESMEE FRAMEWORK PURCHASE 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 Techno-service Co., Ltd., a wholly-owned subsidiary of Mitsubishi Electric, respectively, as at the Latest Practicable Date.

SMEC entered into the MESMEE Framework Purchase Agreement with MESMEE on 29 October 2019 for a term of three years in relation to the Group’s purchase of elevators, elevator components and ancillary services provided by MESMEE in the future three years.

LETTER FROM THE BOARD

2. Summary of the MESMEE Framework Purchase Agreement

Date of agreement	:	29 October 2019
Parties	:	<ul style="list-style-type: none"> • SMEC • MESMEE
Subject matter	:	the purchase of elevators, elevator components and ancillary services from MESMEE by SMEC
Term	:	Three years commencing 1 January 2020

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 the Group decides to continue with such transactions with MESMEE.

3. Annual caps and basis of determination

The table below sets out the historical purchase amounts from MESMEE for the two years ended 31 December 2018 and the six months ended 30 June 2019, and the proposed annual caps for the three years ending 31 December 2022:

	Historical amounts for the year ended		Historical amount for	Proposed annual caps for the year ending		
	31 December		the six months ended 30 June	31 December		
	2017	2018	2019	2020	2021	2022
	<i>(RMB in millions)</i>					
Aggregate purchases from MESMEE	2,537	2,796	1,345	3,500	3,500	3,500

The table below sets out the proposed annual caps of the purchase amounts from MESMEE for the three years ending 31 December 2019 approved by the relevant general meeting of the Company:

	Proposed annual caps for the year ending		
	31 December		
	2017	2018	2019
	<i>(RMB in millions)</i>		
Aggregate purchases from MESMEE	4,000	4,500	5,000

LETTER FROM THE BOARD

In arriving at the above proposed annual caps for the purchases from MESMEE, the Directors have taken into account, among others, the various projects that the Company has in the pipeline and anticipated projects that the Company intends to bid for as well as the historical transaction amounts. The Directors anticipate that the Group's operations will be extended with the development of China's economy and the volume of business will have a corresponding increase.

The historical amounts in 2017 and 2018 was low mainly due to the reduction of the growth rate of China's economy and macro control policies in the real estate market which affected the business development of our customers and its demand of our products. However, the Directors are of the view that the effects of the undesirable factors as described above may be progressively mitigated and the Company's elevator business is expected to get better development due to that (i) SMEC continues to work closely with core strategic partners such as Evergrande, China Overseas, Greenland, Country Garden, Longfor and Forte, and increases its effort in tracking core and major projects in the second-tier and third-tier cities; and (ii) the Company's plan for old elevator renovation business as a breakthrough to create new business growth points and increase market share.

In light of the general economy environment and the expected business transaction between MESMEE and the Company, in determining the proposed annual caps for 2020, 2021 and 2022 (all being RMB3,500 million), a downward adjustment of 12.5%, 22.2% and 30% by reference to the approved annual caps for 2017, 2018 and 2019, respectively, was made. The historical transaction amount in 2018 represented an increase of approximately 10.2% as compared to that of 2017. In view of the factors stated above, the Directors believed that the proposed annual caps for 2020, 2021 and 2022 (all being RMB3,500 million), each of which is approximately 25.2% higher than the historical transaction amount in 2018, are fair and reasonable.

4. Pricing Basis

Prices of products and services to be purchased from MESMEE will be determined principally by arm's length commercial negotiations in accordance with general principles of fairness and reasonableness with reference to the market price of products/services similar to MESMEE's products/services sold/offered to end users by other market participants (the "**Comparable Market Price**", which is usually obtained by SMEC through checking out the open bidding results of other similar projects in China participated by SMEC) and the average selling price of MESMEE's elevators sold by SMEC to its end users during the past few years ("**Historical Transaction Price**") by taking into account the selling price of MESMEE's products plus a reasonable profit margin.

LETTER FROM THE BOARD

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 re-selling MESMEE's elevators ("**Reasonable Profit**") from the Historical Transaction Price. In determining the Reasonable Profit or reasonable profit margin, SMEC primarily considers the historical profit margin achieved by SMEC, but would also adjust the same based on the marketability of MESMEE's products/services. SMEC would assess the marketability of MESMEE's products/services by reviewing the Historical Transaction Price and the Comparable Market Price, which would enable SMEC to understand the general range of price acceptable to the end users and further adjust its expectation on the profit margin for transactions in the future.

When the end users specifically require SMEC to purchase elevators/services from MESMEE, 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.

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, to secure a reasonable profit margin, 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 pre-determined level, including (i) the senior management of SMEC will assess the profitability of each order for the resale of elevators manufactured by MESMEE before the execution of an order, if the gross profit margin of an order falls below the gross profit margin pre-determined by the management of the Group, SMEC will not proceed with such order 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.

In light of the above arrangements, the Directors are of the view that the pricing mechanism is fair and reasonable and on normal commercial terms and is in the interests of the Shareholders and the Company as a whole. The above pricing basis applies to all types of products and services to be purchased from MESMEE under the MESMEE Framework Purchase Agreement.

5. Reasons and Benefits for MESMEE Framework Purchase Agreement

Mitsubishi Electric is one of the leading international manufacturers of elevator equipment and components. The Group has established MESMEE with Mitsubishi Electric to design, manufacture and sell the world's top elevators and elevator components and to provide

LETTER FROM THE BOARD

ancillary services. As a result, the Group would benefit from products to be used in the Group's projects with higher quality at a lower cost by manufacturing the products in the PRC. The Group will also make profit from reselling those elevators. The Directors (including the independent non-executive directors of the Company) believe that the purchase of certain elevators, elevator components and ancillary services from MESMEE for use in the production of the Group's automation equipment and other projects would improve performance criteria of the Group's products and hence strengthen the Group's competitiveness in both the PRC and international markets.

6. Listing Rules Implications

Mitsubishi Electric, a substantial shareholder of SMEC, directly and indirectly holds 40% of the equity interest of SMEC, a subsidiary of the Company, as at the Latest Practicable Date. 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 Latest Practicable Date, 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 Framework Purchase 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 transactions under the MESMEE Framework Purchase Agreement is expected to be 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-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.

7. General Information

The Group is one of the largest industrial equipment manufacturing conglomerates in China engaged in the following principal activities: (i) design, manufacture and sale of nuclear power nuclear island equipment products, wind power equipment products and heavy machinery including large forging components, and provision of solution package for comprehensive utilisation of solid waste, sewage treatment, power generation environment protection and distributed energy systems; (ii) design, manufacture and sale of thermal power equipment products and auxiliary equipment, nuclear power conventional island equipment products and power transmission and distribution equipment products; (iii)

LETTER FROM THE BOARD

design, manufacture and sale of elevators, electric motors, machine tools, marine crankshafts and other electromechanical equipment products; and (iv) provision of integrated engineering services for power station projects and other industries, financial products and services, and functional services including international trading services, financial lease and related consulting services and insurance brokerage services.

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 sale of the world's top elevators and elevator components and the provision of ancillary services.

8. Shareholders' Approval

According to the Listing Rules of the Shanghai Stock Exchange, the transactions under the MESMEE Framework Purchase Agreement are conditional upon the shareholders' approval.

IV. EGM

A notice convening the EGM to be held at 9:00 a.m. on Friday, 27 December 2019 at Xingyuan Hall, 3/F, B Block, Ramada Plaza Shanghai Caohejing, No. 509 Caobao Road, Shanghai, the PRC, is set out on pages 38 to 39 of this circular.

In order to determine the list of Shareholders who are entitled to attend the EGM, the register of members of the H Shares will be closed from Wednesday, 27 November 2019 to Friday, 27 December 2019 (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, 27 December 2019 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 Tuesday, 26 November 2019. 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.

A reply slip and a 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, 12 November 2019 and dispatched to the Shareholders. If you intend to appoint a proxy to attend the EGM, you are requested to complete

LETTER FROM THE BOARD

and return the forms of proxy in accordance with the instructions printed thereon not less than 24 hours before the time fixed for holding the EGM or any adjournment thereof (as the case may be). Completion and return of the forms of proxy will not preclude you from attending the EGM and voting in person if you so wish. Shareholders who intend to attend the EGM in person or by proxy should complete and return the reply slips in accordance with the instructions printed thereon on or before Saturday, 7 December 2019.

SEC is the controlling shareholder of the Company holding approximately 59.18% interest in the total issued share capital of the Company as at the Latest Practicable Date. SEC shall, at the EGM, abstain from voting on the resolutions in respect of the proposed continuing connected transactions and proposed annual caps under the SEC Framework Deposit Agreement and the SEC Framework Loan 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.

Mr. Zheng Jianhua and Mr. Zhu Bin, both being Directors, hold directorship(s) or act as senior management in SEC and its associates and thus have material interests in the proposed continuing connected transactions and proposed annual caps under the SEC Framework Deposit Agreement and the SEC Framework Loan Agreement. They have therefore abstained from voting on such board resolution approving the proposed continuing connected transactions and proposed annual caps under the SEC Framework Deposit Agreement and the SEC Framework Loan Agreement. Save as disclosed above, none of the other Directors has material interests in all resolutions proposed at the EGM.

V. RECOMMENDATION

The Independent Board Committee, having taken into account of the advice of the independent financial adviser, considers that the continuing connected transactions under Framework Financial Services Agreements 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.

LETTER FROM THE BOARD

VI. 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
ZHENG Jianhua
Chairman of the Board

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 Continuing Connected Transactions under Framework Financial Services Agreements.



SHANGHAI ELECTRIC GROUP COMPANY LIMITED

上海電氣集團股份有限公司

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

(Stock Code: 02727)

6 December 2019

To the Independent Shareholders

Dear Sirs or Madams,

CONTINUING CONNECTED TRANSACTIONS UNDER FRAMEWORK FINANCIAL SERVICES AGREEMENTS

We refer to the circular dated 6 December 2019 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 continuing connected transactions under Framework Financial Services Agreements 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 continuing connected transactions under Framework Financial Services Agreements.

After taking into account of the advice of Lego Corporate Finance Limited as set out on pages 22 to 37 of the circular, we are of the view that the continuing connected transactions under Framework Financial Services Agreements 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.

* *For identification purpose only*

LETTER FROM THE INDEPENDENT BOARD COMMITTEE

Accordingly, we recommend the Independent Shareholders to vote in favour of the resolution to be proposed at the EGM to approve the continuing connected transactions under Framework Financial Services Agreements.

Yours faithfully

The Independent Board Committee

Dr. CHU Junhao Dr. XI Juntong Dr. XU Jianxin

Independent non-executive Directors

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 continuing connected transactions contemplated under the Framework Financial Services Agreements, which has been prepared for the purpose of inclusion in this circular.



6 December 2019

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

Dear Sirs and Madams,

CONTINUING CONNECTED TRANSACTIONS UNDER FRAMEWORK FINANCIAL SERVICES AGREEMENTS

We refer to our appointment as the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders in relation to the continuing connected transactions contemplated under the Framework Financial Services Agreements, details of which are set out in the letter from the Board ("**Letter from the Board**") contained in the circular of the Company dated 6 December 2019 (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.

On 29 October 2019, SE Finance, a subsidiary of the Company, entered into, among others, the Framework Financial Services Agreements (including the SEC Framework Deposit Agreement and the SEC Framework Loan Agreement) with SEC to provide SEC Group with deposit services and loan services.

As at the Latest Practicable Date, SEC was a controlling shareholder holding approximately 59.18% equity interest in the total issued share capital of the Company. Therefore, SEC is a connected person of the Company and the transactions contemplated under the SEC Framework Deposit Agreement and the SEC Framework Loan Agreement constitute continuing connected transactions for the Company under Chapter 14A of the Listing Rules. As the respective highest applicable percentage ratios of the transactions under the SEC Framework Deposit Agreement and the SEC Framework Loan Agreement are expected to be more than 5%, such continuing connected transactions are subject to the reporting, announcement, annual review and the Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

The EGM will be convened and held for the Independent Shareholders to consider and, if thought fit, approve, among others, the transactions contemplated under the SEC Framework Deposit Agreement and the SEC Framework Loan Agreement. SEC and its associates shall abstain from voting at the EGM on the relevant resolution(s) pursuant to Rule 14A.36 of the Listing Rules.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

THE INDEPENDENT BOARD COMMITTEE

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 transactions contemplated under the SEC Framework Deposit Agreement and the SEC Framework Loan Agreement.

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 transactions contemplated under the SEC Framework Deposit Agreement and the SEC Framework Loan Agreement, and to make a recommendation as to, among others, whether the terms of the transactions contemplated under the SEC Framework Deposit Agreement and the SEC Framework Loan Agreement 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.

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. 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 circulars of the Company dated 11 April 2019 and 20 May 2019, respectively. Apart from the normal professional fees paid to us in connection with such appointments, no arrangements exist whereby we had received any fees or benefits from the Company or any other party to the transactions, therefore we consider such relationship would not affect our independence.

BASIS OF OUR ADVICE

In formulating our opinions and recommendations, we have reviewed, inter alia, the announcement of the Company dated 29 October 2019, the Framework Financial Services Agreements, the annual report of the Company for the year ended 31 December 2018 and the interim report of the Company for the six months ended 30 June 2019. 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 transactions contemplated under the Framework Financial Services Agreements, and the businesses and future outlook of the Group. We have taken reasonable steps to ensure that such 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.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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 entering into the transactions contemplated under the Framework Financial Services Agreements 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, at the Latest Practicable Date.

PRINCIPAL FACTORS AND REASONS CONSIDERED

In arriving at our recommendations in respect of the entering into of the transactions contemplated under the Framework Financial Services Agreements, we have taken into consideration of the following principal factors and reasons:

1. Background and reasons for entering into the Framework Financial Services Agreements

Background of the Company, SEC Group and SE Finance

The Group is one of the largest industrial equipment manufacturing conglomerates in China engaged in the following principal activities: (i) design, manufacture and sale of nuclear power nuclear island equipment products, wind power equipment products and heavy machinery including large forging components, and provision of solution package(s) for comprehensive utilisation of solid waste, sewage treatment, power generation environment protection and distributed energy systems; (ii) design, manufacture and sale of thermal power equipment products and auxiliary equipment, nuclear power conventional island equipment products and power transmission and distribution equipment products; (iii) design, manufacture and sale of elevators, electric motors, machine tools, marine crankshafts and other electromechanical equipment products; and (iv) provision of integrated engineering services for power station projects and other industries, financial products and services, and functional services including international trading services, financial lease and related consulting services and insurance brokerage services.

The principal business of SEC is the management of state-owned assets and the investment activities. SEC is an enterprise wholly-owned by Shanghai Municipal State-owned Assets Supervision and Administration Commission and is one of the largest comprehensive equipment manufacturing conglomerates in China.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

SE Finance is a subsidiary of the Company in which the Company held 89% equity interest of the issued share capital as at the Latest Practicable Date. SEC 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 “The Regulations Governing Finance Companies of Conglomerates” to provide financial services to the Group and SEC Group. SE Finance has obtained all approvals, permits and licenses necessary for its operations. Currently, the governing body for financial institutions in the PRC (including SE Finance) is the China Banking and Insurance Regulatory Commission. Under the relevant PRC regulations, SE Finance, as a non-bank finance company, is allowed to provide financial services to, in addition to the Group, companies where SEC holds at least 20% shareholding or in which SEC has a control.

Reasons for and benefits of entering into the Framework Financial Services Agreements

In performing its ordinary and usual course of businesses, the Group has been from time to time providing financial services to SEC Group. On 14 November 2016, SE Finance and SEC Group entered into a deposit agreement (the “**Existing SEC Framework Deposit Agreement**”) and a loan agreement (the “**Existing SEC Framework Loan Agreement**” or, collectively with the Existing SEC Framework Deposit Agreement, the “**Existing Framework Financial Services Agreements**”) pursuant to which SE Finance conditionally agreed to the provisions of deposit services and loan services, respectively, to SEC Group for the three years ending 31 December 2019. Since the Existing Framework Financial Services Agreements will expire at the end of current year, the Group intends to continue its provisions of financial services to SEC Group through the entering into of the Framework Financial Services Agreements for governing the terms of the transactions contemplated thereunder for the three years ending 31 December 2022.

The entering into of the Framework Financial Services Agreements would benefit the Group through optimising the Surplus Fund utilisation. By providing deposit services under the SEC Framework Deposit Agreement, free cash flow could be secured by SE Finance from SEC Group, allowing it to grow its loan portfolio and providing sufficient level of financing to other companies within the Group and SEC Group. On the other hand, by providing loan services to SEC Group under the SEC Framework Loan Agreement, excess free cash flow of SE Finance could be utilised in consideration of continuous receipt of interest income, therefore allowing for an efficient allocation of financial resources of the Group.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

With a long history and close business relationship between the Group and SEC Group, it is expected that the potential risks to be faced by the Group in providing financial services to SEC Group would be low. Deep understanding is developed within the Group and SEC Group through more than ten years cooperation history as to, among others, financial conditions of companies within the SEC Group and repayment terms and practices of the financial services offered by the Group, therefore reducing the underlying credit risk and litigation and dispute risks. In addition, various procedures have been/will be adopted by the Group in order to further mitigate the potential credit risks involved in the SEC Framework Loan Agreement, further details of which are set out in the section below headed “3. Internal control measures within the Group”.

Taking into account of the above, we are of the view that the entering into of the Framework Financial Services Agreements is in the ordinary and usual course of business of the Group, and in the interests of the Company and Independent Shareholders as a whole.

2. Principal terms of Framework Financial Services Agreements

The SEC Framework Deposit Agreement

On 29 October 2019, SE Finance, a subsidiary of the company, entered into the SEC Framework Deposit Agreement with SEC pursuant to which SE Finance will provide deposit services to SEC Group for the three years effective from 1 January 2020.

Pursuant to the SEC Framework Deposit Agreement, interest rates to be set by SE Finance for deposits by SEC Group will be subject to the relevant guidelines and regulations of PBOC. To comply with such guidelines and regulations, SE Finance will set its interest rates by principally making reference to the relevant savings rates set by PBOC from time to time as well as the prevailing rates set by the commercial banks in the PRC in respect of the corresponding deposit terms. SE Finance will also consider the size, term and time of deposits and funding needs of SE Finance at the time of taking deposits for each individual case and offer interest rates higher than the PBOC benchmark rates if such factors are favourable to SE Finance, and such factors shall be applied to all kinds of customers without offering any preferential treatment to members of SEC Group. The audit committee of the Company will periodically review the deposit interests rates to be offered by SE Finance in respect of deposits of different terms to ensure the actual deposit interest rates fall within the corresponding range of the deposit interest rates offered by other commercial banks. As confirmed by the Management, the determination factors of the interest rates under the SEC Framework Deposit Agreement are the same as those adopted by SE Finance under the Existing SEC Framework Deposit Agreement.

Given that the interest rates under the SEC Framework Deposit Agreement and the Existing SEC Framework Deposit Agreement share the same determination factors, we have made reference to the actual historical interests rates offered by SE Finance to SEC Group under the Existing Framework

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Deposit Agreement in conducting our assessment. We have reviewed all the interest rates offered to SEC Group for deposits of different terms under the Existing SEC Framework Deposit Agreement during the six months immediately preceding the date of the SEC Framework Deposit Agreement (the “**Existing Saving Rates**”), details of which are set out in Table 1 below. We have also conducted independent desktop research on the latest quotation saving rates (the “**Commercial Bank Saving Rate(s)**”) set by fifteen independent commercial banks in the PRC (including panel banks of SHIBOR and RMB Loan Prime Rate) including Agricultural Bank of China, Bank of Communications, Bank of China, Bank of Gansu, Bank of Shanghai, Bank of Shizuishan, Bank of Xi’an, China Construction Bank, China CITIC Bank, China Merchants Bank, Huaxia Bank, Huishang Bank, Industrial and Commercial Bank of China, Ping An Bank and Postal Savings Bank of China, details of which are set out in Table 1 below. By comparing the Existing Savings Rates with the Commercial Bank Saving Rates, it is noted that the Existing Saving Rates fall within the range of the Commercial Bank Saving Rates in respect of the respective corresponding deposit terms.

Table 1: The PBOC Saving Rates (as defined below), the Existing Saving Rates and the Commercial Bank Saving Rates

Term of deposit	PBOC Saving Rates (%)	Existing Saving Rates (%)	Commercial Bank Saving Rates (%)
Saving deposit	0.35	0.35	0.30–0.35
Three-month term deposit	1.10	1.54	1.35–1.65
Six-month term deposit	1.30	1.75	1.55–1.95
1-year term deposit	1.50	2.1–2.25	1.75–2.25
2-year term deposit	2.10	2.31	2.10–3.15
Agreement deposit	1.15	1.15	1.00–1.38

In addition, we have conducted research from the public domain on the saving rates (the “**PBOC Saving Rate(s)**”) updated by PBOC (<http://www.pbc.gov.cn/>) on 24 October 2015, details of which are set out in Table 1 above. It is noted that all Existing Saving Rates in respect of saving deposits and agreement deposits are equal to the corresponding PBOC Saving Rates, and all Existing Saving Rates in respect of deposits of other terms are higher than the corresponding PBOC Saving Rates.

Moreover, several internal control and risk measures have been/will be adopted within the Group to ensure the compliance of the determination of saving rates with the pricing terms under the SEC Framework Deposit Agreement. Further detail of the internal control and risks measures are set out in the section below headed “3. Internal control measures within the Group.”

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Accordingly, despite that the Existing Saving Rates are either higher than or equal to the PBOC Saving Rates, taking into account that (i) the Existing Saving Rates fall within the range of the Commercial Bank Saving Rates in respect of the respective corresponding deposit terms; (ii) the same determination factors of interest rates such as size, term and time of deposits and funding needs of customers at the time of taking deposits shall be applied by SE Finance to all kinds of customers; (iii) as shown in Table 1, the Commercial Bank Saving Rates are generally higher than or equal to the corresponding PBOC Saving Rates, save for that in respect of saving deposits, the corresponding Existing Saving Rate of which is consistent with the corresponding PBOC Saving Rate of 0.35%; (iv) 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 SEC Group; and (v) the internal and risk control measures have been taken and will continue to be taken by the Group to help ensure the compliance with the terms of the SEC Framework Deposit Agreement, we are of the view that the terms of the SEC Framework Deposit Agreement are on normal commercial terms, fair and reasonable and in the interests of the Company and the Independent Shareholders as a whole.

The SEC Framework Loan Agreement

On 29 October 2019, SE Finance entered into the SEC Framework Loan Agreement with SEC pursuant to which SE Finance will provide loan and bill discounting services to SEC Group for the three years effective from 1 January 2020.

Pursuant to the SEC Framework Loan Agreement, interest rates to be set by SE Finance for all loan services provided to SEC Group will be subject to the relevant guidelines and regulations of PBOC. SE Finance will set different loan interest rates for different customers after considering the relevant PBOC benchmark rates for each type of loans from time to time, details of which are shown in Table 2 below (the “**PBOC Borrowing Rate(s)**”), the credit status of the customer, the amount of funds available for loans and the interest rates offered to SEC Group by commercial banks in the market. In particular, an internal credit rating model has been deployed by SE Finance to assess the credit status of the customers so as to help determine the borrowing rates granted to them. It is noted that credit ratings of the customers are generally negatively associated with the borrowing rates granted by SE Finance under the aforesaid mechanism. Further, as stated in the Letter from the Board, SE Finance shall review at least 50%, in terms of borrowing amounts, of the loan agreements entered into between SEC Group and its major banks regularly to ensure that the borrowing rates offered by SE Finance are not lower than those offered by independent commercial banks. As confirmed by the Management, the determination factors of the interest rates under the SEC Framework Loan Agreement are the same as those adopted by SE Finance under the Existing SEC Framework Loan Agreement.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Given that the interest rates under the SEC Framework Loan Agreement and the Existing SEC Framework Loan Agreement share the same determination factors, for the purpose of our assessment, we have reviewed the interest rates offered by SE Finance to SEC Group under all loan agreements executed during the six months immediately preceding the date of the SEC Framework Loan Agreement under the Existing SEC Framework Loan Agreement for RMB loans (the “**Existing Borrowing Rate(s)**”), all of which are for loans with a term of not more than one year, and noted that such rates range from 3.915% to 4.3528%. On the other hand, we initially attempted to 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, for the purpose of our analysis, we have alternatively reviewed five loan agreements (the “**Sample Loan Agreements**”) entered into between SEC Group and independent commercial banks in the PRC in relation to the obtaining of loan facilities by SEC Group during the six months immediately preceding the date of the SEC Framework Loan Agreement, details of which are set out in Table 2 below based on the relevant loan prime rate as at the date of the SEC Framework Loan Agreement. Despite that none of the loans under the Sample Loan Agreements was of a term of more than one year, taking into consideration that (i) the terms of loans under the Sample Loan Agreements of not more than one year are consistent with those of the loans provided by SE Finance to SEC Group under the Existing SEC Framework Loan Agreement which are comparable in nature in terms of factors including but not limited to size and term of loans as well as the timing of entering the loan agreements; (ii) corresponding relevant PBOC Borrowing Rates as well as loan interest rates to be offered to SEC Group by independent commercial banks shall be taken into account when determining the interest rates to be offered by SE Finance to SEC Group for loans of different terms (including those of within as well as more than one year) under the SEC Framework Loan Agreement; and (iii) the amount of loans underlying the Sample Loan Agreements represent more than 50% of the total amount of loans underlying all loan agreements executed by SEC Group with independent commercial banks during the six months prior to the date of the SEC Framework Loan Agreement, a period which we considered to be recent and under prevailing market conditions, we considered that the Sample Loan Agreements are fair and representative for the purpose of our assessment under the limitation that all of the loans provided under the Existing SEC Framework Loan Agreement are of terms within one year. Based on our review, the Existing Borrowing Rates are higher than the interest rate offered under the Sample Loan Agreements of 3.6975%.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

On the other hand, we have conducted research on the PBOC Borrowing Rates as at 24 October 2015, details of which are set out in Table 2 below:

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

Term of loan	Interest rate (%)	Interest rate offered by Existing commercial banks Borrowing under the Sample Rates Loan Agreements	
		(%)	(%)
Less than or equal to one year	4.35	3.915–4.3528	3.6975
From more than one year up to and including five years	4.75	–	–
Over five years	4.90	–	–

In addition, various internal control and risk measures have been/will be adopted within the Group to ensure compliance of the determination of loan interest rates with the pricing terms under the SEC Framework Loan Agreement, further details of which are set out in the section below headed “Internal control measures within the Group”.

Accordingly, despite that certain Existing Borrowing Rates represent a discount to the corresponding PBOC Borrowing Rate, having considered that (i) certain Existing Borrowing Rates represent a premium over the corresponding PBOC Borrowing Rate; (ii) the interest rate offered by independent commercial banks under the Sample Loan Agreements represents a discount over the corresponding PBOC Borrowing Rate, and such discount is deeper than those represented by the Existing Interest Rates; (iii) the Existing Borrowing Rates offered by SE Finance are not more favourable than those offered by independent commercial banks to SEC Group under the Sample Loan Agreements; (iv) corresponding relevant PBOC Borrowing Rates as well as loan interest rates to be offered to SEC Group by independent commercial banks shall be taken into account when determining the interest rates to be offered by SE Finance to SEC Group for loans of different terms (including those of within as well as more than one year) under the SEC Framework Loan Agreement; (v) 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 SEC Group; and (vi) internal control and risk control measures have been taken and will continue to be taken by the Group to help ensure the compliance with the terms of the SEC Framework Loan Agreement, we are of the view that the terms of the SEC Framework Loan Agreement are on normal commercial terms, fair and reasonable and in the interests of the Company and the Shareholders as a whole.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

3. Internal control measures within the Group

According to the Letter from the Board and our discussions with the Management, a number of internal control measures and procedures will be taken by the Group in order to ensure the compliance with the terms of the Framework Financial Services Agreements. In respect of the SEC Framework Deposit Agreement, those procedures include (i) the finance department of SE Finance will check the deposit rates published by the commercial banks in the PRC monthly and review the rates offered by SE Finance to SEC Group accordingly; (ii) SE Finance will conduct a general management meeting to determine and adjust the deposit rates and provide guidance to financial clearing department, deposit business department and the supporting departments on determining, implementing and monitoring the deposit rates to be offered with consideration of the relevant laws and regulations and terms provided by commercial banks in the market; (iii) SE Finance will monitor the amount of deposits received from SEC Group daily in order to ensure that the amounts of the annual caps under the SEC Framework Deposit Agreement are not exceeded; (iv) the audit committee of the Company will review the deposits services entered into between SE Finance and SEC Group under the SEC Framework Deposit Agreements on a quarterly basis to ensure the compliance with the pricing basis thereunder; and (v) the risk management department of the SE Finance will report to Group quarterly on the execution and compliance matters of the transactions contemplated under the SEC Framework Deposit Agreement. On the other hand, those internal control procedures in respect of the SEC Framework Loan Agreement include (i) SE Finance will make reference to the relevant PBOC benchmark rates, credit status of the customers, amount of funds available for the loans, as well as the loan interest rates obtained by members of SEC Group from the commercial banks in the market before determining the interest rates applicable to them; (ii) the credit approval committee of SE Finance, which consists of five members including an operation controller, a vice president, a risk controller, a manager of financial department and a vice manager of financial settlement department and is chaired by its operation controller of SE Finance, will review and approve the amount of the total facilities and the relevant terms to be granted to SEC Group; (iii) the senior management of SE Finance, which normally includes the general manager, the chairman and other two members of the credit approval committee of SE Finance, will further review the decisions and approve the decisions made by the credit approval committee before providing loan services to SEC Group; (iv) the corporate finance department of SE Finance will request for financial statements from SEC Group quarterly and monthly management accounts immediately before granting loan facilities to SEC Group in order to assess the financial position of SEC Group; (v) the audit committee of the Company will review the loan services between SE Finance and SEC Group quarterly; (vi) SE Finance will monitor the amount of loans granted to SEC Group daily in order to ensure that the amounts of the annual caps under the SEC Framework Loan Agreement are not exceeded; and (vii) the risk management department of the SE Finance will report to the Group quarterly on the execution and compliance matters of the transactions contemplated under the SEC Framework Loan Agreement.

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We noted that segregation of duties will be achieved within the Group in implementing the internal control and risk measures at different stages of the transactions contemplated under the Framework Financial Services Agreements, which shall in turn help minimise the potential credit risks to be encountered by the Group and ensure that the pricing bases are fair and reasonable. Before entering into any deposits or loan services with SEC Group, the monthly review of interest rates offered by other commercial banks will help ensure that up-to-date reference rates will be used in determining the interest rates to be offered under the SEC Framework Deposit Agreement. Also, the general management meeting to be held by SE Finance will help ensure that the determination of deposits rates to be offered is made after due consideration with reference to the relevant laws and regulations, as well as market practice. Further, review and approval of each grant of loan will be required from the credit approval committee of SE Finance, which shall then be further approved by its senior management, therefore reducing the risks of fraud and error in granting the loans to SEC Group. In addition, the obtaining of monthly management accounts of SEC Group immediately before granting of loans shall facilitate the corporate finance department of SE Finance in granting the loans and determining the terms thereof. Upon provision of deposit and loan services to SEC Group, the quarterly review of the financial statements of SEC Group by the corporate finance department of SEC Finance will allow it to assess the financial status and accordingly the credit profit of members of SEC Group from time to time. Further, in addition to the quarterly review by SE Finance, it is also required by the Listing Rules that annual review of the transactions contemplated under the Framework Financial Services Agreements shall be conducted by the independent non-executive directors and auditors of the Company, further details of which are set out in the section below headed “Annual review of the transactions” and in the event that the matters required thereunder could not be confirmed by any of them, an announcement must be issued by the Company promptly to notify the Shareholders. For our due diligence purpose, we have further reviewed several documents including the internal approval documents in respect of the entering into of the transactions under the Existing Framework Financial Services Agreements, the internal approval document in respect of the entering into of the Framework Financial Services Agreement, as well as the board resolution approving the entering into and the proposed annual caps of the Framework Financial Services Agreements, and there is nothing contained therein that needs to be brought to the attention of the Independent Shareholders.

Having considered the above, we are of the view that sufficient internal control and risk control measures will be in place within the Group to ensure the compliance with the terms under the Framework Financial Services Agreements which, as analysed in the section above headed “Principal terms of the Framework Financial Services Agreements”, are on normal commercial terms, fair and reasonable and in the interests of the Company and the Independent Shareholders as a whole.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

4. The proposed Annual Caps

Table 3 below sets out the historical transaction amount in relation to the Existing Framework Financial Services Agreements for the two years ended 31 December 2018 and the six months ended 30 June 2019 and the proposed annual caps under each of the SEC Framework Deposit Agreement (the “**Deposit Annual Cap(s)**”) and the SEC Framework Loan Agreement (the “**Loan Annual Cap(s)**”, or collectively with the Deposit Annual Cap(s), the “**Annual Cap(s)**”) for the three years ending 31 December 2022.

Table 3: A summary of the historical maximum daily balance for deposit/loan and bills services under the Existing Framework Financial Services Agreements, the proposed Deposit Annual Caps and the proposed Loan Annual Caps

	Historical maximum daily balance for loan and bill discounting services for the year ended 31 December		Historical maximum daily balance for deposit/loan and bills discounting services for the six months ended 30 June	Proposed Deposit Annual Cap/proposed Loan Annual Cap for the year ending 31 December		
	2017	2018	2019	2020	2021	2022
Actual maximum daily balance of deposit by SEC Group/the proposed Deposit Annual Cap	<i>Approximately (RMB million)</i> 4,147	<i>Approximately (RMB million)</i> 4,089	<i>Approximately (RMB million)</i> 4,355	7,500	7,500	7,500
Actual maximum daily balance of loan and bill discounting provided to SEC Group/the proposed Loan Annual Cap	7,316	7,453	7,468	7,500	7,500	7,500

The proposed Deposit Annual Caps

The proposed Deposit Annual Cap for the year ending 31 December 2020 amounts to RMB7,500 million, representing an increase of approximately 72.22% as compared to the historical maximum daily balance of deposit by SEC Group for the six months ended 30 June 2019, and is expected to remain constant during the two years ending 31 December 2022.

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As advised by the Management, the proposed Deposit Annual Caps were determined primarily with reference to (i) the historical maximum daily balance of deposits by SEC Group with SE Finance under the Existing SEC Framework Deposit Agreement; and (ii) the expected increase in SEC Group's demand for deposit services from SE Finance in light of its stricter implementation of the deposit centralisation policy (the “**Deposit Centralisation Policy**”) during the three years ending 31 December 2022.

As shown in Table 3, the historical maximum daily balances of funds deposited by SEC Group under the Existing SEC Framework Deposit Agreement were approximately RMB4,147 million, approximately RMB4,089 million and approximately RMB4,355 million for each of the two years ended 31 December 2018 and the six months ended 30 June 2019, respectively, representing the respective utilisation rates of the corresponding historical annual caps in the amount of RMB7,500 million of approximately 55.29%, approximately 54.52% and approximately 58.07%. Further, as advised by the Management, the historical maximum daily balance of funds deposited by SEC Group at SE Finance for the nine months ended 30 September 2019 increased slightly to approximately RMB4,687 million, representing an utilisation rate of approximately 62.49% of the historical annual cap for the year ending 31 December 2019 under the Existing SEC Framework Deposit Agreement, showing a generally increasing utilisation rate throughout the periods under review.

Based on our review of the relevant internal document of SEC Group, the Deposit Concentration Policy was first adopted by SEC Group in 2015 pursuant to which each member of SEC Group shall target to maintain not less than 80% of its deposits at SE Finance. Yet, we learnt that the Deposit Concentration Policy was not implemented as strictly as planned due to certain circumstances as explained below, which had resulted in the shortfall in the utilisation of the historical annual caps during the two years and nine months ended 30 September 2019. As advised by the Company, the financial services provided by SE Finance currently mainly comprise deposit services and loan and bill discounting services, whereas SEC Group also demands other financial services for its business needs which may only be available at the commercial banks in the PRC. Given the foresaid limitation on the types of financial services offered by SE Finance, SEC Group was required to make deposits with the relevant PRC commercial banks as the requirements for the application for such other financial services, resulting in a less-than-expected amount of deposits made at SE Finance.

As advised by the Management, it is expected that SEC Group's demand for deposit services from SE Finance shall increase in the following year due to the policies and business plans implemented or to be implemented by both SEC Group and SE Finance. With respect to SEC Group, in light of the recent fluctuating macroeconomic conditions, it shall be an ongoing initiative of SEC Group to strengthen its fund management including its cash position by, among others, strictly implementing the Deposit Centralisation Policy in the near future. On the other hand, SE Finance has been/will continue seeking to enhance its diversity and quality of services provided to the customers. For

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instance, going forward, SE Finance shall continue to strengthen its assessment of other peers' performances and business models as well as enhance its knowledge of the financial services provided by the external commercial banks, thereby facilitating its targeted expansion of product offering in the near future which shall in turn help attract the deposits to be made by SEC Group that would have otherwise been made with other commercial banks providing complementary financial services. Moreover, SE Finance has been closely cooperating with SEC Group in order to help achieve a higher deposit level under the SEC Framework Deposit Agreement for the three years ending 2022. At present, certain measures such as inter-departmental collaborative processing have been deployed by SE Finance in order to improve customer communication frequency and efficiency. In particular, professional teams will be set up by SE Finance to communicate closely with SEC Group regarding its ongoing and/or potential merger, acquisition and/or financing projects in order to facilitate the provision of deposit services to both the existing and potentially new members of SEC Group.

Taking into account (i) the expected stricter implementation of the Deposit Centralisation Policy; and (ii) the measures and plans implemented by SE Finance to increase SEC Group's deposit centralisation at SE Finance, we are of the view that the determination of the Deposit Annual Caps are fair and reasonable.

The proposed Loan Annual Caps

The proposed Loan Annual Cap for each of the three years ending 31 December 2022 amounts to RMB7,500 million, which is generally in line with the historical maximum daily balance of loans granted to SEC Group for the six months ended 30 June 2019.

As confirmed by the Management, the proposed Loan Annual Caps were determined by taking into consideration of the historical maximum daily balance for loans borrowed by SEC Group from SE Finance under the Existing SEC Framework Loan Agreement.

It is noted that the historical maximum daily balances of loans borrowed by SEC Group under the Existing SEC Framework Loan Agreement were relatively stable throughout the two years and nine months period ended 30 September 2019. According to Table 3 and discussions with the Management, the historical maximum daily balances of loans borrowed by SEC Group under the Existing SEC Framework Loan Agreement were approximately RMB7,316 million, approximately RMB7,453 million and approximately RMB7,493 million for the two years ended 31 December 2018 and the nine months ended 30 September 2019, respectively. On the other hand, the utilisation rates of the historical annual caps under the Existing SEC Framework Loan Agreement amounted to approximately 97.55%, approximately 99.37% and approximately 99.91% for each of the two years ended 31 December 2018 and the nine months ended 2019, respectively, representing a relatively stable utilisation rate throughout the periods under review.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Accordingly, taking into account the generally stable historical daily maximum balance of loans borrowed by SEC Group and the steadily high utilisation rate of the historical annual caps under the Existing SEC Framework Loan Agreement throughout the two years and nine months ended 30 September 2019, we concur the view of the Directors that it is justifiably reasonable to expect such trend to continue in the near future, and are of the view that the determination of the Loan Annual Caps is fair and reasonable and in the interests of the Company and the Independent Shareholders as a whole.

5. Annual review of the transactions

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. In addition, 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 Framework Financial Services Agreements are conducted in accordance with their terms and that the proposed Annual Caps are 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. We are of the view that there are appropriate measures in place to govern the conduct of the continuing connected transactions contemplated under the Framework Financial Services Agreements and safeguard the interests of the Independent Shareholders.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

RECOMMENDATION

Having considered the above principal factors and reasons, we are of the view that the continuing connected transactions contemplated under the Framework Financial Services Agreements will be conducted in the ordinary and usual course of business of the Group, and the terms of the Framework Financial Services Agreements 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 continuing connected transactions contemplated under the Framework Financial Services Agreements (including the proposed Annual Caps) at the EGM.

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

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

NOTICE OF EXTRAORDINARY GENERAL MEETING



SHANGHAI ELECTRIC GROUP COMPANY LIMITED

上海電氣集團股份有限公司

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

(Stock Code: 02727)

NOTICE OF EXTRAORDINARY GENERAL MEETING

NOTICE IS HEREBY GIVEN that an extraordinary general meeting (the “EGM”) of Shanghai Electric Group Company Limited (the “Company”) will be held at 9:00 a.m. on Friday, 27 December 2019 at Xingyuan Hall, 3/F, B Block, Ramada Plaza Shanghai Caohejing, No. 509 Caobao Road, Shanghai, the PRC for the purpose of considering and, if thought fit, approving the following resolutions:

ORDINARY RESOLUTIONS:

1. To consider and approve the continuing connected transactions and proposed annual caps under the SEC Framework Deposit Agreement.
2. To consider and approve the continuing connected transactions and proposed annual caps under the SEC Framework Loan Agreement.
3. To consider and approve the continuing connected transactions and proposed annual caps under the MESMEE Framework Purchase Agreement.

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

Shanghai, the PRC, 12 November 2019

As at the date of this notice, the executive directors of the Company are Mr. ZHENG Jianhua, Mr. HUANG Ou, Mr. ZHU Zhaokai and Mr. ZHU Bin; 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 Mr. KAN Shun Ming, Dr. CHU Junhao and Dr. XI Juntong.

* For identification purpose only

NOTICE OF EXTRAORDINARY GENERAL MEETING

Notes to Notice of EGM:

1. The voting at the EGM shall be conducted by way of poll.
2. The holders of A Shares and H Shares will vote as one class of shareholders. The Company's register of members for the H Shares will be closed from Wednesday, 27 November 2019 to Friday, 27 December 2019, 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, 27 December 2019 are entitled to attend the EGM. In order to qualify for attending the EGM, the holders of H Shares whose transfers have not been registered must deposit transfer documents together with the relevant share certificates at the H share registrar of the Company, Computershare Hong Kong Investor Services Limited, no later than 4:30 p.m. on Tuesday, 26 November 2019. 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. Shareholders who intend to attend the EGM in person or by proxy should return the reply slip to Computershare Hong Kong Investor Services Limited for holders of H Shares on or before Saturday, 7 December 2019. The address of Computershare Hong Kong Investor Services Limited is 17M Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong.
7. 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.
8. Please refer to the circular of the Company in relation to the EGM to be published on or before 20 November 2019 for details of the resolutions to be proposed at the EGM for consideration and approval.

1. RESPONSIBILITY STATEMENT

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

2. EXPERTS AND CONSENTS

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

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

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

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

As at the Latest Practicable Date, the expert above did not have any direct or indirect interest in any assets which have been acquired or disposed of by, or leased to any member of the Group, or are proposed to be acquired or disposed of by, or leased to any member of the Group since 31 December 2018, being the date to which the latest published audited annual financial statements of the Company were made up.

3. NO MATERIAL ADVERSE CHANGE

There was no material adverse changes in the financial or trading position of the Group since 31 December 2018, 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 or proposed 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 2018, being the date to which the latest published audited annual financial statements of the Company were made up.

Except Mr. Zheng Jianhua's and Mr. Zhu Bin's positions in SEC Group and its associates, none of the Directors or Supervisors has material interests in any contract or arrangement which has been entered by any member of the Group since 31 December 2018, 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, Mr. Huang Ou, one of our executive Directors, held 765,000 A shares in the Company, which accounted for approximately 0.006% of the total issued A shares of the Company and approximately 0.005% of the total issued share capital of the Company. Save as disclosed above, as at the Latest Practicable Date, none of the Directors or proposed 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. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection at the offices of Clifford Chance at 28th Floor, Jardine House, Central, Hong Kong during normal business hours from the date of this circular up to 20 December 2019 (both days inclusive):

- (1) Letter from the Independent Board Committee;
- (2) Letter from the Independent Financial Adviser, Lego Corporate Finance Limited;
- (3) The letter of consent from the expert referred to in the paragraph headed “EXPERTS AND CONSENTS” in this Appendix;
- (4) SEC Framework Deposit Agreement;
- (5) SEC Framework Loan Agreement; and
- (6) MESMEE Framework Purchase Agreement.