

THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

If you are in any doubt as to any aspect of this circular or as to the action to be taken, you should consult your stockbroker or other registered dealer in securities, a 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 pass this circular to the purchaser or the transferee or to the bank, the stockbroker or other agent through whom the sale or transfer was effected for transmission to the purchaser or the transferee.

Hong Kong Exchanges and Clearing Limited and The Stock Exchange of Hong Kong Limited take no responsibility for the contents of this circular, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this circular.



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.35(1) OF THE LISTING RULES AND
RENEWAL OF CONTINUING CONNECTED TRANSACTIONS**

Financial Adviser to the Company



TC Capital
天財資本

**Independent Financial Adviser to the Independent Board Committee
and the Independent Shareholders**



高銀融資有限公司
GOLDIN FINANCIAL LIMITED

A letter from the Board is set out on pages 4 to 13 of this circular and a letter from the Independent Board Committee to the Independent Shareholders is set out on page 14 of this circular. A letter of advice from Goldin Financial to the Independent Shareholders is set out on pages 15 to 26 of this circular.

A notice convening the EGM to be held to approve, among others, the Waiver and the Renewal CCT, the form of proxy for use at the EGM and the reply slip will be despatched to the Shareholders according to the articles of association of the Company and the Listing Rules.

* For identification purpose only

CONTENTS

	<i>Page</i>
Definitions	1
Letter from the Board	4
Letter from the Independent Board Committee	14
Letter from Goldin Financial	15
Appendix – General information	27

DEFINITIONS

In this circular, the following expressions have the following meanings, unless the context requires otherwise:

“A Share(s)”	PRC listed 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 the PRC
“Announcement”	the announcement of the Company dated 8 December 2011 in relation to the Waiver and the Renewal CCT
“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, a joint stock limited company duly incorporated in the PRC with limited liability, the H Shares of which are listed on the Stock Exchange 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
“Director(s)”	the director(s) of the Company
“EGM”	an extraordinary general meeting of the Company to be held to consider and approve, inter alia, the Renewal CCT, the proposed annual caps thereof and the Waiver
“Existing Framework Purchase and Sales Agreement”	the framework purchase and sales agreement entered into between the Company and Siemens dated 23 January 2009 for the purchase of certain power generation, distribution and transmission related electrical and mechanical components and the related technology and know-hows by the Group from the Siemens Group, and the sale of certain power generation equipment and related components by the Group to the Siemens Group
“Group”	the Company and its subsidiaries

DEFINITIONS

“H Share(s)”	overseas listed foreign share(s) of nominal value RMB1.00 each in the share capital of the Company which are listed on the Stock Exchange and traded in Hong Kong
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Independent Board Committee”	an independent committee of the Board (which comprises Mr. Zhu Sendi, Dr. Cheung Wai Bun and Dr. Lui Sun Wing, being all the independent non-executive Directors) established to advise the Independent Shareholders with regard to the Waiver and the Renewal CCT (including the annual caps)
“Independent Financial Adviser” or “Goldin Financial”	Goldin Financial Limited, a licensed corporation to carry on Type 6 (advising on corporate finance) regulated activity as defined under the SFO, being the independent financial adviser to the Independent Board Committee and the Independent Shareholders
“Independent Shareholders”	Shareholders other than Siemens and its associates
“Latest Practicable Date”	28 December 2011, being the latest practicable date prior to the printing of this circular for ascertaining certain information contained herein
“Listing Rules”	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited
“PRC”	the People’s Republic of China which, for the purpose of this circular only, does not include the Hong Kong Special Administrative Region, the Macau Special Administrative Region and Taiwan
“Renewal CCT”	the purchase and sales transactions, which are continuing connected transactions to be entered into by the Company and Siemens for the three years ending 31 December 2014 for the purchase of certain power generation, distribution and transmission related electrical and mechanical components by the Group, and sales from the Group to the Siemens Group certain power generation equipment and related components, which are conditional on the approval of the Independent Shareholders

DEFINITIONS

“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
“Shareholder(s)”	the registered shareholder(s) of the Company
“Siemens”	Siemens Aktiengesellschaft
“Siemens Group”	Siemens, its subsidiaries and its associates
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Waiver”	the waiver from strict compliance with the written agreement requirements under Rule 14A.35(1) of the Listing Rules in respect of the Renewal CCT that the Company has applied for to the Stock Exchange
“Waiver Conditions”	the conditions of the Waiver, details of which are disclosed in the paragraphs headed “Conditions to the Waiver” in this circular
“RMB”	Renminbi, the lawful currency of the PRC
“%”	per cent.



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. Xu Jianguo (*Chairman*)
Mr. Huang Dinan
Ms. Xu Ziyang
Mr. Yu Yingui

Non-executive Directors:

Mr. Zhu Kelin
Ms. Yao Minfang

Independent Non-executive Directors:

Mr. Zhu Sendi
Dr. Cheung Wai Bun
Dr. Lui Sun Wing

Registered office:

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

*Principal place of business
in Hong Kong:*

3509, 35th Floor
Tower Two
Lippo Center
89 Queensway
Hong Kong

4 January 2012

To the Shareholders

Dear Sir or Madam,

**WAIVER FROM STRICT COMPLIANCE WITH
RULE 14A.35(1) OF THE LISTING RULES AND
RENEWAL OF CONTINUING CONNECTED TRANSACTIONS**

1. INTRODUCTION

Reference is made to the Announcement that, on 8 December 2011, the Board approved the Waiver and the Renewal CCT. The Waiver was conditionally granted by the Stock Exchange on 4 November 2011, subject to the Waiver Conditions. As required by one of the Waiver Conditions, the Waiver and the Renewal CCT will be subject to the approval of the Independent Shareholders.

The purpose of this circular is to (i) provide you with the information relating to the Waiver and the Renewal CCT; and (ii) set out the letter of advice from Goldin Financial to the Independent Board Committee and the Independent Shareholders and the recommendation and opinion of the Independent Board Committee after having considered the advice of Goldin Financial relating to the Waiver and the Renewal CCT (including the annual caps).

* *For identification purpose only*

LETTER FROM THE BOARD

2. WAIVER FROM STRICT COMPLIANCE WITH RULE 14A.35(1) OF THE LISTING RULES

2.1 General background information and reasons for the Waiver

The Group is one of the largest comprehensive industrial equipment manufacturing conglomerates in the PRC engaged in the following principal activities: (i) design, manufacture and sale of nuclear power's 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's 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 (iv) provision of integrated engineering services for power station projects and other industries, financial services and functional services including international trading services.

To maintain its market position and further strengthen its competitiveness in such technology-intensive industries, the Company has set up, and intends to set up a number of joint ventures with Siemens.

As Siemens holds more than 10% of the equity interest in certain non-wholly-owned subsidiaries of the Company, Siemens is regarded as a connected person of the Company under Chapter 14A of the Listing Rules.

The Company is fully aware of the procedural requirements under Chapter 14A of the Listing Rules. In particular, in order to seek an approval from the Independent Shareholders on the annual caps under the Renewal CCT, the Company needs to enter into a written agreement in accordance with Rule 14A.35(1) of the Listing Rules beforehand so as to enable the Shareholders to understand the nature of the transactions and make an informed assessment.

On 23 January 2009, the Company entered into the Existing Framework Purchase and Sales Agreement, pursuant to which the Group would purchase certain power generation, distribution and transmission related electrical and mechanical components from the Siemens Group to be used in various projects and products of the Group, and the Group will sell certain power generation equipment and related components to the Siemens Group. The terms of the Existing Framework Purchase and Sales Agreement last for three years and will expire on 23 January 2012.

Although the Company has continuously requested for renewing the Existing Framework Purchase and Sales Agreement, no written agreement has been entered into so far.

LETTER FROM THE BOARD

Transactions between the Group and Siemens constitute an important and integral part of the business alliance. The Company expects that there will be more transactions between the Group and Siemens in the years to come as the Company aims to strengthen its strategic cooperation with Siemens, and accelerates the transfer of thermal power equipment production capacity from Siemens through cooperation. As such, the Company applied to the Stock Exchange for the Waiver.

2.2 Conditions to the Waiver

Based on the reasons described above, the Company is of the view that the most, if not the only, sensible and practicable solution to the compliance issues arising from the continuing connected transactions between the Company and Siemens is to request for a waiver of written agreement requirement under Rule 14A.35(1) of the Listing Rules for the continuing connected transactions. As such, the Company submits that the Renewal CCT be exempted from the requirements under Rule 14A.35(1) of the Listing Rules, subject to and on the conditions set out below:

- (a) the Waiver will only apply to Siemens and the continuing connected transactions between the Group and Siemens under the Existing Framework Purchase and Sales Agreement, namely, purchase certain power generation, distribution and transmission related electrical and mechanical components by the Group from the Siemens Group to be used in various projects and products of the Group, and sales from the Group to the Siemens Group certain power generation equipment and related components;
- (b) each Renewal CCT is, and/or will be entered into, on normal commercial terms, in the ordinary course of business of the Company, will be fair and reasonable and in the interests of the Shareholders taken as a whole. A written agreement is, and will continue to be entered into for each Renewal CCT, and the consideration of each Renewal CCT is and will continue to be determined, successively with the following pricing policy:
 - (i) prices for the relevant products and/or technologies prescribed by the PRC government; or
 - (ii) where there are no government-prescribed prices, guidance prices for similar products and/or technologies set by the PRC government; or
 - (iii) market price, which is determined by reference to the prevailing market rates for similar or the same products and/or technologies available on an arm's length basis from independent third parties; or

LETTER FROM THE BOARD

- (iv) a price to be agreed between the Group and Siemens which will be calculated based on the reasonable costs of the relevant products and/or technologies plus profits reasonably earned. In setting the price, the Group and Siemens may refer to prices for previous related transactions if available;
- (c) in respect of the written agreements to be entered into between the Group and Siemens, to the extent that the terms are materially different from the Existing Framework Purchase and Sales Agreement (for example, the pricing policy is different, or the transaction is out of the scope of the Renewal CCT), the Company will publish an announcement and will re-comply with the reporting and announcement and/or Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules, which the annual cap will be calculated on an aggregate basis;
- (d) details of the Renewal CCT will be disclosed in the Company's next published annual report and accounts in accordance with Rule 14A.46 of the Listing Rules;
- (e) other than Rule 14A.35(1) of the Listing Rules, the Company will fully comply with the disclosure and Shareholders' approval requirements under Chapter 14A of the Listing Rules. Accordingly, the Company will set annual caps for each Renewal CCT for a duration of no longer than 3 years and comply with the reporting, announcement and/or Independent Shareholders' approval requirement. The Company will inform the Shareholders at the outset that the Renewal CCT will be entered into with Siemens over the next three years, but will not exceed the applicable annual caps in respect of the Renewal CCT. The proposed annual caps and their basis of determination are disclosed in the paragraphs headed "Annual caps and basis of determination" below;
- (f) the legal department, operational department, internal control department and board secretarial department of the Company jointly review the continuing connected transactions between the Group and Siemens on a fully and case-by-case basis to ensure the compliance with the pricing basis as stated above in item (b) above. Each of such continuing connected transactions the highest applicable ratio of which exceeds 0.1% will be submitted to the board meeting of the Company, and the independent non-executive Directors will review and opine on such transactions in the relevant board meetings. Apart from the confirmations given by the independent non-executive Directors in the annual reports of the Company in accordance with Rule 14A.37 of the Listing Rules, the audit committee as well as the financial department of the Company will also review the continuing connected transactions between the Group and Siemens on a regular basis and issue similar confirmations in the annual reports of the Company;

LETTER FROM THE BOARD

- (g) the Waiver will be subject to the approval of the Independent Shareholders. The new agreements will be entered into on the same basis as the existing agreements as far as the bases of calculation of the payments to be made under the new agreements are concerned. Should the applicable pricing principles of the Renewal CCT change from those set out in item (b) above, the Company will make an announcement accordingly; and
- (h) the Company will re-comply with Chapter 14A of the Listing Rules in an immediate manner should any of the conditions above no longer exists or Siemens becomes a connected person due to other reason(s) (e.g., it becomes a substantial shareholder (as defined in the Listing Rules) at the Company's level).

3. CONTINUING CONNECTED TRANSACTIONS WITH THE SIEMENS GROUP

3.1 General background information

On 23 January 2009, the Company and Siemens entered into the Existing Framework Purchase and Sales Agreement pursuant to which the Group would purchase certain power generation, distribution and transmission related electrical and mechanical components from the Siemens Group to be used in various projects and products of the Group, and the Group would sell certain power generation equipment and related components to the Siemens Group.

In view of the forthcoming expiry of the Existing Framework Purchase and Sales Agreement on 23 January 2012, the Company intends to maintain the purchase and sales transactions under the Existing Framework Purchase and Sales Agreement with Siemens going forward and renew the annual caps for the three years ending 31 December 2014.

Siemens is a global powerhouse in electronics and electrical engineering, operating in the fields of industry, energy and healthcare as well as providing infrastructure solutions, primarily for cities and metropolitan areas. Siemens is one of the world's largest providers of environmental technologies.

LETTER FROM THE BOARD

3.2 Annual caps and basis of determination

The table below sets out the historical purchase amounts from the Siemens Group for the two years ended 31 December 2010 and the six months ended 30 June 2011, and the proposed annual caps for the three years ending 31 December 2014:

	Historical amounts for the			Proposed annual caps		
	year ended		six months	for the year ending		
	31 December		ended	31 December		
	2009	2010	30 June 2011	2012	2013	2014
Aggregate purchases from Siemens Group	167.1	711.0	384.0	3,000.0	3,200.0	4,500.0

(RMB million)

In arriving at the above annual caps for the purchases from the Siemens Group, the Directors have considered (i) the rapid increase in the needs of gas turbine in the PRC and the gas turbine business of the Company will develop rapidly in the next three years. Accordingly, the Directors anticipate more purchase of relevant equipment, components and technology from the Siemens Group; and (ii) the high possibility of future cooperation between the Siemens Group and the Company on the wind power business, and the Directors anticipate purchase of wind power equipment, components and technology from Siemens Group.

In respect of the sales transactions, the table below sets out the historical sales amounts to the Siemens Group for the two years ended 31 December 2010 and the six months ended 30 June 2011, and the proposed annual caps for the three years ending 31 December 2014:

	Historical amounts for the			Proposed annual caps		
	year ended		six months	for the year ending		
	31 December		ended	31 December		
	2009	2010	30 June 2011	2012	2013	2014
Aggregate sales to Siemens Group	45.5	446.0	96.0	1,800.0	2,000.0	2,000.0

(RMB million)

LETTER FROM THE BOARD

In arriving at the annual caps above for the sales to the Siemens Group, the Directors have considered (i) the possibility of outsourcing orders from the Siemens Group in the middle to high end international market for production of power generation and related equipment; (ii) future sales of power generation and related equipment by the Siemens Group both in the PRC and international markets; and (iii) the high possibility of future cooperation between the Siemens Group and the Company on the wind power business, and the Directors anticipate sales of wind power equipment to the Siemens Group.

3.3 Pricing basis

Prices of products to be purchased from or sold to the Siemens Group are determined with reference to the following pricing policy:

- (i) prices for the relevant products and/or technologies prescribed by the PRC government; or
- (ii) where there are no government-prescribed prices, guidance prices for similar products and/or technologies set by the PRC government; or
- (iii) market price, which is determined by reference to the prevailing market rates for similar or the same products and/or technologies available on an arm's length basis from independent third parties; or
- (iv) a price to be agreed between the Group and Siemens which will be calculated based on the reasonable costs of the relevant products and/or technologies plus profits reasonably earned. In setting the price, the Group and Siemens may refer to prices for previous related transactions if available.

Taking into account the past transaction history and based on the Company's best estimate of the Renewal CCT in the coming three years, most of the Renewal CCT will apply pricing policy under item (iii) or item (iv) above (i.e. market price or price to be agreed between the two parties). Only approximately 10% of the Renewal CCT in terms of transaction volume will apply items (i) or (ii) of the pricing policy above (i.e. price prescribed by the PRC government or guidance prices for similar products and/or technologies set by the PRC government).

The Directors believe that the prices of products as well as terms of purchase and sale of equipment, related components and parts from and to the Siemens Group are fair, reasonable and no less favourable to the Group than those offered by other third parties and in the interests of the Company and the Shareholders as a whole.

LETTER FROM THE BOARD

3.4 Reasons of and benefits for the Renewal CCT

Siemens is one of the leading international manufacturers and operators in the power equipment business. The Group has invested in several companies with Siemens that produce a variety of power generation equipment and related products, power transmission and distribution equipment products, including turbines, turbine generators, power plant auxiliary equipment and others.

Transactions between the Group and Siemens constitute an important and integral part of the business alliance between them. The purchase of certain equipment and components parts from the Siemens Group for use in production of the Group's power equipment and other products would improve performance criteria of the Group's products and hence strengthen the Group's competitive position in both the PRC and international markets.

Siemens by themselves also produce a variety of power generation and related equipment, including turbines, turbine generators and wind power and power plant auxiliary equipment which are installed in its power generation projects. The sale of certain turbines, power generation and related equipment to the Siemens Group for the use in their power generation projects would increase the revenue of the Group, and promote the corporate image of the Group's products, resulting in further strengthening of the Group's competitive position in both the PRC and the international markets.

The Company expects that there will be more transactions between the Group and the Siemens Group in the following years as the Company aims to strengthen its strategic cooperation with the Siemens Group, and accelerate the transfer of thermal power equipment production capacity from the Siemens Group through cooperation. The Company also anticipates there will be a rapid increase in the needs of gas turbine in the PRC and the Company's gas turbine business will develop quickly. In addition, the Company considers that there will be a closer cooperation between the Company and Siemens on the wind power business in the coming years.

The Directors are of the opinion that the Renewal CCT is on normal commercial terms and conducted in the ordinary and usual course of business of the Group, and that the pricing and other terms under the Renewal CCT are fair, reasonable and no less favourable to the Company than those offered by other third parties and in the interest of the Company and the Shareholders as a whole.

4. LISTING RULES IMPLICATIONS

As Siemens owns more than 10% of the equity interests in certain non-wholly-owned subsidiaries of the Company, Siemens is regarded as a connected person of the Company under Chapter 14A of the Listing Rules. The Renewal CCT to be entered into between the Company and the Siemens Group would accordingly constitute continuing connected transactions for the Company.

LETTER FROM THE BOARD

Given that the highest applicable percentage ratio (as defined in the Listing Rules) of the proposed annual caps under the Renewal CCT is expected to be more than 5%, the Renewal CCT constitute non-exempt continuing connected transactions which are subject to reporting, annual review, announcement and Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules. Siemens and its associates will abstain from voting in the EGM to approve the Waiver, the Renewal CCT and the proposed annual caps thereof. As at the Latest Practicable Date, Siemens was interested in 5.0% of the total issued H Shares.

The Independent Board Committee has been formed to advise the Independent Shareholders in respect of the Waiver and the Renewal CCT (including the annual caps). Goldin Financial has been appointed to advise the Independent Board Committee and the Independent Shareholders in respect of the Waiver and the Renewal CCT.

Since none of the Directors has a material interest in the Waiver and the Renewal CCT, no Director abstained from voting on the relevant board resolutions approving the Waiver and the Renewal CCT.

5. EGM

A notice convening the EGM, the form of proxy for use at the EGM and the reply slip will be despatched to the Shareholders according to the articles of association of the Company and the Listing Rules.

6. INDEPENDENT BOARD COMMITTEE

Your attention is drawn to the letter from the Independent Board Committee set out on page 14 of this circular and the letter of advice from Goldin Financial to the Independent Board Committee and the Independent Shareholders in relation to the Waiver and the Renewal CCT (including the annual caps) and the principal factors and reasons considered by them in concluding their advice as set out on pages 15 to 26 of this circular.

7. RECOMMENDATION

The Board, including the Independent Board Committee, considers that the terms of the Waiver and the Renewal CCT (including the annual caps) are fair and reasonable and in the interests of the Company and the Shareholders as a whole. Accordingly, the Board recommends that the Independent Shareholders vote in favour of the ordinary resolutions to approve the Waiver and the Renewal CCT (including the annual caps) in the EGM.

LETTER FROM THE BOARD

8. ADDITIONAL INFORMATION

The English text of this circular shall prevail over the Chinese text in the event of inconsistency.

Your attention is also drawn to the additional information set out in the appendix to this circular.

Yours faithfully,
By order of the Board
Shanghai Electric Group Company Limited
Xu Jianguo
Chairman of the Board

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 Waiver and the Renewal CCT:



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)

4 January 2012

To the Independent Shareholders

Dear Sir or Madam,

WAIVER FROM STRICT COMPLIANCE WITH RULE 14A.35(1) OF THE LISTING RULES AND RENEWAL OF CONTINUING CONNECTED TRANSACTIONS

We refer to the circular dated 4 January 2012 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 when used in this letter, unless the context requires otherwise.

We have been appointed by the Board as members of the Independent Board Committee to advise the Independent Shareholders on whether the terms of the Waiver and the Renewal CCT (including the annual caps) are fair and reasonable so far as the Independent Shareholders are concerned and are in the interests of the Company and the Shareholders as a whole. Goldin Financial has been appointed as the independent financial adviser to advise us and the Independent Shareholders in this respect.

Having considered the terms of the Waiver and the Renewal CCT (including the annual caps), and taken into account the advice of Goldin Financial, we are of the view that the terms of the Waiver and the Renewal CCT are on normal commercial terms, fair and reasonable and are in the interests of the Company and the Shareholders as a whole. We therefore recommend that the Independent Shareholders vote in favour of the ordinary resolutions to approve the Waiver and the Renewal CCT to be proposed in the EGM.

Yours faithfully,

For and on behalf of the Independent Board Committee

Mr. Zhu Sendi

Dr. Cheung Wai Bun

Dr. Lui Sun Wing

Independent Non-executive Directors

* For identification purpose only

LETTER FROM GOLDIN FINANCIAL

The following is the full text of the letter from Goldin Financial setting out the advice to the Independent Board Committee and the Independent Shareholders in respect of the Waiver and the Renewal CCT, which has been prepared for the purpose of inclusion in this circular.



高銀融資有限公司
GOLDIN FINANCIAL LIMITED

Goldin Financial Limited
23/F
Two International Finance Centre
8 Finance Street
Central
Hong Kong

4 January 2012

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

Dear Sirs,

WAIVER FROM STRICT COMPLIANCE WITH RULE 14A.35(1) OF THE LISTING RULES AND RENEWAL OF CONTINUING CONNECTED TRANSACTIONS

INTRODUCTION

We refer to our appointment as the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders in relation to the Waiver and the Renewal CCT, details of which are contained in the Announcement and in the letter from the board (the “**Letter from the Board**”) of the circular of the Company dated 4 January 2012 (the “**Circular**”) to the Shareholders. Capitalised terms used in this letter shall have the same meanings as those defined in the Circular unless the context requires otherwise.

In view of the forthcoming expiry of the Existing Framework Purchase and Sales Agreement on 23 January 2012, the Company intends to maintain the purchase and sales transactions under the Existing Framework Purchase and Sales Agreement with Siemens going forward and renew the annual caps for the three years ending 31 December 2014. Although the Company has continuously requested for renewing the Existing Framework Purchase and Sales Agreement, no written agreement has been entered into so far. In October 2011, the Company applied to the Stock Exchange for the Waiver from strict compliance with Rule 14A.35(1) of the Listing Rules, in accordance with which, the Company would be required to enter into a written agreement with Siemens in respect of the Renewal CCT. The Waiver was conditionally granted by the Stock Exchange on 4 November 2011, subject to and on the Waiver Conditions.

LETTER FROM GOLDIN FINANCIAL

As Siemens owns more than 10% of the equity interests in certain non-wholly owned subsidiaries of the Company, Siemens is regarded as a connected person of the Company under Chapter 14A of the Listing Rules. The Renewal CCT to be entered into between the Company and the Siemens Group would accordingly constitute continuing connected transactions for the Company.

Given that the highest applicable percentage ratio (as defined in the Listing Rules) of the proposed annual caps under the Renewal CCT is expected to be more than 5%, the Renewal CCT constitutes non-exempt continuing connected transaction which is subject to the reporting, annual review, announcement and independent shareholders' approval requirements under Chapter 14A of the Listing Rules. Siemens and its associates will abstain from voting in the EGM to approve the Waiver, the Renewal CCT and the proposed annual caps thereof.

THE INDEPENDENT BOARD COMMITTEE

The Independent Board Committee comprising Mr. Zhu Sendi, Dr. Cheung Wai Bun and Dr. Lui Sun Wing, being the independent non-executive Directors, has been formed to advise the Independent Shareholders in relation to the Waiver and the Renewal CCT.

We, Goldin Financial, have been appointed by the Company as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders in relation to the Waiver and the Renewal CCT and to make a recommendation as to, among others, whether the Waiver and the Renewal CCT are fair and reasonable so far as the Independent Shareholders are concerned and as to voting in respect of the relevant resolution at the EGM. Our appointment has been approved by the Independent Board Committee.

BASIS OF OUR ADVICE

In formulating our opinion and recommendations, we have reviewed, inter alia, the Announcement, the Existing Framework Purchase and Sales Agreement. We have also reviewed certain information provided by the management of the Company relating to the operations, financial condition 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 Waiver and the Renewal CCT, the businesses and future outlook of the Group. We have assumed that such information and statements, and any representation made to us, are true, accurate and complete in all material respects as of the date hereof and we have relied upon them in formulating our opinion.

All Directors collectively and individually accept full responsibility for the purpose of giving information with regard to the Company in the Circular and, having made all reasonable enquiries, confirm that to the best of their knowledge and belief, the information contained in the Circular is accurate and complete in all material respects and not misleading or deceptive, and there are no other facts not contained in the Circular, the omission of which would make any statement in the Circular misleading. We consider that we have been provided with, and we have reviewed, all currently available information

LETTER FROM GOLDIN FINANCIAL

and documents which are available under present circumstances to enable us to reach an informed view regarding the Waiver and the Renewal CCT 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 management of the Company, 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.

This letter is issued for the information for the Independent Board Committee and the Independent Shareholders solely in connection with their consideration of the Waiver and the Renewal CCT, except for its inclusion in the Circular, is not to be quoted or referred to, in whole or in part, nor shall this letter be used for any other purposes, without our prior written consent.

PRINCIPAL FACTORS AND REASONS CONSIDERED

In giving our recommendation on the Waiver and the Renewal CCT to the Independent Board Committee and the Independent Shareholders, we have taken into account the following principal factors and reasons:

Background to and reasons for the Waiver and the Renewal CCT

The Renewal CCT

The Group is one of the largest comprehensive industrial equipment manufacturing conglomerates in the PRC engaged in the following principal activities: (i) design, manufacture and sale of nuclear power's 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's 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 (iv) provision of integrated engineering services for power station projects and other industries, financial services and functional services including international trading services.

Siemens is a global powerhouse in electronics and electrical engineering, operating in the fields of industry, energy and healthcare as well as providing infrastructure solutions, primarily for cities and metropolitan areas. Siemens is one of the world's largest providers of environmental technologies and one of the leading international manufacturers and operators in the power equipment business.

LETTER FROM GOLDIN FINANCIAL

In performing its ordinary course of business, the Group has been from time to time carrying out transactions with its connected persons. Indeed, the Group has been carrying on transactions pursuant to a number of purchase and supply agreements including, among others, the Existing Framework Purchase and Sales Agreement. On 23 January 2009, (i) the Company entered into a supply agreement with Siemens, pursuant to which the Company agreed to supply, among others, power generation and related equipment, power transmission and distribution related components to be used in projects of the Siemens Group, with the annual caps of RMB196 million, RMB7,035 million and RMB7,500 million for each of the three years ending 31 December 2009, 2010 and 2011, respectively; and (ii) the Company entered into a purchase agreement with Siemens, pursuant to which the Group agreed to purchase, among others, power generation and related equipment, power transmission and distribution related components to be used in projects of the Group, with the annual caps of RMB1,100 million, RMB1,300 million and RMB1,500 million for each of the three years ending 31 December 2009, 2010 and 2011, respectively.

Transactions between the Group and Siemens constitute an important and integral part of the business alliance between them. The purchase of certain equipment and components parts from the Siemens Group for use in production of the Group's power equipment and other products would improve performance criteria of the Group's products and hence strengthen the Group's competitive position in both the PRC and international markets. Siemens by themselves also produce a variety of power generation and related equipment, including turbines, turbine generators and power plant auxiliary equipment which are installed in its power generation projects. The sale of certain turbines, power generation and related equipment to the Siemens Group for the use in their power generation projects would increase the revenue of the Group, and promote the corporate image of the Group's products, resulting in further strengthening of the Group's competitive position in both the PRC and the international markets. In view of the forthcoming expiry of the Existing Framework Purchase and Sales Agreement on 23 January 2012, the Company intends to maintain the purchase and sales transactions under the Existing Framework Purchase and Sales Agreement with Siemens going forward and renew the annual caps for the three years ending 31 December 2014.

In view of the above, we are of the view that the transactions under the written agreements to be entered between the Group and Siemens have been carried out by the Group in its ordinary and usual course of business and the Renewal CCT is the extension in substance of the Existing Framework Purchase and Sales Agreement.

The Waiver

Although the Company has continuously requested for renewing the Existing Framework Purchase and Sales Agreement, no written agreement has been entered into so far. Having considered that the transactions between the Group and Siemens are in the ordinary and usual course of business of the Group and constitute an important and integral part of the business of the Group, in October 2011, the Company applied to the Stock Exchange for the Waiver from strict compliance with

LETTER FROM GOLDIN FINANCIAL

Rule 14A.35(1) of the Listing Rules, in accordance with which, the Company would be required to enter into a written agreement with Siemens in respect of the Renewal CCT. The Waiver has been conditionally granted by the Stock Exchange on 4 November 2011, subject to and on the Waiver Conditions.

We have reviewed the Waiver Conditions including the pricing basis (details of which please refer to the Letter from the Board) and are of the view that the transactions under the Renewal CCT will be conducted under normal commercial terms. The Directors considered that the prices of products as well as terms of purchase and sale of equipment, related components and parts from and to the Siemens Group are fair, reasonable and no less favourable to the Group than those offered by other third parties and in the interests of the Company and the Shareholders as a whole. The Directors confirmed that save for the proposed annual caps for the three years ending 31 December 2012, 2013 and 2014 under the Renewal CCT, the terms of the written agreements to be entered into between the Group and Siemens under the Waiver Conditions are substantially the same as those of the Existing Framework Purchase and Sales Agreement. Independent Shareholders should note that there would not be a framework agreement to be signed between the Company and Siemens for transactions under the Renewal CCT as that of the Existing Framework Purchase and Sales Agreement. The existing transactions between the Company and Siemens are governed by the conditions and terms set out in the Existing Framework Purchase and Sales Agreement. Therefore, the terms of the written agreements of the Renewal CCT to be signed between the Company and Siemens are not governed by a framework agreement as that of the Existing Framework Purchase and Sales Agreement. Nevertheless, as disclosed in the Letter from the Board, the legal department, operational department, internal control department and board secretarial department of the Company would jointly review the continuing connected transactions between the Group and Siemens on a fully and case-by-case basis to ensure the compliance with the pricing basis under the Waiver Conditions. Each of such continuing connected transactions the highest applicable ratio of which exceeds 0.1% will be submitted to the board meeting of the Company, and the independent non-executive Directors will review and opine on such transactions in the relevant board meetings. Apart from the confirmations given by the independent non-executive Directors in the annual reports of the Company in accordance with Rule 14A.37 of the Listing Rules, the audit committee as well as the financial department of the Company will also review the continuing connected transactions between the Group and Siemens on a regular basis and issue similar confirmations in the annual reports of the Company. In addition, in the event that the terms of the written agreements are materially different from the Existing Framework Purchase and Sales Agreement, the Company will publish an announcement and will re-comply with the reporting and announcement and/or independent shareholders' approval requirements under Chapter 14A of the Listing Rules. As such, we are of the view that there are appropriate measures in place to govern the conduct of the transactions contemplated under the Renewal CCT and safeguard the interests of the Independent Shareholders and the absence of a framework agreement will not bring in any adverse impacts on the Group and not be detrimental to the Independent Shareholders' interest.

LETTER FROM GOLDIN FINANCIAL

In assessing the terms of the transactions under the Existing Framework Purchase and Sales Agreement, we have reviewed, on a sample basis, the historical records of the Group in respect of the purchase of the components and equipments by the Group and note that, for the purchase of the components and equipments with similar specifications, the price offered to the Group by the Siemens Group was no less favourable to that offered by other independent third party suppliers of the Group. We have also reviewed, on a sample basis, the historical records of the Group in respect of the sales of the equipments by the Group and note that, for the sales of equipments with similar specifications, the price offered by the Group to the Siemens Group was no more favourable to that offered by the Group to other independent third party customers of the Group.

Having considered that (i) the transactions contemplated thereunder the written agreements to be entered into between the Group and Siemens have been carried out by the Group in its ordinary and usual course of business; (ii) the Company would be required to enter into a written agreement with Siemens in respect of the Renewal CCT; (iii) the terms of the written agreements to be entered into between the Group and Siemens under the Waiver Conditions and the transactions contemplated thereunder are substantially the same as those of the Existing Framework Purchase and Sales Agreement and are normal commercial terms; and (iv) there are appropriate measures in place to govern the conduct of the transactions contemplated under the Renewal CCT and safeguard the interests of the Independent Shareholders, we are of the view that the Waiver and the Renewal CCT are fair and reasonable and are in the interests of the Company and the Shareholders as a whole.

Historical transactions and proposed annual caps

The proposed purchase transactions

The table below sets out the historical purchase amounts from the Siemens Group for the two years ended 31 December 2010 and the six months ended 30 June 2011, and the proposed annual caps for the three years ending 31 December 2014:

Table 1

(RMB' million)	Historical transaction amounts			Annual cap	Proposed annual caps for the year ending 31 December		
	For the year ended	For the six	for the year	for the year			
	31 December	months ended	ending	ending			
	2009	2010	30 June 2011	31 December 2011	2012	2013	2014
Aggregate purchases from Siemens Group	167.1	711.0	384.0	1,500.0	3,000.0	3,200.0	4,500.0

LETTER FROM GOLDIN FINANCIAL

As illustrated in table 1 above, the aggregate purchases from the Siemens Group in 2010 reported a growth of approximately 325.49% compared with 2009 and we noted that such purchases for the six months ended 30 June 2011 represent approximately 54.01% of that of the full year 2010. As advised by the management of the Company, the significant growth in 2010 was due to the rise in sales of gas turbine and coal-fired electricity production equipment which required more purchase of the related components and services from Siemens for the production of such equipment. We also noted that the proposed annual caps for 2012, 2013, and 2014 represent an increase of approximately 321.94%, approximately 6.67% and approximately 40.63% compared with the aggregate purchases for 2010, the proposed annual cap for 2012 and the proposed annual cap for 2013, respectively.

In arriving at the above annual caps for the purchases from the Siemens Group, the Directors have considered (i) the rapid increase in the needs of gas turbine in the PRC and the gas turbine business of the Company will develop rapidly in the next three years. Accordingly, the Directors anticipate more purchase of relevant equipment, components and technology from the Siemens Group; and (ii) the high possibility of future cooperation between the Siemens Group and the Company on the wind power business, and the Directors anticipate purchase of wind power equipment, components and technology from Siemens Group. We have discussed with the management of the Company regarding the basis of the proposed annual caps for the purchase transactions for the three years ending 31 December 2014 and were given to understand that they have taken into account (i) the Group will increase the production capacity of its gas turbine business in the coming three years to meet the growing demand; (ii) the contract value of approximately RMB7 billion of the gas turbine orders on hand as of November 2011 is expected to deliver to clients in 2012 and 2013, which would lead to great demand for gas turbine related components and services; (iii) the gas turbine market in the PRC is expected to have the growth of 8 gigawatts energy production capacity per annum in the coming three years, representing the contract value of approximately RMB25 billion per annum; and (iv) the expected amount of outsourcing orders for the thermal power equipments and the wind power equipments to be received from the Siemens Group.

In order to assess the commercial justification of the proposed annual caps for the purchase transaction under the Renewal CCT, we have conducted researches from the public domains on the gas turbine and wind power generation industries. According to the white paper “中國應對氣候變化的政策與行動” (the PRC’s policies and actions on climate change*) issued by the State Council of the PRC in November 2011, the PRC government has been aiming to slow down the climate change through various policies including, but not limited to, the promotion and the development of the usage of low-carbon energy such as nuclear energy, hydro-electric power and wind power and the higher utilisation of natural gas to replace the high-carbon energy such as coal-fired power, since its Eleventh Five-Year Plan and such policies will continue to be implemented in its Twelfth Five-Year Plan. It is expected that there would be great growth potential for wind power generation and gas-fired electricity production in the PRC. Based on various sources in the PRC, it is anticipated that the PRC government will target to increase

LETTER FROM GOLDIN FINANCIAL

the gas-fired electricity production capacity from approximately 26.42 million kilowatts in 2010 to 60 million kilowatts in 2015, representing a compound annual growth rate of approximately 17.83%, to be issued by the PRC government to outline the detailed blueprint for promoting efficient and clean energy under the Twelfth Five-Year Plan. With reference to the official website of the Global Wind Energy Council which is the global wind industry trade association and representative forum for the entire wind energy sector at the international level (www.gwec.net), the PRC's wind market doubled every year between 2006 and 2009 in terms of total installed capacity, and it has been the largest annual market since 2009. In 2010, the PRC overtook the United States as the country with the most installed wind energy capacity by adding 16.5 gigawatts over the course of the year, a 64% increase on 2009 in terms of cumulative capacity, reaching 42.3 gigawatts in total. The growth in installed capacity was driven by a record level of investment in wind power in the PRC, which exceeded US\$20 billion in 2009. In the third quarter of 2010, the PRC's investment in new wind power projects accounted for half of the global total. In addition, it is expected that the cumulative installed capacity of the PRC's wind power will reach 200 gigawatts by 2020 and generate 440 terawatt-hours of electricity annually, creating more than RMB250 billion in revenue. Having considered the above, we are of the view that the gas-fired electricity generation and wind power production in the PRC have a positive outlook and there would be high demand for gas turbine and wind power generation equipments to meet the efficient and clean energy needs in the PRC.

On 8 December 2011, the Company and Siemens entered into two joint venture agreements to form two joint venture companies (details please refer to the announcement of the Company dated 8 December 2011), pursuant to which, among others, (i) the two joint venture companies shall purchase certain physical assets and intangible assets from the Company; and (ii) Siemens and the Company shall transfer/license relevant wind turbine technology to the two joint venture companies. It is the intention of the Company to transfer the existing wind power business of the Group to the two joint venture companies in order to tighten the cooperation with Siemens in the energy field, which is expected to bring in the Company advanced technology in wind turbines, advanced management concepts and quality management system. This in turn will help the Company develop offshore wind power projects fast and safely, present itself in high-profile wind turbine market and achieve the peak of the domestic offshore wind power market. As advised by the management of the Group, it is the intention of Siemens to transfer/license relevant wind turbine technology to the two joint venture companies and it is expected that the Siemens Group would outsource some of its wind power orders to one of the joint venture companies, which would lead to considerable purchases of the related components and services from the Siemens Group for the manufacturing of such orders and the increase in sales of finished equipment to the Siemens Group as a result. With reference to the annual report 2010 of the Company, the revenue generated from the Company's wind power units amounted to approximately RMB3.01 billion, representing a year-on-year increase of approximately 141.6%. Having considered the above, we are of the view the formation of the two joint venture companies will lead to closer cooperation and significantly more transactions for the wind power related products and services between the Group and the Siemens Group in the future.

LETTER FROM GOLDIN FINANCIAL

Despite the fact that the aggregate purchases from the Siemens Group in 2010 represents approximately 23.7% of the proposed annual cap for 2012 and such purchases in the first half of 2011 represents approximately 25.6% of the existing annual cap for 2011, it is expected that the purchase amounts of the gas turbine and wind turbine components from the Siemens Group would grow significantly considering (i) the large gas turbine orders of the Group to be delivered which would lead to great demand for the gas turbine related components and services; (ii) the favourable national efficient and clean energy policies and the growth potential of the gas turbine and wind turbine businesses; and (iii) the formation of the two joint venture companies will lead to higher cooperation and transactions for wind power generation business between the Group and the Siemens Group, we consider that the setting of the proposed annual cap for 2012 and the increase in the proposed annual caps for 2013 and 2014, after making reference to the aforesaid factors is fair and reasonable and is not overestimated.

In view of the fact that the Group will benefit from the purchases from the Siemens Group under the Renewal CCT and then selling the finished products to customers, and the proposed annual caps for 2012, 2013 and 2014 may increase the Group's revenue, we are of the view that it is of the commercial interest of the Company to maximise the value of the transactions.

In light of the above, we are of the view that the proposed annual caps for the purchase transactions under the Renewal CCT are determined based on the reasonable estimation and after due and careful consideration and that is fair and reasonable for the management of the Company to make reference to the aforesaid factors as the basis to determine such annual caps.

The proposed sales transactions

In respect of the sales transactions, the table below sets out the historical sales amounts to the Siemens Group for the two years ended 31 December 2010 and the six months ended 30 June 2011, and the proposed annual caps for the three years ending 31 December 2014:

Table 2

(RMB' million)	Historical transaction amounts			Annual cap for the year ending	Proposed annual caps for the year ending 31 December		
	For the year ended 31 December	For the six months ended	For the six months ended	31 December			
	2009	2010	30 June 2011	2011	2012	2013	2014
Aggregate sales to Siemens Group	45.5	446.0	96.0	7,500.0	1,800.0	2,000.0	2,000.0

LETTER FROM GOLDIN FINANCIAL

As shown in table 2 above, the aggregate sales to the Siemens Group in 2010 reported a growth of approximately 880.22% compared with 2009. However, we noted that such sales for the six months ended 30 June 2011 represents approximately 21.52% of that of the full year 2010. As advised by the management of the Company, the strong growth in 2010 was mainly due to the outsourcing orders of thermal power equipments from the Siemens Group, and the relatively lower sales for the six months ended 30 June 2011 was mainly due to the slower outsourcing thermal power equipment orders from the Siemens Group hampered by the uncertain global economy, in particular the debt crisis in Europe in the first half of 2011. We also noted that the proposed annual caps for 2012, 2013, and 2014 represent an increase of approximately 303.59%, approximately 11.11% and 0% compared with the aggregate sales for 2010, the proposed annual cap for 2012 and the proposed annual cap for 2013, respectively.

In arriving at the annual caps above for the sales to the Siemens Group, the Directors have considered (i) the possibility of outsourcing orders from the Siemens Group in the middle to high end international market for production of power generation and related equipment; (ii) future sales of power generation and related equipment by the Siemens Group both in the PRC and international markets; and (iii) the high possibility of future cooperation between the Siemens Group and the Company on the wind power business, and the Directors anticipate sales of wind power equipment to the Siemens Group. We have discussed with the management of the Company regarding the basis of the proposed annual caps for the sales transactions for the three years ending 31 December 2014 and were given to understand that they have taken into account the expected amount of outsourcing orders for the thermal power equipment and wind power equipment to be received from the Siemens Group.

With reference to the annual report of Siemens for the year ended 30 September 2011 (the "2011 Annual Report"), the energy sector of Siemens is one of the world's leading suppliers of a wide range of products, solutions and services in the field of energy technology. For the year ended 30 September 2011, revenue from the energy sector reported a growth of approximately 8.18% against 2010 to approximately €27.61 billion, of which approximately €10.20 billion generated from the fossil power generation division and approximately €3.93 billion contributed by the renewal energy division, representing an increase of approximately 6.84% and approximately 20.17% respectively. According to the 2011 Annual Report, the management of Siemens expected that there would be approximately €20 billion in revenue conversion from the €56 billion backlog of the energy sector in 2012. The fossil power generation and in particular the gas turbine markets would remain on a high level with limited growth potential. For wind power generation, there would be a modest development in the market for onshore wind-farms, while the offshore wind market would continue to offer good growth opportunities. The Siemens Group would continue to take in large wind-farm orders from Europe, the United States and the PRC, etc. and invest mainly in innovation and in expanding its global footprint to secure organic growth which includes considerable capital expenditures relating to the fast-growing wind power market including the PRC. In addition, the Siemens Group planned to localise certain value chain activities, such

as procurement, manufacturing, maintenance and services in the emerging markets including the PRC, to reduce costs and to strengthen its global competitive position. In view of (i) the strong financial performance and the positive outlook of Siemens' energy sector, in particular the wind power generation division; (ii) the localisation policy of its energy sector which would promote the outsourcing of its energy project orders in the PRC; and (iii) the close partnership between Siemens and the Company with their common interests in the joint venture companies would assist the Group to receive such orders from the Siemens Group, we consider that the purchase transactions under the Renewal CCT from the Group will increase accordingly.

To assess the outlook of the global electricity industry, we have reviewed the report "Opportunities to Transform the Electricity Sector in Major Economies" (the "**Electricity Sector Report**") issued by the International Energy Agency (www.iea.org) in 2010. According to the Electricity Sector Report, the electricity sector in major economies (the "**Major Economies**") including the United States, the PRC and countries of the European Union, etc. which consumed the majority of the world's electricity power currently, offers significant potential to transform the profile of future energy supply through improved electricity generation efficiency and accelerated deployment of clean energy, assuming that the Major Economies would implement national policies and regulatory frameworks to meet economy-wide targets for stabilising the atmospheric concentration of greenhouse gases at 450 parts per million (the "**450 Scenario**"). Achieving this potential would result in diversification of the electricity mix, reduced dependence on fossil fuels and abatement of carbon dioxide emissions, all of which help to improve energy security and mitigate climate change. Using the 450 Scenario to evaluate the potential in Major Economies out to 2030, the average efficiency of electricity generation from coal would rise to 42% (from 36% in 2008); that of gas rises to 52% (from 48% in 2008). In the overall electricity mix, the share of electricity generation from clean energy – renewables, nuclear and plants with carbon capture and storage would increase to 63% (from 33% in 2008) by 2030, requiring that three-quarters of capacity additions in Major Economies over 2010-30 represent clean energy. Having considered the above, we are of the view that there would be large growth potential for gas-fired electricity power production due to its relatively higher electricity generation efficiency than other thermal power productions and clean energy including wind power globally, therefore there would be high demand for gas turbine and wind power generation equipments to cater for the global trend.

Although the aggregate sales to the Siemens Group in 2010 represents approximately 24.78% of the proposed annual cap for 2012 and such sales in the first half of 2011 represents approximately 1.28% of the existing annual cap for 2011, it is expected that the sales amounts of the gas turbine and wind turbine equipments to the Siemens Group would grow significantly considering (i) the large orders of the Siemens Group's energy sector to be delivered which would lead to great demand for the related components and services; (ii) the favourable global trend for efficient and clean energy policies and the growth potential of the gas turbine and wind turbine businesses; and (iii) the formation of the two joint venture companies which would lead to higher cooperation and transactions for wind power generation

LETTER FROM GOLDIN FINANCIAL

business between the Group and the Siemens Group, we consider that the setting of the proposed annual cap for 2012 and the increase in the proposed annual caps for 2013 and 2014, after making reference to the aforesaid factors is fair and reasonable and is not overestimated.

In view of the fact that the Group will be benefited from the sales to the Siemens Group under the Renewal CCT, and the proposed annual caps for 2012, 2013 and 2014 may increase the Group's revenue, we are of the view that it is of the commercial interest of the Company to maximise the value of the transactions.

In light of the above, we are of the view that the proposed annual caps for the sales transactions under the Renewal CCT are determined based on the reasonable estimation and after due and careful consideration and that is fair and reasonable for the management of the Company to make reference to the aforesaid factors as the basis to determine such annual caps.

LISTING RULES REQUIREMENT

As Siemens owns more than 10% of the equity interests in certain non-wholly owned subsidiaries of the Company, Siemens is regarded as a connected person of the Company under Chapter 14A of the Listing Rules. The Renewal CCT to be entered into between the Company and the Siemens Group would accordingly constitute continuing connected transactions for the Company. Given that the highest applicable percentage ratio (as defined in the Listing Rules) of the proposed annual caps under the Renewal CCT are expected to be more than 5%, the Renewal CCT constitutes non-exempt continuing connected transactions which are subject to reporting, annual review, announcement and Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules. Siemens and its associates will abstain from voting in the EGM to approve the Waiver, the Renewal CCT and the proposed annual caps thereof.

RECOMMENDATIONS

Taking into consideration of the above mentioned principal factors and reasons, we consider that the Waiver and the Renewal CCT are fair and reasonable so far as the Independent Shareholders are concerned and is in the interests of the Company and the Shareholders as a whole. Accordingly, we recommend the Independent Shareholders, as well as the Independent Board Committee to advise the Independent Shareholders, to vote in favour of the resolutions to be proposed at the EGM to approve the Waiver and the Renewal CCT.

Yours faithfully,
For and on behalf of
Goldin Financial Limited
Billy Tang
Director

* *the Chinese name has been translated into English in this letter for reference only.*

1. RESPONSIBILITY STATEMENT

This circular, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief the information contained in this circular 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. DISCLOSURE OF INTERESTS

As at the Latest Practicable Date, none of the directors, chief executives or supervisors of the Company or their respective associates had any interests or short positions in the shares, underlying shares and debentures of the Company or any associated corporation (within the meaning of Part XV of the SFO), which are required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which he or she is taken or deemed to have under such provision of the SFO); or are required, pursuant to Section 352 of the SFO, to be entered into the register, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities by Directors of Listed Companies.

3. SERVICES CONTRACTS

As at the Latest Practicable Date, none of the Directors had any existing or proposed service contract with any members of the Group which does not expire or is not determined by the relevant member of the Group within one year without payment of compensations, other than statutory compensation.

4. ARRANGEMENT AFFECTING DIRECTORS

As at the Latest Practicable Date:

- (a) none of the Directors is interested, directly or indirectly, in any assets which have, since 31 December 2010, the date to which the latest published audited financial statements of the Company were made up, 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;
- (b) none of the Directors is materially interested in any contract or arrangement subsisting at the Latest Practicable Date as entered into by any member of the Group and which significant in relation to the business of the Group; and
- (c) none of the Directors and his/her associates had any competing interests that would be required to be disclosed under Rule 8.10 of the Listing Rules if he was a controlling shareholder.

5. MATERIAL ADVERSE CHANGE

The Directors are not aware of any material adverse change in the financial and trading position of the Group since 31 December 2010, the date to which the latest published audited consolidated financial statements of the Group were made up.

6. EXPERT AND CONSENT

The following is the qualification of the expert who has given opinions or advices contained in this circular:

Name	Qualification
Goldin Financial	a licensed corporation to carry on Type 6 (advising on corporate finance) regulated activity under the SFO

Goldin Financial has given and has not withdrawn its written consent to the issue of this circular with the inclusion of its letter and references to its name in the form and context in which it appears.

As at the Latest Practicable Date, the above expert does not have any shareholding in any member of the Group or the right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group, or any interests, directly or indirectly, in any assets which have been, since 31 December 2010, being the date to which the latest published audited financial statements of the Group were made up, acquired, disposed of or leased to any member of the Group, or were proposed to be acquired, disposed of or leased to any member of the Group.

7. DOCUMENTS AVAILABLE FOR INSPECTION

Copy of the Existing Framework Purchase and Sales Agreement is available for inspection during normal business hours on any weekly (except public holidays) at Room 3509, 35/F, Tower Two, Lippo Center, 89 Queensway, Hong Kong, up to and including the day of EGM.