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**東方電氣股份有限公司**  
**DONGFANG ELECTRIC CO., LTD.**

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

(Stock Code: 1072)

**CONNECTED TRANSACTION  
CAPITAL INCREASE AGREEMENT AND DEEMED DISPOSAL OF  
EQUITY INTERESTS IN AN INDIRECT SUBSIDIARY**

**DEEMED DISPOSAL OF EQUITY INTERESTS IN AN INDIRECT  
SUBSIDIARY**

Reference is made to the announcement of the Company dated 22 May 2019 in relation to the approval of the proposed capital contribution to Dongshu New Material of RMB150 million to be injected by DEC in cash by the Board of the Company. The Board announces that, on 18 June 2019, DEC entered into the Capital Increase Agreement with Dongfang Turbine Company, pursuant to which DEC agreed to make a capital contribution to Dongshu New Material in an amount of RMB150 million. After completion of the Capital Increase, the proportion of shareholders' equity interests in Dongshu New Material of DEC and Dongfang Turbine Company will be 52.46% and 47.54%, respectively.

**LISTING RULES IMPLICATION**

As at the date of this announcement, DEC is the substantial shareholder of the Company and holds approximately 55.91% of the entire issued shares of the Company. Therefore, DEC is a connected person (as defined under the Listing Rules) of the Company. Accordingly, the transaction contemplated under the Capital Increase Agreement constitutes a connected transaction of the Company.

The total shareholders' equity interest of Dongfang Turbine Company in Dongshu New Material will be diluted from 100% to 47.54% after the completion of the Capital Increase. The relevant dilution will be deemed as a disposal of equity interest in an indirect subsidiary under Rule 14.29 of the Listing Rules. As all relevant percentage ratios in respect of the deemed disposal of equity interest in an indirect subsidiary exceed 0.1% but are less than 5%, it is subject to the reporting and announcement requirements but is exempt from the circular (including independent financial opinions) and independent shareholders' approval requirement under Chapter 14A of the Listing Rules.

## **CAPITAL INCREASE AGREEMENT**

Reference is made to the announcement of the Company dated 22 May 2019 in relation to the approval of the proposed capital contribution to Dongshu New Material of RMB150 million to be injected by DEC in cash by the Board of the Company. The Board announces that, on 18 June 2019, DEC entered into the Capital Increase Agreement with Dongfang Turbine Company, pursuant to which DEC agreed to make a capital contribution to Dongshu New Material in an amount of RMB150 million. The registered capital of Dongshu New Material will be increased from RMB40 million to RMB190 million.

### **The principal terms of the Capital Increase Agreement are summarised as follows:**

Date:	18 June 2019
Parties:	(1) DEC; and (2) Dongfang Turbine Company.
Amount of Capital Increase:	DEC agreed to make a capital contribution to Dongshu New Material in an amount of RMB150 million.
Manner of subscription and payment therefor:	DEC shall make payment for the abovementioned Capital Increase to Dongshu New Material within 30 working days from the date of the Capital Increase Agreement.
Liability for breach of contract:	Where DEC fails to discharge the capital contribution obligation, Dongfang Turbine Company is entitled to terminate the Capital Increase Agreement by a written notice and to request the default party to pay liquidated damages at 20% of the total amount of the Capital Increase.

After completion of the Capital Increase, the registered capital of Dongshu New Material will be increased from RMB40 million to RMB190 million. The value of the total shareholders' equity interest of Dongshu New Material according to the Dongshu New Material Valuation Report of RMB135,959,000 will be adjusted to RMB285,959,000. Total shareholders' equity interest held by Dongfang Turbine Company in such company will be reduced from 100% to 47.54% and the total shareholders' equity interest of DEC in such company will be 52.46%.

After the completion of industrial and commercial registration changes relating to the Capital Increase in Dongshu New Material, both parties agreed based on their respective proportions in shareholders' equity interest to exercise voting rights, to entitle shareholders' equity interest in such company and assume limited liabilities.

## **INFORMATION OF DONGSHU NEW MATERIAL, DONGFANG TURBINE COMPANY, DEC AND THE GROUP**

### **Dongshu New Material**

Dongshu New Material is mainly engaged in manufacturing of synthetic materials, composites, 2-furfuryl alcohol, furfural (The Business License for Hazardous Chemicals is valid until 4 July 2021), adhesives, epoxy resins and curing agents, binding materials, water-based paint, casting materials, conductive paste, metal processing auxiliary materials, packaging materials, and special chemicals (excluding hazardous chemicals); industrial protection and environmental protection engineering; equipment and plant leasing; road transport (operation with license during the validity period); general machinery; import and export of goods and technologies; technical consulting, technology transfer, professional consulting, and chemical technology services. (Projects subject to approvals according to laws shall operate upon the approval of relevant authorities.) The registered capital of Dongshu New Material is RMB40 million. As at the date of this announcement, Dongshu New Material is an indirect subsidiary of the Company.

## Financial Information of Dongshu New Material

The financial information of Dongshu New Material for the two years ended 31 December 2018 and 2017 is as follows:

	<b>For the year ended 31 December 2018</b>	<b>For the year ended 31 December 2017</b>
	<i>RMB (0'000)</i>	<i>RMB (0'000)</i>
	(Audited)	(Audited)
Total assets	57,453.90	39,958.24
Net assets	10,699.45	9,730.16
Revenue	45,044.88	31,096.71
Net profit before tax	721.87	2,677.57
Net profit after tax	652.02	2,262.04

### Dongfang Turbine Company

Dongfang Turbine Company is primarily engaged in general freight and transportation of large articles (I); repair of category 1 motor vehicles (i.e., small-sized passenger vehicles including sedans), large and medium-sized passenger vehicles, trucks (including engineering vehicles) and vehicles carrying dangerous goods (such businesses shall be carried out under valid permits); production, processing and sales of steam turbines, water turbines, gas turbines, compressors, fans, pumps and auxiliary engines thereof, wind generating sets, solar and renewable energy, mechanical equipment and its accessories, general and special equipment, metal products, electronic instruments, coatings and synthetic materials; industrial control and automation; the research, design, installation and commissioning, alteration and maintenance services of the power stations and the corresponding equipment as well as the related import and export business. As at the date of this announcement, it is owned as to 95.45% of equity interest by the Company and therefore is a subsidiary of the Company.

### DEC

DEC is mainly engaged in import and export business; general contracting and subcontracting of projects of hydro-, thermal- and nuclear-power stations; whole set technological development of power station equipment and technology consultation; manufacturing and sales of whole-set equipment; sales of machinery and electrical auxiliary; general contracting and subcontracting of related projects; and house leasing. As at the date of this announcement, DEC owns approximately 55.91% of the entire issued shares of the Company, therefore is a substantial shareholder of the Company.

## **The Group**

The Company is principally engaged in the manufacture and sales of large-scale complete sets of power generation equipment, engineering contracting and services business, etc. The Group is principally engaged in the manufacture and sales of high efficiency and clean energy generation products, new energy generation products, hydro-electric power and environmental protection equipment and the provision of construction services for power stations.

## **REASONS FOR AND BENEFITS OF THE CAPITAL INCREASE**

The Board, including the independent non-executive Directors, is of the opinion that the Capital Increase is conducted based on the following reasons and in the interest of the Company and the Shareholders as a whole:

- 1) Dongshu New Material is a high-tech enterprise integrating design, research and development, manufacturing, sales and service of polymer and composite materials. It is engaged in manufacturing of the synthetic material and composite material. The Company is engaged in the development and manufacturing of power equipment for power plants and new energy fields. Both are not much related in terms of industrial development direction and main products.
- 2) The business of Dongshu New Materials is relatively independent and is difficult to form synergistic effects with the Company. Dongshu New Materials is controlled by DEC, which is beneficial for the Company to focus on its main business and concentrate resources on development of core businesses and for enhancement of the Company's competitiveness, which is in line with the development strategy of the Company.
- 3) The synthetic materials and composite materials manufacturing industry in which Dongshu New Material operates is a highly market-oriented and competitive. Certain scale effect is required to gain advantage in market competition. In view of the characteristics of the industry in which Dongshu New Material operates, the scale expansion will inevitably bring about the rapid increase in the amount of funds required for production and operation and the funds paid in advance, and the operational risks will be further amplified. The Company will not increase investment and maintain the existing size of investment, to ensure controllable risks while enjoying the interests from equity investment.

## **BASIS FOR DETERMINATION OF THE AMOUNT OF CAPITAL INCREASE**

The amount of the Capital Increase shall make reference to the Dongshu New Material Valuation Report, which is determined by the Independent Appraiser based on the total shareholders' equity interest of Dongshu New Material as at 31 December 2018 (the benchmark date) using the asset-based approach. Pursuant to the resolution (2019) No. 2 passed by the directors of Dongfang Turbine Company on 15 March 2019, Dongshu New Material's profit distribution of RMB40 million for the year 2018 was considered and approved. After taking into account of the effects of this factor in the valuation results, the value of the total shareholders' equity interest of Dongshu New Material, after deduction of the profit distribution for the year 2018, was RMB135,959,000.

## **FINANCIAL EFFECT ON THE GROUP**

Upon completion of the Capital Increase, the total shareholders' equity interest in Dongshu New Material held by Dongfang Turbine Company will be reduced from 100% to 47.54%, and Dongshu New Material will cease to be an indirect subsidiary of the Company. Upon completion of the Capital Increase, the assets, liabilities and financial results of such company will no longer be consolidated into the consolidated financial statements of the Company. According to preliminary assessment, the Company expects to record a non-cash gain of approximately RMB25,131,900 from the deemed disposal of an indirect subsidiary arising from the Capital Increase Agreement. The Company's actual gain may change subject to the net asset value of Dongshu New Material on the completion date of industrial and commercial registration changes relating to the Capital Increase.

## **OPINIONS OF THE DIRECTORS**

As disclosed in the announcement of the Company dated 22 May 2019, the above connected transaction has been considered and approved by the Board and the supervisory committee. Having been directors or senior executives of DEC, Mr. Zou Lei, Mr. Huang Wei, Mr. Xu Peng and Mr. Bai Yong have abstained from voting on the abovementioned resolution. Save as disclosed above, there is no other Director has a material interest in the Capital Increase and therefore no other Director has abstained from voting on such Board resolution.

The Directors of the Company (including all independent non-executive Directors) are of the opinion that (i) the Capital Increase is on normal commercial terms or better in the ordinary and usual course of business of the Group; (ii) the terms of the Capital Increase Agreement are fair and reasonable; and (iii) the Capital Increase is in the interests of the Company and all Shareholders as a whole.

## **LISTING RULES IMPLICATION**

As at the date of this announcement, DEC is the substantial shareholder of the Company and holds approximately 55.91% of the entire issued shares of the Company. Therefore, DEC is a connected person (as defined under the Listing Rules) of the Company. Accordingly, the transaction contemplated under the Capital Increase Agreement constitutes a connected transaction of the Company.

The total shareholders' equity interest of Dongfang Turbine Company in Dongshu New Material will be diluted from 100% to 47.54% after the completion of the Capital Increase. The relevant dilution will be deemed as a disposal of equity interest in an indirect subsidiary under Rule 14.29 of the Listing Rules. As all relevant percentage ratios in respect of the deemed disposal of equity interest in an indirect subsidiary exceed 0.1% but are less than 5%, it is subject to the reporting and announcement requirements but is exempt from the circular (including independent financial opinions) and independent shareholders' approval requirement under Chapter 14A of the Listing Rules.

## DEFINITIONS

“A Shares”	the domestic ordinary shares of the Company with a nominal value of RMB1.00 each, which are subscribed for and/or credited as paid up in RMB by PRC nationals and/or PRC corporate entities and listed and traded on the Shanghai Stock Exchange
“Board”	the board of directors of the Company
“Capital Increase”	the capital increase in Dongshu New Material in an amount of RMB150 million to be made by DEC, which will hold 52.46% of the total shareholders’ equity interest in Dongshu New Material upon completion of the Capital Increase, in accordance with the terms and conditions of the Capital Increase Agreement
“Capital Increase Agreement”	the agreement entered into between DEC and Dongfang Turbine Company on 18 June 2019 in relation to the Capital Increase in Dongshu New Material
“Company”	東方電氣股份有限公司(Dongfang Electric Corporation Limited), a joint stock limited company incorporated in the PRC with limited liability whose H Shares are listed on the Main Board of the Stock Exchange and A Shares are listed on the Shanghai Stock Exchange
“connected person(s)”	has the meaning ascribed thereto under the Listing Rules
“DEC”	中國東方電氣集團有限公司(Dongfang Electric Corporation), a wholly state-owned company incorporated in the PRC with limited liability and the substantial shareholder of the Company
“Director(s)”	director(s) of the Company
“Dongshu New Material” or “such company”	Sichuan Dongshu New Material Co., Ltd., a company incorporated in the PRC with limited liability and a wholly-owned subsidiary of Dongfang Turbine Company

“Dongshu New Material Valuation Report”	the valuation report on Dongshu New Material dated 19 April 2019 prepared by the Independent Appraiser with 31 December 2018 as the benchmark date
“Dongfang Turbine Company”	DEC Dongfang Steam Turbine Co., Ltd., a company established in the PRC with limited liability which is held as to 95.45% by the Company and 4.55% by DEC, and a subsidiary of the Company
“Hong Kong”	The Hong Kong Special Administrative Region of the PRC
“H Share(s)”	foreign ordinary shares of the Company with a nominal value of RMB1.00 each, which are listed on the Main Board of the Stock Exchange and traded in Hong Kong dollars
“Independent Appraiser”	Vocation (Beijing) International Asset Appraisal Co., Ltd.
“Listing Rules”	Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited
“percentage ratio(s)”	the percentage ratio(s) under Rule 14.07 of the Listing Rules
“PRC”	the People’s Republic of China which, for the purpose of this announcement, excludes Hong Kong, the Macau Special Administrative Region and Taiwan
“RMB”	Renminbi, the lawful currency of the PRC
“Share(s)”	A Shares and H Shares of the Company
“Shareholder(s)”	holder(s) of Shares of the Company



“substantial shareholder” or “DEC”	中國東方電氣集團有限公司(Dongfang Electric Corporation)
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“%”	per cent

By Order of the Board  
**Dongfang Electric Corporation Limited**  
**Gong Dan**  
*Company Secretary*

Chengdu, Sichuan, the People’s Republic of China  
18 June 2019

As at the date of this announcement, the directors of the Company are as follows:

*Directors:* *Zou Lei, Huang Wei, Xu Peng and Bai Yong*

*Independent Non-executive Directors:* *Gu Dake, Xu Haihe and Liu Dengqing*