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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
PROVISION OF GUARANTEE SERVICES

On 17 February 2017, SE Finance, a subsidiary of the Company, entered into the Framework Guarantee Agreement with SEC, pursuant to which SE Finance will provide guarantee services to the SEC Group.

SEC is a substantial shareholder of the Company holding approximately 58.12% shareholding interest in the total issued share capital of the Company. As SEC is a connected person of the Company and the highest applicable percentage ratio of the transactions is expected to be more than 0.1% but less than 5% as set out under Chapter 14A of the Listing Rules, these transactions are subject to the reporting and announcement requirements but exempt from the circular (including independent financial advice) and shareholders' approval requirements under Chapter 14A of the Listing Rules.

According to the Listing Rules of Shanghai Stock Exchange, such transactions are subject to shareholders' approval at a shareholders' general meeting.

Background

The Company is an industrial conglomerate principally engaged in new energy and environmental protection equipment, high efficiency and clean energy equipment, industrial equipment, as well as provision of modern services to enhance competitiveness of its equipment manufacturing business.

SE Finance is a subsidiary of the Company in which the Company holds 89.00% of the issued share capital. As SEC is a substantial shareholder of the Company holding approximately 58.12% of the total issued share capital of the Company, SEC is therefore a connected person of the Company under Chapter 14A of the Listing Rules. Accordingly, transaction between the SEC Group and the Group would constitute a connected

transaction. The principal business of SEC is to engage in the management of state-owned assets and investment activities.

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 the SEC Group. SE Finance has obtained all approvals, permits and licences necessary for its operations. Currently, the governing body for financial institutions in the PRC (including SE Finance) is the China Banking Regulatory Commission. Under the regulations of China Banking Regulatory Commission, SE Finance, as a non-bank finance company, is allowed to provide financial services to the Group, SEC and companies where SEC holds at least 20% shareholding interest or in which SEC has a control.

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, the establishment of an intra-group finance company within a group can help to improve the efficiency of financial resources deployment of the group.

Historically, the Company has always been transacting with SEC Group for products, parts and services which complement the products and services offered by the Group. In order to continue and ensure the growth and development of the Company in the future, SE Finance entered into the Framework Guarantee Agreement on 17 February 2017 with SEC, pursuant to which, SE Finance has agreed to continue to provide guarantee services to the SEC Group. The Framework Guarantee Agreement was entered into in the ordinary and usual course of business of the Company and on normal commercial terms.

Summary

The principal terms of the Framework Guarantee Agreement are summarised as follows:

| | | |
|------------------------|---|--|
| Agreement signing date | : | 17 February 2017 |
| Parties | : | <ul style="list-style-type: none">• SE Finance• SEC |
| Subject matter | : | SE Finance will provide guarantee services to the SEC Group in the form of issuing letter of guarantee. |
| Term | : | <ul style="list-style-type: none">• may be terminated by either party to the agreement by giving three months’ written notice• two years commencing on 17 February 2017, renewable at the option of the Company by giving three months’ written notice prior to the expiry of the agreement |

The Company will also enter into separate guarantee agreements for each specific guarantee contemplated under the Framework Guarantee Agreement, with the SEC Group. Each guarantee agreement will set out the specific duration, fee chargeable for the services and other relevant commercial terms and conditions.

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 prior to the Company's exercise of the option to renew the Framework Guarantee Agreement upon expiry of the agreement.

Annual cap and basis of determination

The table below sets out the proposed annual cap for the transactions under Framework Guarantee Agreement for the years 2017 and 2018:

| | Proposed annual cap for the year ending 31 December | | | |
|--|--|---|----------------------|---|
| | 2017 | | 2018 | |
| | <i>(RMB million)</i> | <i>(approximately equivalent to HK\$ million)</i> | <i>(RMB million)</i> | <i>(approximately equivalent to HK\$ million)</i> |
| Aggregate value of guarantees to the SEC Group | 62.00 | 70.28 | 62.00 | 70.28 |

The value of guarantees required from SE Finance in each of the previous three years ended 31 December 2014, 2015 and 2016 for the operational needs of certain subsidiaries of SEC Group amounted to approximately RMB173.2 million, RMB324.9 million and RMB873 million, respectively. The annual cap was determined by the Board, after taking into account the anticipated guarantees for the operational needs of certain member companies of SEC Group from the SE Finance to ensure healthy operation of the business for the two years ending 31 December 2018, to be approximately RMB62.00 million and RMB62.00 million, respectively.

Pricing basis, reasons and benefits for Framework Guarantee Agreement

Under the Framework Guarantee Agreement, fees payable to SE Finance are determined pursuant to the provisions set out under the Company's administrative measures governing fees for intermediary businesses. The fees collected will not be less than the market rate while our rate is on par with the commercial banks' rates.

The Company is of the view that the risks arising from such transactions can be controlled considering the close working relationship between the Group and the SEC Group which enables SE Finance to conduct timely assessment of the financial conditions and understand the business nature and creditability of the companies within the SEC Group.

Having made due and reasonable inquiries, the Directors of the Company (including the independent non-executive Directors) are of the opinion that the continuing connected transactions contemplated under the Framework Guarantee Agreement will be on normal commercial terms or better and in the ordinary and usual course of business as well as in the interest of the Company and the Shareholders as a whole, and that the proposed annual cap and the terms of the Framework Guarantee Agreement are fair and reasonable.

Listing Rules implications

As SEC is a connected person under the Listing Rules, the transactions contemplated under the Framework Guarantee Agreement constitute continuing connected transactions of the Company pursuant to Chapter 14A of the Listing Rules.

The highest applicable percentage ratio of the new annual cap is expected to be more than 0.1% but less than 5% under the Listing Rules. Therefore, the transactions contemplated under the Framework Guarantee Agreement are subject to reporting and announcement requirements but exempted from the circular (including independent financial advice) and Shareholders' approval requirements under Chapter 14A of the Listing Rules.

According to the Listing Rules of Shanghai Stock Exchange, such transactions are still subject to shareholders' approval at a shareholders' general meeting.

Mr. HUANG Dinan, Mr. ZHENG Jianhua and Mr. Li Jianjin, all being Directors, hold directorship(s) or act as senior management in SEC Group and thus have material interests in the continuing connected transactions contemplated under the Framework Guarantee Agreement. They have abstained from voting on the relevant board resolution approving the Framework Guarantee Agreement.

DEFINITIONS

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

- | | |
|-----------------------|--|
| “associates” | 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; |
| “Framework Guarantee Agreement” | the framework guarantee agreement between SE Finance and SEC dated 17 February 2017; |
| “Group” | the Company and its subsidiaries from time to time; |
| “HK\$” | Hong Kong dollars, the lawful currency of the Hong Kong Special Administrative Region of China; |
| “Listing Rules” | Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited; |
| “Listing Rules of Shanghai Stock Exchange” | Rules Governing the Listing of Stocks on Shanghai Stock Exchange; |
| “PBOC” | the People’s Bank of China; |
| “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; |
| “RMB” | Renminbi, the lawful currency of the People’s Republic of China; |
| “SE Finance” | Shanghai Electric Group Finance Co., Ltd., (上海電氣集團財務有限責任公司), a 89.00% subsidiary of the Company 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 approximately 58.12% interests in the total issued share capital of the Company as at the date of this announcement; |
| “SEC Group” | SEC, its subsidiaries and its associates, but excluding the Group; |
| “Shareholders” | registered shareholder(s) of the Company; |
| “Stock Exchange” | The Stock Exchange of Hong Kong Limited; |
| “subsidiary” | has the meaning ascribed to it by the Listing Rules; and |

“substantial shareholder” has the meaning ascribed to it by the Listing Rules.

Unless otherwise specified, conversion of RMB into HK\$ is based on the exchange rate of RMB1.00: HK\$1.1335.

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

Shanghai, the PRC, 17 February 2017

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. LI Jianjin, 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*