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)

CONNECTED TRANSACTION

ACQUISITION OF 100% EQUITY INTEREST IN GOSS INTERNATIONAL CORPORATION

The Board is pleased to announce that on 8 February 2012, SME entered into the Equity Transfer Agreement with SEC, pursuant to which, SEC has agreed to sell, and SME has agreed to purchase, 100% equity interest in Goss International for a total cash consideration of RMB571,060,000.

SEC is the controlling shareholder of the Company and therefore is a connected person of the Company. SME is a non-wholly owned subsidiary of the Company. As such, the transaction contemplated under the Equity Transfer Agreement constitutes a connected transaction of the Company under Chapter 14A of the Listing Rules.

As the applicable percentage ratios in respect of the transaction contemplated under the Equity Transfer Agreement exceed 0.1% but are less than 5%, such transaction is subject to the reporting and announcement requirements but exempts from independent shareholders' approval requirement under Chapter 14A of the Listing Rules.

BACKGROUND

On 8 February 2012, SME entered into the Equity Transfer Agreement and the Compensation Agreement with SEC. Pursuant to the Equity Transfer Agreement, SEC has agreed to sell, and SME has agreed to purchase, 100% equity interest in Goss International for a total cash consideration of RMB571,060,000.

Particulars of the Equity Transfer Agreement are as follows:

Date

8 February 2012

Parties

(i) SEC as the vendor, and

(ii) SME as the purchaser

(collectively, as the Parties)

Subject Matter

Pursuant to the Equity Transfer Agreement, SEC has agreed to sell, and the SME has agreed to purchase, 100% equity interest in Goss International. Upon completion of the Equity Transfer, Goss International will be wholly owned by SME and become an indirect subsidiary of the Company.

Consideration and Payment

The consideration for the acquisition of 100% equity interest in the Goss International is RMB571,060,000 (the **Transactional Price**).

Pursuant to the Equity Transfer Agreement, SME shall pay the total consideration RMB571,060,000 to SEC in cash within three months after the Equity Transfer Agreement becomes effective. The Equity Transfer Agreement shall become effective upon the obtaining of corporate approvals of the Parties and the approvals from governmental authorities of the PRC.

Basis of Consideration

The consideration for the Equity Transfer was determined after arm's length negotiation between the Parties with reference to and is equivalent to the appraised total value of Goss International as at the reference date of 30 September 2011 as appraised by the Valuer. The Valuer adopted the income approach using free cash flow modeling in the valuation, which involves the calculation of discounted future estimated cash flow and constitutes a profit forecast for the purpose of Rule 14.61 of the Listing Rules (the **Profit Forecast**).

Other Terms

SME shall be entitled to the operating profit or loss incurred by the Goss International from the reference date of 30 September 2011 to the completion of the Equity Transfer and afterwards and accumulative undistributed profits of Goss International.

Pursuant to the relevant regulations of Shanghai Stock Exchange, SEC has entered into the Compensation Agreement with SME, pursuant to which SEC would indemnify SME for the shortfall in the actual consolidated net profits compared to the forecasted consolidated net profits attributable to equity holders of Goss International for the three years of 2012, 2013 and 2014 in the Valuation Report, with the aggregate amount of indemnification not exceeding the Transactional Price.

The basis of the Compensation Agreement are as follows:

(1) The forecasted consolidated net profits attributable to equity holders of Goss International for the financial years of 2012, 2013 and 2014 in the Valuation Report are RMB23.62 million, RMB121.31 million and RMB191.43 million, respectively.

(2) If actual consolidated net profit of Goss International falls short of the forecasted consolidated net profit set forth in (1) in any of the financial years of 2012, 2013 and 2014, SEC shall indemnify SME for the Compensatory Amount in cash. The total of cumulative Compensatory Amounts for three years from 2012 to 2014 shall not exceed the Transactional Price.

(3) Following the closing of the Equity Transfer, SME will, within three months from the end of each financial year, retain a professional accounting firm qualified for securities and futures related businesses to issue an ad hoc audit opinion on the net profit of Goss International for the respective financial year. The shortfall in the actual consolidated net profit compared to the forecasted consolidated net profit attributable to equity holders of Goss International shall be ascertained on the basis of the foregoing ad hoc audit opinion.

(4) SME shall provide SEC with the said ad hoc audit opinion within ten business days upon its receipt thereof. If the said ad hoc audit opinion indicates that Goss International's actual consolidated net profit falls short of the forecasted consolidated net profit, SEC shall undertake to indemnify SME in cash within three months upon its receipt of the said ad hoc audit opinion.

INFORMATION OF GOSS INTERNATIONAL

Incorporated on 1 February 2002 under the laws of Delaware, U.S. with limited liability and is wholly owned by SEC, Goss International is the world's leading web offset printing press manufacturer providing an end-to-end array of printing press and auxiliary equipment solutions to commercial printers and news organizations throughout the world. Goss International's solutions include prepress products, high-speed printing presses, innovative post press products and recurring parts and services business. Goss International sells and services a product portfolio that features the most innovative and advanced useful technologies in the industry, enabling its customers to be more efficient, productive and profitable.

Based on the audited consolidated financial statements of Goss International prepared in accordance with the China Accounting Standards for Business Enterprises, the consolidated net asset value and the consolidated total asset value of Goss International as of 30 September 2011 was RMB -498,808,000 and RMB 3,062,388,000, respectively; and the consolidated net losses before tax and extraordinary items and after tax and extraordinary items for the two years ended 31 December 2009 and 31 December 2010 respectively were as follows:

	For the Year ended 31 December 2009	**For the Year ended 31 December 2010**
	(RMB'000)	*(RMB'000)*
Consolidated net loss (before tax and extraordinary items)	690,418	551,177

Consolidated net loss (after tax and extraordinary items)	744,716	644,792

INFORMATION OF SME

SME is a company established under the laws of the PRC with limited liability and listed on Shanghai Stock Exchange in the PRC. With 47.28% interest held by the Company, SME is a non-wholly owned subsidiary of the Company. The principal business of SME is engaged in the production and sale of elevators, printing and packaging machinery, artificial boards, air-conditioners, wielding materials, and engineering machinery; investing and establishing enterprises encouraged and permitted by the government.

INFORMATION OF SEC

SEC is the controlling shareholder of the Company, holding approximately 58.02% shareholding interests in the total issued share capital of the Company. The principal business of SEC is to engage in the management of state-owned assets and investment activities.

INFORMATION OF THE COMPANY

The Company is one of the largest comprehensive 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; (ii) design, manufacture and sale of thermal power equipment products and corollary equipment, nuclear power conventional island equipment products and power transmission and distribution equipment products; (iii) design, manufacture and sale of elevators, electrical motors, machine tools, printing and packaging equipment, marine crankshaft and other electromechanical equipment products; and (vi) provision of integrated engineering services for power station projects and other industries, financial services and functional services including international trading services.

REASONS FOR AND BENEFITS OF THE EQUITY TRANSFER

The acquisition of Goss International is expected to (i) enhance the competitive strength in printing and packaging machinery industry of the Group, (ii) solve bottlenecks in the development of printing and packaging machinery industry, and (iii) create a platform for globalization and development of the Group.

DIRECTORS' CONFIRMATION

Mr. Xu Jianguo, Mr. Huang Dinan and Ms. Xu Ziying, all being Directors, hold directorship(s) or act as senior management in SEC and they have therefore abstained from voting on the relevant board resolution approving the Equity Transfer. Save as disclosed above, none of the Directors has a material interest in the Equity Transfer.

Having made due and reasonable inquiries, the Directors (including the independent non-executive Directors) are of the opinion that the Equity Transfer Agreement and transaction contemplated thereof is entered into after arm's length negotiations, are on normal commercial terms, which are fair and reasonable and in the interests of the Company and its shareholders as a whole.

LISTING RULES IMPLICATIONS

As at the date of this announcement, SEC is the controlling shareholder of the Company holding approximately 58.02% interests in the total issued share capital of the Company and is a connected person of the Company. SME is a subsidiary of the Company, with 47.28% interest held by the Company. As such, the transaction contemplated under the Equity Transfer Agreement constitutes a connected transaction of the Company under Chapter 14A of the Listing Rules.

As the applicable percentage ratios in respect of the Equity Transfer exceed 0.1% but are less than 5%, such transaction is subject to the reporting and announcement requirements but exempts from independent shareholders' approval requirement under Chapter 14A of the Listing Rules.

COMPLIANCE WITH THE LISTING RULES

The consideration for the acquisition of 100% of the equity interest in Goss International was determined after arm's length negotiation between the Parties with reference to and is equivalent to 100% of the appraised total value of Goss International as at 30 September 2011 as appraised by the Valuer. The Valuer adopted the income approach using free cash flow modeling in the valuation, which involves the calculation of discounted future estimated cash flow and constitutes a profit forecast for the purpose of Rule 14.61 of the Listing Rules.

Pursuant to Rule 14.62(1) of the Listing Rules, the principal assumptions upon which the Valuation Report issued by the Valuer in respect of the equity transfer was based are set out below:

1. Unless otherwise specified therein, the Valuation Report does not take into account mortgage or guarantees which are currently existing or may be undertaken in the future as well as abnormal factors such as special transactional approaches that might affect appraised value. In addition, it does not consider the impact on appraisal conclusions from changes of macro economic policies of various countries, act of God and other force majeure factors.

2. There is no material change of macro economic policies of various countries as well as local socioeconomic environment, industry policies, regulatory regimes and applicable provisions, taxation policies, loan interest rates and foreign exchange rates in connection with the subject business.

3. Goss International and its assets will be able to continue operating in the future and will be capable of doing so.

4. The incumbent and future management teams of Goss International perform duties with due diligence and there will be no material noncompliant matter affecting the company's development and earnings materialization; no consideration will be afforded to future material changes of the business structure and other statuses arising from changes of the management, business strategies and business environment.

5. The accounting policies reflected in the historical financial data furnished by Goss International and the accounting policies and methods applied in making earnings forecasts are substantially the same in material aspects.

6. The Valuation Report does not take the factor of inflation into account and each pricing standard in the estimate is set as the pricing standard and system effective on the specific valuation benchmark date.

7. All earnings, pricing and cost data on the basis of which the valuation is made represent a professional judgement by the assessment institution after due diligence inquiries pursuant to the historical data as furnished by the unit under the valuation. The reasonability of such judgment by the Valuer will have certain effect on the appraisal results.

PWC, the auditors of SME, has checked the arithmetical accuracy of the calculations of the discounted cash flow forecast underlying the Valuation. A letter from PWC has been submitted to The Stock Exchange of Hong Kong Limited.

The Directors confirm that the Valuation, which constitutes a profit forecast under Rule 14.61 of the Listing Rules, has been made after due and careful enquiry.

DEFINITIONS

In this announcement, the following expressions have the meanings set out below unless the context requires otherwise.

"Board"	the board of Directors
"Company"	Shanghai Electric Group Company Limited, a joint stock limited company duly incorporated in the PRC with limited liability, the H shares of which are listed on The Stock Exchange of Hong Kong Limited under stock code 02727 and the A shares of which are listed on the Shanghai Stock Exchange under stock code 601727
"Compensation Agreement"	the compensation agreement regarding profit forecasts between SME and SEC dated 8 February 2012, in relation to the transfer of 100% equity interest in Goss International
"Compensatory Amount"	the shortfall between the actual consolidated net profit and the forecasted consolidated net profit in Goss International in any of the fiscal years of 2012, 2013 and 2014
"Directors"	the directors of the Company
"Equity Transfer"	the transfer of 100% equity interest in Goss International pursuant to the Equity Transfer Agreement
"Equity Transfer Agreement"	the equity transfer agreement between SME and SEC dated 8 February 2012, in relation to the transfer of 100% equity interest in Goss International
"Goss	Goss International Corporation, a company established in the U.S. with

International”	limited liability
“Listing Rules”	Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited
“Parties”	the parties to the Equity Transfer Agreement, being SME and SEC
“PRC”	the People’s Republic of China which, for the purpose of this announcement only, excludes Hong Kong Special Administrative Region, Macau Special Administrative Region and Taiwan
“PWC”	PricewaterhouseCoopers Zhong Tian CPAs Limited Company, an audit firm that is licensed to conduct securities and futures related business in China
“RMB”	Renminbi, the lawful currency of the People’s Republic of China
“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 approximately 58.02% interests in the total issued share capital of the Company as at the date of this announcement
“SME”	Shanghai Mechanical & Electrical Industry Co., Ltd. (上海机电股份有限公司), a joint stock limited company duly incorporated in the PRC with limited liability, the shares of which are listed on the Shanghai Stock Exchange under stock code 600835, and a non-wholly owned subsidiary of the Company
“US$”	United States dollars, the lawful currency of the United States
“U.S.”	the United States of America
“Valuation”	the valuation of Goss International for the purpose of Equity Transfer as set out in the Valuation Report
“Valuation Report”	the valuation report issued by the Valuer (HUDONGZHOUZIPINGBAOZI [2012] No. 0014187) on 29 January 2012
“Valuer”	Shanghai Dongzhou Assets Appraisal Co., Ltd.(上海东洲资产评估有限公司), an independent valuer in the PRC

By Order of the Board
Shanghai Electric Group Company Limited
Xu Jianguo
Chairman of the Board

Shanghai, the PRC, 8 February 2012

As at the date of this announcement, the executive directors of the Company are Mr. XU Jianguo, Mr. HUANG Dinan, Ms. XU Ziying and Mr. YU Yingui; the non-executive directors of the Company are Mr. ZHU Kelin and Ms. YAO Minfang; and the independent nonexecutive directors of the Company are Mr. ZHU Sendi, Dr. CHEUNG Wai Bun and Dr. LUI Sun Wing.

** For identification purpose only*