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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)**

**WAIVER FROM STRICT COMPLIANCE WITH RULE 14A.34 AND RULE  
14A.51 OF THE LISTING RULES  
AND  
CONTINUING CONNECTED TRANSACTIONS**

**WAIVER FROM STRICT COMPLIANCE WITH RULE 14A.34 AND RULE  
14A.51 OF THE LISTING RULES**

In February 2015, the Company applied to the Stock Exchange for the waiver from strict compliance with Rule 14A.34 and Rule 14A.51 of the Listing Rules, in accordance with which, the Company would be required to enter into a written framework agreement with SMEPC in respect of the Continuing Connected Transactions. The waiver has been conditionally granted by the Stock Exchange on 22 April 2015 (the "**2015 Waiver**"), subject to and on certain waiver conditions (the "**Waiver Conditions**") described under "Conditions to the Waiver" mentioned below.

The Board (including the independent non-executive Directors) approved the 2015 Waiver.

**CONTINUING CONNECTED TRANSACTIONS**

The Company plans to enter into the Continuing Connected Transactions.

As SMEPC holds more than 10% of the equity interest in the Joint Venture which does not fall within the scope of "insignificant subsidiary" under Rule 14A.09 of the Listing Rules, SMEPC is regarded as a connected person of the Company by virtue of its falling under the definition of a substantial shareholder at the subsidiary level pursuant to Rule 14A.07(1) of the Listing Rules. Given that the highest applicable percentage ratio (as defined in the Listing Rules) of the proposed annual caps under the Continuing Connected Transactions is expected to be more than 5% but considering the Continuing Connected Transactions being transactions between the Group and a connected person at the subsidiary level, these transactions are therefore exempt from the circular (including

independent financial advice) and shareholders' approval requirements, if on normal commercial terms or better, 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 relevant disclosure requirements.

After taking into consideration of the 2015 Waiver, the Board (including the independent non-executive Directors) approved the Continuing Connected Transactions and the annual caps for relevant years accordingly.

## **INTRODUCTION**

The Company plans to enter into the Continuing Connected Transactions. Although the Company has made efforts and requested for entering into a written framework agreement in respect of the Continuing Connected Transactions with SMEPC, no written framework agreement has been entered into so far or is expected to be entered into. Therefore, the Company applied to the Stock Exchange for, and the Stock Exchange conditionally granted, the 2015 Waiver.

The Board (including the independent non-executive Directors) approved the 2015 Waiver, the Continuing Connected Transactions and the annual caps for relevant years accordingly.

## **WAIVER FROM STRICT COMPLIANCE WITH 14A.34 AND RULE 14A.51 OF THE LISTING RULES**

### *General background information and reasons for the Waiver*

The Company and SMEPC established the Joint Venture in September 2011. Relevant subsidiaries of the Company have been supplying PTD products to SMEPC Related Connected Group since 2012, where each member of the SMEPC Related Connected Group with which the relevant subsidiaries of the Company transacted conducted open, fair and strict bidding process to purchase the PTD products from the Group.

As SMEPC holds more than 10% of the equity interest in the Joint Venture which does not fall within the scope of "insignificant subsidiary" under Rule 14A.09 of the Listing Rules, SMEPC is regarded as a connected person of the Company by virtue of its falling under the definition of a substantial shareholder at the subsidiary level pursuant to Rule 14A.07(1) of the Listing Rules.

The Company is fully aware of the procedural requirements under Chapter 14A of the Listing Rules. In particular, the Company needs to enter into a written framework agreement for continuing connected transactions in accordance with Rule 14A.34 and Rule 14A.51 of the Listing Rules.

However, although the Company has made efforts and requested for entering into a written framework agreement in respect of the Continuing Connected Transactions with

SMEPC, no written framework agreement has been entered into so far or is expected to be entered into.

Transactions between the Group and SMEPC Related Connected Group are important to the Company's business. The Company expects that there will continue to be transactions between the Group and SMEPC Related Connected Group in the years to come as the Company aims to increase the sales of and profit from the sales of PTD products.

As such, the Company applied to the Stock Exchange for the 2015 Waiver. The 2015 Waiver has been conditionally granted by the Stock Exchange on 22 April 2015 and has been approved by the Board (including the independent non-executive Directors).

### ***Conditions to the Waiver***

According to the 2015 Waiver, the Continuing Connected Transactions will be exempted from the requirements under Rule 14A.34 and Rule 14A.51 of the Listing Rules, subject to and on the conditions set out below.

- (a) the waiver, if granted, will only apply to the Continuing Connected Transactions;
- (b) each of the Continuing Connected Transactions will be entered into on normal commercial terms, in the ordinary and usual course of business of the Company, and will be on terms that are fair and reasonable and in the interests of the Company and the Shareholders as a whole. A written agreement will be entered into for each of the Continuing Connected Transactions, and the consideration of each of the Continuing Connected Transactions will be determined through the open, strict and independent bidding process conducted by SMEPC according to the Law of the PRC on Tenders and Bids (《中华人民共和国招标投标法》) and its implementing regulations (《中华人民共和国招标投标法实施条例》). After receiving the bid invitation from members of SMEPC Related Connected Group, the sales departments of the relevant subsidiaries of the Company will set the bidding price after considering (1) the technical specifications required by the bid tenderee which are contained in the bid invitation, (2) the production cost estimated by the purchase department and financial department of the relevant subsidiaries of the Company, (3) a reasonable profit margin estimated based on the profit margin of the same products for the preceding year and (4) the competition status monitored by the sales departments of the relevant subsidiaries of the Company based on public information such as the change of market competitors and bidding prices from other competitors disclosed after the bidding process is finished;
- (c) the Company will adopt the following methods and procedures to ensure that the bidding price is fair and reasonable: (i) the sales department of the relevant subsidiary will collect all winning prices of the subject product (including prices of other bid winners) in the preceding year and calculate an average winning price; (ii) the financial department of the relevant subsidiary will use such average winning price to calculate the profit margin (the "**Base Margin**") based on the

- Company's own costs; (iii) the sales department of the relevant subsidiary will propose a bidding price which represents a profit margin of up to 10% upwards or downwards from the Base Margin based on the trend for changes in historical winning prices of a target product, the trend for changes in prices and supplies of relevant raw materials, the overall competitiveness of target products, the Company's production capacity for target products and the expected competition status in a specific bidding; and (iv) the management (which refers to senior management responsible for daily operation and generally comprises the general manager, the vice general manager in charge of sales, the head of financial department, the head of sales department and etc.) of the relevant subsidiary will review and decide whether or not to approve such bidding price according to market conditions. Through the abovementioned mechanisms, the Company has the opportunity to learn the market conditions and assure the profitability of the bids;
- (d) in respect of the written agreements to be entered into between the Group and SMEPC Related Connected Group for the sales of PTD products, to the extent that the independent bidding process is no longer applicable, the Company will re-comply with the requirements under Chapter 14A of the Listing Rules; to the extent that the transaction is out of the scope of the Continuing Connected Transactions, the Company will publish an announcement and will re-comply with the reporting, announcement, board of directors' approval and/or independent non-executive directors' confirmation requirements under Chapter 14A of the Listing Rules, where the annual caps will be calculated on an aggregate basis;
  - (e) details of the Continuing Connected Transactions will be disclosed in the Company's future annual reports and accounts in accordance with Rule 14A.49 of the Listing Rules;
  - (f) other than Rule 14A.34 and Rule 14A.51 of the Listing Rules, the Company will fully comply with the disclosure, board of directors' approval and independent non-executive directors' confirmation requirements under Chapter 14A of the Listing Rules (including Rule 14A.68). Accordingly the Company will set annual caps for the Continuing Connected Transactions for a duration of no longer than three years and comply with the reporting, announcement, board of directors' approval and independent non-executive directors' confirmation requirements. The Company will state in the announcement that the Continuing Connected Transactions will be entered into with SMEPC Related Connected Group over the next three years, but will not exceed the applicable annual caps in respect of the Continuing Connected Transactions. The proposed annual caps and their basis of determination are disclosed in paragraph headed "Proposed annual caps and basis of determination" below;
  - (g) the waiver, if granted, will be subject to the approval of the Board and the confirmation of the independent non-executive Directors; and

- (h) the Company will re-comply with Chapter 14A of the Listing Rules as fast as practicable should any of the above conditions no longer exists or any member of SMEPC Related Connected Group becomes a connected person due to other reason(s) (e.g., it becomes a substantial shareholder at the Company's level).

## **CONTINUING CONNECTED TRANSACTIONS WITH THE SMEPC RELATED CONNECTED GROUP**

The Company plans to enter into the Continuing Connected Transactions. Although the Company has made efforts and requested for entering into a written framework agreement in respect of the Continuing Connected Transactions with SMEPC, no written framework agreement has been entered into so far or is expected to be entered into. Therefore, the Company applied to the Stock Exchange for, and the Stock Exchange conditionally granted, the 2015 Waiver. After taking into consideration of the 2015 Waiver, the Board (including the independent non-executive Directors) approved the Continuing Connected Transactions and the annual caps for relevant years accordingly.

### ***Proposed annual caps and basis of determination***

The table below sets out the historical transaction amounts with SMEPC for the three years ended 31 December 2014, and the proposed annual caps for the three years ending 31 December 2017:

	Historical amounts for the year ended 31 December			Proposed annual caps for the year ending 31 December		
	2012	2013	2014	2015	2016	2017
	<i>(RMB million)</i>					
Aggregate transaction amounts with SMEPC	3,600	3,600	3,800	4,000	4,000	4,000

In arriving at the above annual caps, the Directors have considered the previous transaction records with SMEPC Related Connected Group.

### ***Pricing basis***

As the Company needs to take part in open, strict and independent bidding process in order to obtain the orders and enter into each of the Continuing Connected Transactions, the Company will adopt the following methods and procedures to ensure that the bidding price is fair and reasonable: (i) the sales department of the relevant subsidiary will collect all winning prices of the subject product (including prices of other bid winners) in the preceding year and calculate an average winning price; (ii) the financial department of the relevant subsidiary will use such average winning price to calculate the Base Margin based on the Company's own costs; (iii) the sales department of the relevant subsidiary will propose a bidding price which represents a profit margin of up to 10% upwards or downwards from the Base Margin based on the trend for changes in historical winning

prices of a target product, the trend for changes in prices and supplies of relevant raw materials, the overall competitiveness of target products, the Company's production capacity for target products and the expected competition status in a specific bidding; and (iv) the management (which refers to senior management responsible for daily operation and generally comprises the general manager, the vice general manager in charge of sales, the head of financial department, the head of sales department and etc.) of the relevant subsidiary will review and decide whether or not to approve such bidding price according to market conditions. Through the abovementioned mechanisms, the Company has the opportunity to learn the market conditions and assure the profitability of the bids.

### ***Reasons of and benefits for the Continuing Connected Transactions***

SMEPC is a large state-owned enterprise and a subsidiary of SGCC which is one of the largest public utilities in the world. SMEPC is responsible for the electricity transmission, distribution, sale and service for the Shanghai region and carries out the unified planning, construction and scheduling of the Shanghai power grid.

PTD business is one of the major business segments of the Group. Transactions between the Group and SMEPC Related Connected Group are important to the Group's PTD business. The sales of PTD products by the Group to the SMEPC Related Connected Group contribute revenue and profits to the Group and strengthen the Group's competitive position in PTD market.

The Company expects that the transactions between the Group and the SMEPC Related Connected Group will continue in the following years.

For PTD products supplied to SMEPC Related Connected Group, the Company also sells the same to independent third parties via participating in the public biddings held by the purchasers. The Company adopts the same pricing basis as that for the Continuing Connected Transactions when determining the bidding price for a particular project. The Directors (including the independent non-executive Directors) are of the opinion that the Continuing Connected Transactions are on normal commercial terms comparable to those offered to independent third parties.

The Directors (including the independent non-executive Directors) are of the opinion that the Continuing Connected Transactions are conducted in the ordinary and usual course of business of the Group, and that the pricing basis under the Continuing Connected Transactions is an appropriate mechanism to ensure that the terms of the Continuing Connected Transactions will be fair and reasonable, the Continuing Connected Transactions will be on normal commercial terms and in the interests of the Company and the Shareholders as a whole. The Directors (including the independent non-executive Directors) are of the opinion that the proposed annual caps of the Continuing Connected Transactions are fair and reasonable.

### **LISTING RULES IMPLICATIONS**

As SMEPC holds more than 10% of the equity interest in the Joint Venture which does not fall within the scope of "insignificant subsidiary" under Rule 14A.09 of the Listing

Rules, SMEPC is regarded as a connected person of the Company by virtue of its falling under the definition of a substantial shareholder at the subsidiary level pursuant to Rule 14A.07(1) of the Listing Rules. Given that the highest applicable percentage ratio (as defined in the Listing Rules) of the proposed annual caps under the Continuing Connected Transactions is expected to be more than 5% but considering the Continuing Connected Transactions being transactions between the Group and a connected person at the subsidiary level, these transactions are therefore exempt from the circular (including independent financial advice) and shareholders' approval requirements, if on normal commercial terms or better, 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 relevant disclosure requirements.

## **GENERAL**

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; (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, printing and packaging equipment, marine crankshafts and other electromechanical equipment products; and (iv) provision of integrated engineering services for power station projects and other industries, financial services and functional services including international trading services.

SMEPC, a subsidiary of SGCC, is a large state-owned enterprise responsible for the electricity transmission, distribution, sale and service for the Shanghai region. It carries out the unified planning, construction and scheduling of the Shanghai power grid. SGCC is a state-owned enterprise approved by the PRC State Council to conduct government authorized investment activities. SGCC is one of the largest public utilities in the world.

## **DEFINITIONS**

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

“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;
“Directors”	the directors of the Company;
“Group”	the Company and its subsidiaries from time to time;
“Joint Venture”	a subsidiary of the Company, in which each of the Company and SMEPC holds 50% of its equity interest as at the date of this announcement;
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange;
“PRC”	the People’s Republic of China which, for the purpose of this announcement only, does not include the Hong Kong Special Administrative Region, the Macau Special Administrative Region and Taiwan;
“Continuing Connected Transactions”	the sales transactions, which are continuing connected transactions to be entered into by the Company and SMEPC for the three years ending 31 December 2017 for the sales of PTD products by the Group to the SMEPC Related Connected Group, which are conditional upon the approval of the Board and confirmation by the independent non-executive Directors as required under Rule 14A.101 of the Listing Rules;
“PTD”	power transmission and distribution equipment;
“RMB”	Renminbi, the lawful currency of the PRC;
“SGCC”	State Grid Corporation of China (國家電網公司);
“Shareholder(s)”	registered shareholder(s) of the Company;
“SMEPC”	State Grid Shanghai Municipal Electric Power Company (國網上海市電力公司);
“SMEPC Related Connected Group”	SMEPC, its subsidiaries and its associates;
“Stock Exchange”	The Stock Exchange of Hong Kong Limited; and
“%”	per cent.



By order of the Board  
**Shanghai Electric Group Company Limited**  
**Huang Dinan**  
*Chairman of the Board*

Shanghai, the PRC, 24 April 2015

*As at the date of this announcement, the executive directors of the Company are Mr. HUANG Dinan and Mr. ZHENG Jianhua; the non-executive directors of the Company are Mr. Wang Qiang, Mr. ZHU Kelin and Ms. YAO Minfang; and the independent non-executive directors of the Company are Dr. LUI Sun Wing, Mr. KAN Shun Ming and Dr. Chu Junhao.*

*\* For identification purpose only*