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SHANGHAI ELECTRIC GROUP COMPANY LIMITED

上海電氣集團股份有限公司

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

(Stock Code: 02727)

ANNOUNCEMENT ON PROGRESS OF CONNECTED TRANSACTION REGARDING ACQUISITION OF 4.4415% EQUITY INTEREST IN SHANGHAI PRIME BY SMEIC

Reference is made to the announcement of Shanghai Electric Group Company Limited (the "Company") dated 14 May 2024 in relation to the connected transaction (the "Announcement"). Terms used herein shall have the same meanings as those defined in the Announcement unless the context requires otherwise.

As disclosed in the Announcement, SMEIC acquired 4.4415% equity interest in Shanghai Prime in cash at a total consideration of approximately RMB236,216.7 thousand. Further details of the connected transaction are provided to the shareholders and potential investors of the Company.

I. PROGRESS OF CONNECTED TRANSACTION

At the 94th meeting of the fifth session of the Board of the Company held on 29 May 2024, the relevant resolution was considered and passed to approve the execution of a supplemental agreement to the Equity Transfer Agreement (the "Supplemental Agreement") between SMEIC, SEGH and Shanghai Prime.

MAIN CONTENTS OF THE SUPPLEMENTAL AGREEMENT:

(I) Performance commitments

The parties agree and confirm that the Company, Shanghai Electric Hong Kong Co., Ltd. and SEGH (the "Transferor") (collectively, the "Compensation Obligors") shall jointly act as the performance commitment parties and make the following commitments regarding the performance of Shanghai Prime (the "Target Company") to SMEIC (the "Offeror"):

Performance Commitment Period	2024	2025	2026	Total
Committed net profit for the period (RMB 0'000)	25,477	35,230	45,171	105,878

The parties agree that, after the end of the performance commitment period, the accounting firm designated by SMEIC shall issue a financial special audit report (the "**Special Audit Report**") within 30 days from the date of disclosure of the annual report for the last year of the performance commitment period (i.e. 2026) in respect of the performance achievement of the Target Company for the performance commitment period (i.e. 2024 to 2026), and the net profit of the Target Company in any year during the performance commitment period shall be the net profit attributable to the parent company after deducting non-recurring gains and losses under the audited consolidated statements of the Target Company. The difference between the cumulative committed net profit and the cumulative realized net profit of the Target Company during the performance commitment period shall be subject to the Special Audit Report issued by the accounting firm designated by the SMEIC.

(II) Performance compensation

After the end of the performance commitment period, as confirmed by the Special Audit Report issued by the accounting firm designated by SMEIC, if the Target Company fails to achieve the cumulative committed net profit stipulated in the Supplementary Agreement during the performance commitment period, the Compensation Obligors shall compensate the Offeror in cash based on the difference between the committed net profit and the actual net profit for the performance. The specific compensation formula is as follows:

The amount of performance compensation = (Cumulative committed net profit for the performance commitment period – Cumulative realized net profit for the performance commitment period) ÷ Cumulative committed net profit for the performance commitment period of the Target Company × RMB5,318,400 thousand

Among the performance compensation above, the Transferor, as a Compensation Obligor, shall compensate the Offeror in accordance with the proportion of its shareholding in the Target Company prior to the equity transfer. If the amount of performance compensation calculated in accordance with the above formula is less than 0, it is taken as 0, and the Transferor shall not be required to make any performance compensation to the Offeror.

(III) Asset impairment compensation

The parties agree that, after the end of the performance commitment period, the Offeror shall engage an accounting firm to conduct an impairment test on the Target Company and issue a special report on the results of the asset impairment test (the "**Special Report of Asset Impairment**") within 30 days from the date of disclosure of the annual report for the last year of the performance commitment period (i.e. 2026). After the asset impairment test, if the impairment amount of the Target Company at the end of the period is greater than the amount of performance compensation payable, the Compensation Obligors shall make a separate cash compensation to the Offeror for the impairment of the Target Company. The specific compensation formula is as follows:

The amount to be separately compensated for impairment test = Impairment amount of the Target Company at the end of the period – The amount of performance compensation payable by the Compensation Obligors

Among them, Transferor, as a Compensation Obligor, shall compensate the Offeror in accordance with the proportion of its shareholding in the Target Company prior to the equity transfer. If the amount of impairment compensation calculated in accordance with the above

formula is less than 0, it is taken as 0, and the Transferor shall not be required to make any impairment compensation to the Offeror.

(IV) Implementation of compensation

The parties agree that, if the Transferor is required to make compensation pursuant to the Supplemental Agreement, the Offeror shall send a written notice to the Transferor based on the Special Audit Report and the Special Report of Asset Impairment, specifying the amount of compensation payable by the Transferor and information about the bank account designated by the Offeror. The Transferor shall remit the full amount of compensation to the bank account designated by the Offeror within five (5) working days from the date of receiving the above-mentioned written notice.

The parties hereby agree and confirm that the performance compensation and impairment compensation to be borne by the Transferor under the Supplemental Agreement shall be subject to the Equity Interest Transfer Price obtained by the Transferor in the equity transfer.

Save as disclosed above, all other terms of the original agreement shall remain unchanged and in full force and effect. The Company will comply with the announcement and annual report requirements set out in Rule 14A.63 of the Listing Rules in respect of the performance commitment in the future.

REASONS FOR AND BENEFITS OF THE SUPPLEMENTAL AGREEMENT

The performance commitment was formulated after careful consideration and thorough communication between the parties to the transaction, and the relevant agreements are consistent with business practice. As the equity transfer consideration in this transaction is subject to the final equity valuation results filed with state-owned assets authorities, the expected net profit to be achieved by the Target Company during the performance commitment period shall be subject to the Special Audit Report issued by the accounting firm designated by the Offeror, and after the end of the performance commitment period, the amount to be separately compensated for impairment test shall be recognized based on the results of the asset impairment test of the Target Company conducted by the accounting firm engaged by the Offeror.

OPINION FROM THE BOARD

On 29 May 2024, the relevant resolution was considered and approved at the 94th meeting of the fifth session of the Board of the Company. The connected Directors, namely Dr. WU Lei, Mr. LIU Ping and Mr. ZHU Zhaokai, abstained from voting. All other Directors present at the meeting approved the resolution. Voting results: 5 votes in favour, 0 vote against and 0 abstaining vote. The performance guarantee provided by SEGH to SMEIC in proportion to its shareholding in Shanghai Prime is determined through negotiations between the transferring parties, and is fair and reasonable and in the interest of the Company and all shareholders as a whole.

The independent non-executive Directors of the Company are of the view that: we have reviewed the resolution and are not aware of any violation of regulations or damage to the interests of the shareholders of the Company. The performance guarantee provided by SEGH to SMEIC in proportion to its shareholding in Shanghai Prime is determined through negotiations between the transferring parties and is in the interest of the Company and all shareholders as a whole. We agree with the resolution.

II. SUPPLEMENTAL INFORMATION ON THE VALUATION REPORT

RATIONALITY FOR SELECTION OF VALUATION APPROACHES

The valuation on Shanghai Prime is appraised by using the asset-based approach, and the reasons for selection of valuation approaches are as follows:

The purpose of this valuation is to transfer the equity by way of agreement, and Shanghai Prime is an investment holding parent company of the group with no income from its main business. Since there are few precedents of similar transactions in China at present, or there are precedents but the relevant transaction information, such as transaction background and comparable factors is difficult to collect, the impact of comparable factors on enterprise value is difficult to quantify; at the same time, it is difficult to find comparable company information in the capital market which is similar to the assets scale and structure, business scope and profitability of the target enterprise, the market approach is not applicable in this valuation.

Shanghai Prime is an investment holding parent company of the group, which has no income from its main business and no actual operating personnel, therefore, it has not been measured by the income approach. This valuation is based on the income approach for long-term equity investment entity, and the head office expenses are calculated in Shanghai Prime Machinery Co., Ltd., a subsidiary of Shanghai Prime.

Enterprise value is a reflection of the comprehensive value formed by the joint participation of various tangible and intangible assets in business operations. Therefore, the asset-based approach shall be applied to this valuation.

In accordance with the above adaptation analysis and asset valuation standards, this appraisal adopts the asset-based approach in assessing the value of the appraised assets in light of the specific circumstances of the appraised assets, and a reasonable valuation conclusion is reached.

The conclusions of this valuation are as follows:

Prior to the valuation, the carrying amounts of the total assets and liabilities of the appraised entity in the consolidated financial statements was RMB11,263,398.3 thousand and RMB6,653,718.1 thousand, respectively, and the total owners' equity attributable to the parent company was RMB4,348,452.5 thousand. The carrying amount of the owner's equity was RMB4,609,680.2 thousand. The carrying amount of the total assets in the individual financial statements of the appraised entity were RMB4,001,641.1 thousand, the carrying amount of the liabilities was RMB26,783.1 thousand and the carrying amount of the owner's equity was RMB3,974,858.0 thousand.

Based on the asset-based approach, with 31 December 2023 as the valuation benchmark date, and under the assumption that the conditions are met, the appraised value of the total assets of Shanghai Prime is RMB5,345,183.1 thousand, the appraised value of the liabilities is RMB26,783.1 thousand and the appraised value of the total equity of shareholders is RMB5,318,400.0 thousand. Compared to the owner's equity attributable to the parent company on a consolidated basis, the increase of appraised value is RMB969,947.5 thousand, representing an appreciation rate of 22.31%. Compared to the owner's equity of the statement, the increase of appraised value is RMB1,343,542.0 thousand, representing an appreciation rate of 33.80%.

For the four segments of blades, tools, bearings, and industrial fasteners, the asset-based approach and income approach are used for the valuation, and the appraisal results of the asset-based approach is selected as the valuation conclusion; for the automobile fastener segment,

the income approach and market approach are used for the valuation, and the appraisal results of the income approach is selected as the valuation conclusion. Details of which are as follows:

1. Segments of blades, tools, bearings, industrial fasteners

The valuation is based on the asset-based approach and income approach, and the conclusion adopts the appraisal results of the asset-based approach, the specific reasons of which are as follows:

The asset-based approach refers to the valuation idea that determines the value of the valuation target based on a reasonable valuation of each item of assets and liabilities of the enterprise, which is considered from the perspective of re-acquisition of assets. The income approach refers to the valuation idea that determines the value of the valuation target by discounting the expected income of the appraised entity, which is considered from the perspective of the enterprise's future profitability. The appraised entity is a typical asset-intensive enterprise, which is relatively not a high-yield industry. Taking into account the characteristics of the appraised enterprise as a production enterprise, the results of the asset-based approach reflect its true value. Therefore, this valuation adopts the asset-based approach to assess the conclusion.

2. Segment of automobile fastener

This valuation is based on the income approach and market approach, and the conclusion adopts the appraisal results of the income approach, the specific reasons of which are as follows:

Taking into account that the appraised entity will be profitable in the foreseeable future, the income approach can reflect the value of the enterprise. At the same time, factors affecting profitability such as competitive advantages in terms of technical capability, operational experience, customer resources and supplier channel resources have also been considered, i.e. the valuation conclusion adequately covers the value of the total shareholders' equity of the appraised entity. In conducting the market approach valuation, although the appraisal officer has made sufficient and necessary adjustments to the comparable companies of the appraised entity, there still exists uncertainties or factors that are difficult to adjust such as intangible assets and contingent liabilities unique to the comparable companies that the appraisal officers were unable to grasp, resulting in a greater deviation between the valuation results and the actual enterprise value. Therefore, the result of the income approach is selected as the final conclusion.

SCOPE OF WORK PERFORMED BY THE VALUER

The valuation target is the value of the total shareholders' equity of Shanghai Prime and the valuation scope is the total assets and liabilities of Shanghai Prime as at the valuation benchmark date of 31 December 2023.

The process and status of implementation of the valuation process are as follows:

(I) Identifying basic information

Understand the information of the valuation target, the purpose of the valuation and the status of the appraisal project, and conduct the preliminary risk valuation.

(II) Entering into engagement contract

After accepting the valuation engagement, agreeing on the valuation scope and target in relation to the purpose of the valuation, and agreeing on the valuation benchmark date, the valuation agency and the principal enter into an asset valuation engagement contract.

(III) Preparation of asset valuation plans

Assemble appropriate personnel to form a project team and draw up a valuation work plan; submit a list of asset valuation information and asset valuation report to the principal and the appraised entity; provide the necessary guidance on asset inventory for the appraised entity.

(IV) Conducting on-site valuation surveys

The appraisers carry out the necessary inventory and verification of the assets and liabilities involved in the valuation target, and conduct the necessary due diligence on the operation and management of the appraised entity.

(V) Collecting and organizing valuation information

The appraisers collect valuation information based on the specific circumstances of the valuation project, including information obtained independently, directly from markets and other sources, information obtained from relevant parties, such as the principal, and information obtained from government departments, various professional agencies and other relevant departments, and carry out the necessary analyses, summarizations and collations of the valuation information, so as to form the basis for the appraisal estimation.

(VI) Arriving at preliminary results after valuation and estimation

The appraisers select the appropriate formulas and parameters for analysis, calculation and judgment according to the valuation approach selected for the specific conditions of each type of asset, and form the preliminary valuation results. The project manager shall review and summarize the preliminary results of various types of asset valuation, and prepare and form the preliminary asset valuation report.

(VII) Internal audit and issuance of report

After the completion of the internal review of the preliminary asset valuation report, and without prejudice to the independent judgment of the valuation conclusion, the project manager communicates with the principal or other relevant parties agreed upon by the principal on the relevant contents of the asset valuation report, and prepares and submits an asset valuation report after conducting an independent analysis of the communication.

NATURE AND SOURCE OF THE INFORMATION ON WHICH THE VALUATION IS BASED

1. The market quoted interest rate on the bank loan as at the valuation benchmark date;
2. Typical local project cost index;
3. Local benchmark land price and rectification system;
4. Local bidding, auction and listing market information;
5. The relevant preliminary and final accounts of the construction project provided by the enterprise, the statistics of payment progress for construction in progress and the relevant payment vouchers;
6. The purchase contract for raw materials and inventory goods signed by the enterprise

with the relevant entity;

7. Financial statements and audit reports of previous years provided by the enterprise;
8. Current and future annual market forecast information of major business projects provided by the enterprise;
9. Records of site surveys and other relevant valuation information collected by the appraisers; and
10. Additional information related to this asset valuation.

INPUT PARAMETERS AND CALCULATION PROCESS FOR VALUATION

(I) Asset-based approach

The asset-based approach refers to the approach of calculating the value of an enterprise by adding up the appraised value of the assets which are various elements that constitute the enterprise, and deducting the appraised value of liabilities. The approaches for valuating each of these assets and liabilities are as follows:

1. Cash and cash equivalents

The valuation shall be conducted against the certified book value by taking cash counts, verifying bank statements and balance reconciliations.

For RMB accounts, the appraised value of the RMB account is based on the reconciled book value.

For foreign currency accounts, the central parity rate of the foreign currency to RMB published by the People's Bank of China on the valuation benchmark date is converted to the appraised value of RMB.

2. Dividends receivable

The appraisers shall conduct an inventory by reviewing the relevant investment contracts, agreements, minutes of meetings or the resolutions of the board of directors of the investee concerning the distribution of dividends, and determine the appraised value of the dividends receivable according to the book value.

3. Other current assets

Other current assets are prepaid taxes. The appraisers confirm the appraised value based on the certified book value by reviewing the original vouchers, invoices and tax returns.

4. Long-term equity investment

The valuation uses different approaches to determine the appraised value based on the amount of long-term equity investment, the proportion of shareholding, the compatibility of long-term equity investment entity and its effect on the valuation conclusion.

5. Various types of liabilities

Liabilities are economic liabilities of an enterprise that can be measured in currency and will be settled by future assets or services.

The appraised value of liabilities shall be recognized according to the actual liability items and amounts to be undertaken by the appraised entity after the realization of the valuation purpose.

(II) the Income Approach

1. the evaluation model and the selection of the main parameters under the income approach

The income approach for the valuation of enterprises refers to a valuation approach under which the value of a valuation target is determined by capitalizing or discounting the expected income of the valued enterprise. The basic formula for the income approach is:

$$E=B-D$$

In formula:

E: The value of the total shareholders' equity of the enterprise being valued

B: The business value of the enterprise being valued

D: The value of the interest-bearing debts of the enterprise being valued

$$B = P + \sum C_i$$

P: The value of the operating assets of the enterprise being valued;

ΣC_i : The value of the non-operating and surplus assets of the enterprise being valued as at the benchmark date;

$$P = \sum_{i=1}^n \frac{R_i}{(1+r)^i}$$

In formula:

R_i : The expected earnings (free cash flow) of the valuation target in the i^{th} year in the future;

R: Discount rate;

N: The operation period of the valuation target in the future

ΣC_i : The value of the non-operating and surplus assets of the valuation target as at the benchmark date

$$\sum C_i = C_1 + C_2$$

In the formula:

C_1 : The value of surplus cash assets as at the benchmark date

C_2 : The value of other non-operating assets or liabilities

For the automobile fastener segment, the discount rate is 10.2%, and for the stable period, the discount rate is 8.7%, taking into account the sustainable growth of 1.5%.

According to the valuation report, the appraised value of the total shareholders' equity of the Company as at the valuation benchmark date under the valuation approach adopted for the valuation is (1) the appraised value of the current assets; plus (2) the appraised value of the non-current assets, minus (3) total liabilities.

The appraised value of the transaction target and the main reasons for arriving at the conclusion

Based on the valuation under the asset-based approach, with 31 December 2023 being the valuation benchmark date, and assuming the conditions had been fulfilled, the appraised value of the current assets of Shanghai Prime was RMB735,974,900, the appraised value of its non-current assets was RMB4,609,208,200, the appraised value of its liabilities was RMB26,783,100 and the appraised value of its total shareholders' equity was RMB5,318,400,000. The appraised value represented an appreciation of RMB969,947,500 in value compared to the equity attributable to the owner of parent company on a consolidated basis, with the appreciation rate being 22.31%, and an appreciation of RMB1,343,542,000 in value compared to the owners' equity on the financial statements, with the appreciation rate being 33.80%.

By order of the Board
Shanghai Electric Group Company Limited
WU Lei
Chairman of the Board

Shanghai, the PRC, 29 May 2024

As at the date of this announcement, the executive directors of the Company are Dr. WU Lei, Mr. LIU Ping and Mr. ZHU Zhaokai; the non-executive directors of the Company are Mr. SHAO Jun and Ms. LU Wen; and the independent non-executive directors of the Company are Dr. XI Juntong, Dr. XU Jianxin and Dr. LIU Yunhong.

** For identification purposes only*