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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 THROUGH CONVERSION OF STATE**  
**FUNDS AND DEEMED DISPOSAL OF**  
**EQUITY INTERESTS IN DONGFANG HEAVY MACHINE**

**DEEMED DISPOSAL OF INTEREST IN DONGFANG HEAVY MACHINE**

Reference is made to the announcement of the Company dated 19 June 2020 in relation to the Capital Increase through Conversion of State Funds by Dongfang Heavy Machine, which was approved at the 29th meeting of the ninth session of the Board of the Company. The Board announces that at the 2020 fourth general meeting of Dongfang Heavy Machine held on 23 June 2020, a resolution was approved to agree that RMB68,623,037 out of the state funds of RMB131,070,000 contributed by DEC into Dongfang Heavy Machine be converted into additional registered capital by DEC to Dongfang Heavy Machine and the remaining RMB62,446,963 be additional capital reserve of Dongfang Heavy Machine which would be shared by all shareholders. As at 3 July 2020, the Company, Other Shareholders of Dongfang Heavy Machine and DEC completed the signing of the Capital Increase Agreement. Upon completion of the Capital Increase through Conversion of State Funds, the total controlling equity interests by the Company and Dongfang Boiler (a subsidiary of the Company) in Dongfang Heavy Machine will be diluted from approximately 64.7275% to approximately 61.0860%, the Company still maintain the actual control over Dongfang Heavy Machine. Dongfang Heavy Machine will remain a subsidiary of the Company and will be consolidated in the financial statements of the Group as a subsidiary.

## **LISTING RULES IMPLICATION**

As at the date of this announcement, DEC is the substantial shareholder of the Company and holds approximately 55.43% of the issued shares of the Company. Therefore, DEC is a connected person (as defined under the Listing Rules) of the Company. Accordingly, the increase in capital in Dongfang Heavy Machine by DEC through the Capital Increase through Conversion of State Funds constitutes a connected transaction of the Company. Upon completion of the Capital Increase through Conversion of State Funds, the controlling equity interests by the Company and Dongfang Boiler in Dongfang Heavy Machine will be diluted from approximately 64.7275% to approximately 61.0860%. The relevant dilution is deemed as a disposal of equity interests in Dongfang Heavy Machine under Rule 14.29 of the Listing Rules. As all relevant percentage ratios in respect of the deemed disposal of equity interests in Dongfang Heavy Machine exceed 0.1% but are less than 5%, the deemed disposal of equity interests in Dongfang Heavy Machine 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 19 June 2020 in relation to the Capital Increase through Conversion of State Funds by Dongfang Heavy Machine, which was approved at the 29th meeting of the ninth session of the Board of the Company. The Board announces that at the 2020 fourth general meeting of Dongfang Heavy Machine held on 23 June 2020, a resolution was approved to agree that RMB68,623,037 out of the state funds of RMB131,070,000 contributed by DEC into Dongfang Heavy Machine be converted into additional registered capital by DEC to Dongfang Heavy Machine and the remaining RMB62,446,963 be additional capital reserve of Dongfang Heavy Machine which would be shared by all shareholders. As at 3 July 2020, the Company, Other Shareholders of Dongfang Heavy Machine and DEC completed the signing of the Capital Increase Agreement. Upon completion of the Capital Increase through Conversion of State Funds, the total controlling equity interests by the Company and Dongfang Boiler (a subsidiary of the Company) in Dongfang Heavy Machine will be diluted from approximately 64.7275% to approximately 61.0860%, the Company still maintain the actual control over Dongfang Heavy Machine. Dongfang Heavy Machine will remain a subsidiary of the Company and will be consolidated in the financial statements of the Group as a subsidiary.

The principal terms of the Capital Increase Agreement are set out as follows:

Parties: (1) The Company;

(2) Other Shareholders of Dongfang Heavy Machine;  
and

(3) DEC.

Amount of the Capital Increase through Conversion of State Funds: DEC agreed to convert RMB68,623,037 out of the state funds of RMB131,070,000 which it contributed to Dongfang Heavy Machine prior to 19 December 2017 as additional registered capital of Dongfang Heavy Machine, and the remaining RMB62,446,963 as additional capital reserve of Dongfang Heavy Machine to be shared by all parties to the agreement.

Special agreement: The composition of the board of directors and the supervisory committee of Dongfang Heavy Machine will not be changed, that is, the number of directors and supervisors representing each shareholder in Dongfang Heavy Machine before the capital increase remains unchanged, and each shareholder will exercise its rights and perform its obligations in accordance with the percentage of shareholding after the registered capital increase.

As at 3 July 2020, the Company, Other Shareholders of Dongfang Heavy Machine and DEC completed the signing of the Capital Increase Agreement. Dongfang Heavy Machine will handle the required title registration and the change of industrial and commercial procedures for the capital increase in accordance with relevant laws and regulations. After the completion of change of industrial and commercial registration, DEC will formally become an additional shareholder of Dongfang Heavy Machine.

## **BASIS FOR DETERMINATION OF THE AMOUNT OF CAPITAL INCREASE THROUGH CONVERSION OF STATE FUNDS**

With reference to the Dongfang Heavy Machine Valuation Report, the Independent Appraiser has evaluated the entire equity interest of shareholders of Dongfang Heavy Machine as at 30 June 2019 (the benchmark date) using the asset-based approach. The evaluation conclusion is as follows:

	<b>Carrying amount</b> <i>(RMB0'000)</i>	<b>Appraised value</b> <i>(RMB0'000)</i>	<b>Appraisal appreciation</b> <i>(RMB0'000)</i>	<b>Appreciation rate</b> <i>(%)</i>
Net assets (owner's equity)	170,279.16	219,741.60	49,462.44	29.05

## **REASONS FOR AND BENEFITS OF THE CAPITAL INCREASE THROUGH CONVERSION OF STATE FUNDS**

The Board, including the independent non-executive Directors, is of the opinion that:

1. The source of capitals involved in the Capital Increase by DEC is the capital budget fund appropriated by the central government. All the state funds of RMB131,070,000 receivable by Dongfang Heavy Machine have arrived in its account before 19 December 2017, and have been used as expenses for special programs of Dongfang Heavy Machine; it is currently accounted for as special payables and long-term borrowings (with interest to be paid regularly) of Dongfang Heavy Machine. The Capital Increase through Conversion of State Funds can solve the historical issue of the long-term charging of the capital to the book, better reflect the economic and business changes and ensure the effective implementation of state-owned capitals.
2. Upon the completion of the Capital Increase through Conversion of State Funds, the gearing ratio of Dongfang Heavy Machine will decrease from approximately 46.59% to approximately 42.47%, meeting the requirements of the State on "reducing the leverage ratio of enterprises". At the same time, the asset structure of Dongfang Heavy Machine will be optimized, the financial risks will be reduced and the momentum for the development of the enterprise will be further boosted.

## EFFECTS OF THE CAPITAL INCREASE THROUGH CONVERSION OF STATE FUNDS ON THE SHAREHOLDING OF DONGFANG HEAVY MACHINE

Upon completion of the Capital Increase through Conversion of State Funds the shareholding of Dongfang Heavy Machine will be adjusted as follows:

Name of shareholder	Prior to the completion of the Capital Increase through Conversion of State Funds		Equivalent to new contribution (RMB0'000)	Upon completion of the Capital Increase through Conversion of State Funds	
	Contribution amount (RMB0'000)	Approximate contribution proportion (%)		Contribution amount (RMB0'000)	Approximate contribution proportion (%)
The Company	58,757.9826	51.0452	0	58,757.9826	48.1734
Guangdong Energy Group	31,079.5826	27.00	0	31,079.5826	25.4809
Dongfang Boiler	16,272.00	14.1361	0	16,272.00	13.3408
Guangzhou Nansha Gonghua	3,960.00	3.4402	0	3,960.00	3.2467
Guangzhou Guangzhong Group	3,600.00	3.1275	0	3,600.00	2.9515
China Second Heavy Corporation	1,440.00	1.251	0	1,440.00	1.1806
DEC	0	0	6,862.3037	6,862.3037	5.6261
<b>Total</b>	<b>115,109.5652</b>	<b>100.00</b>	<b>6,862.3037</b>	<b>121,971.8689</b>	<b>100.00</b>

*Note:*

- Upon completion of the Capital Increase through Conversion of State Funds, the Company will, directly and indirectly, hold equities in Dongfang Heavy Machine, representing approximately 61.0860% of its total controlling equity interest. Dongfang Heavy Machine is still a controlling subsidiary of the Company.

### FINANCIAL EFFECT ON THE GROUP

Upon completion of the Capital Increase, the total controlling equity interests by the Company and Dongfang Boiler in Dongfang Heavy Machine will be diluted from approximately 64.7275% to approximately 61.0860% and Dongfang Heavy Machine will remain a subsidiary of the Group. Therefore, the operating results and financial conditions of Dongfang Heavy Machine will continue to be included in the consolidated financial statements of the Group. As the impact of Capital Increase will not result in the Group's loss of control over Dongfang Heavy Machine, the deemed disposal caused by the Capital Increase will be recognized as an equity transaction, and will not have any material impact on the consolidated profit of the current period.

## INFORMATION OF DONGFANG HEAVY MACHINE, THE GROUP, OTHER SHAREHOLDERS OF DONGFANG HEAVY MACHINE AND DEC

### Dongfang Heavy Machine

Dongfang Heavy Machine is principally engaged in the manufacture of atomic power equipment; the manufacture of pumps and vacuum equipment; the manufacture of metal pressure vessels; the manufacture of metal packages and containers; metal surface treatment and heat treatment and processing; the manufacture of metal seals; the manufacture of modules; the manufacture of special equipment for ocean engineering; installment services for electromechanical equipment; professional contracting for electromechanical equipment installment projects; the sales of general machinery and equipment; the sales of electrical machinery and equipment; import and export of goods (except franchised products); import and export of technology; machinery and equipment leasing; venue leasing (excluding warehousing); house leasing; provision of simple processing and treatment services such as the loading and unloading (including barge), warehousing and intra-port transfer of goods, the loading and unloading, storage, stuffing and devanning of containers at ports; provision of leasing and repairing services for facilities, equipment and machinery at ports; and provision of docks, barge anchorages, floats and other facilities for ships. As at the date of this announcement, it is a subsidiary of the Company.

### ***FINANCIAL INFORMATION OF DONGFANG HEAVY MACHINE***

The financial information of Dongfang Heavy Machine for the three months ended 31 March 2020 and the two years ended 31 December 2019 and 2018 is as follows:

	<i>Currency: RMB Unit: Yuan</i>		
	<b>For the three months ended 31 March 2020</b> (Unaudited)	<b>For the year ended 31 December 2019</b> (Audited)	<b>For the year ended 31 December 2018</b> (Audited)
Total assets	3,205,306,960.74	3,184,892,033.42	3,396,218,228.86
Net assets	1,701,341,793.35	1,701,058,300.59	1,704,553,043.80
Revenue	235,600,735.62	1,110,518,206.62	1,001,007,751.10
Net profit before taxation	–	9,648,257.10	5,379,367.25
Net profit after taxation	283,492.76	1,065,410.00	16,889,456.35

## **The Group**

The Company is principally engaged in the manufacture and sales of large-scale whole sets of power generation equipment, engineering contracting and services business, etc. The Group is principally engaged in the manufacture and sales of efficient 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.

## **Other Shareholders of Dongfang Heavy Machine**

### ***Guangdong Energy Group***

Guangdong Energy Group is principally engaged in the investment, construction and operation management in power, the production, operation and sales of power (thermal); the investment, construction and production operation in power-related industry and products, such as transportation, resources, environmental protection and new energy; the investment, construction and management in power fuel; project investment.; related technical services, investment planning and management consulting, information services in the power industry. The ultimate beneficial owner of Guangdong Energy Group is the State-owned Assets Supervision and Administration Commission of the People's Government of Guangdong Province.

### ***Dongfang Boiler***

Dongfang Boiler is principally engaged in development, design, manufacturing, and marketing of power station boilers, power station auxiliary equipments, industrial boilers, power station valves, petrochemical vessels, nuclear reaction equipment and biomass power. As at the date of this announcement, it is held by the Company and DEC as to approximately 96.79% and approximately 3.12%, respectively.

### ***Guangzhou Nansha Gonghua***

Guangzhou Nansha Gonghua is principally engaged in the corporate equity fund investment; wholesale and trading of commodities (except for products subject to license and approval); retail and trading of commodities (except for products subject to license and approval). The ultimate beneficial owner of Guangzhou Nansha Gonghua is the Management Committee of Guangzhou Nansha Economic and Technological Development Zone.



### ***Guangzhou Guangzhong Group***

Guangzhou Guangzhong Group is principally engaged in the production of whole sets of equipment for boilers, pressure vessels, steam turbines, generators, separators, special machinery and equipment, heat and power cogeneration, biomass power, and waste incineration power. The ultimate beneficial owner of Guangzhou Guangzhong Group is the State-owned Assets Supervision and Administration Commission of Guangzhou Municipal People's Government.

### ***China Second Heavy Corporation***

The main business of China Second Heavy Corporation is principally engaged in research and development and manufacturing of large-sized aviation die forgings, international engineering and trade, industrial and living services. The ultimate beneficial owner of China Second Heavy Corporation is the State-owned Assets Supervision and Administration Commission of the State Council.

### **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 technical 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 55.43% of the entire issued shares of the Company, therefore is a substantial shareholder of the Company, and is beneficially owned by the State-owned Assets Supervision and Administration Commission of the State Council.

### **OPINIONS OF THE DIRECTORS**

The Capital Increase through Conversion of State Funds has been considered and approved at the 29th meeting of the ninth session of the Board of the Company. Also being directors or senior executives of DEC, Mr. Zou Lei, Mr. Yu Peigen, Mr. Huang Wei, Mr. Xu Peng and Mr. Bai Yong have abstained from voting on the abovementioned resolution. Save as disclosed above, no other Director has a material interest in the Capital Increase through Conversion of State Funds and therefore no other Director is required to abstain from voting on such resolution.

The Directors of the Company (including all independent non-executive Directors) are of the opinion that the transaction contemplated under the Capital Increase Agreement (i) is on normal commercial terms although not conducted in the ordinary and usual course of business of the Group; (ii) the terms are fair and reasonable; and (iii) 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 55.43% of the issued shares of the Company. Therefore, DEC is a connected person (as defined under the Listing Rules) of the Company. Accordingly, the increase in capital in Dongfang Heavy Machine by DEC through the Capital Increase through Conversion of State Funds constitutes a connected transaction of the Company. Upon completion of the Capital Increase through Conversion of State Funds, the controlling equity interests by the Company and Dongfang Boiler in Dongfang Heavy Machine will be diluted from approximately 64.7275% to approximately 61.0860%. The relevant dilution is deemed as a disposal of equity interests in Dongfang Heavy Machine under Rule 14.29 of the Listing Rules. As all relevant percentage ratios in respect of the deemed disposal of equity interests in Dongfang Heavy Machine exceed 0.1% but are less than 5%, the deemed disposal of equity interests in Dongfang Heavy Machine 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 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 RMB
“Board”	the board of directors of the Company
“Capital Increase Agreement”	the capital increase agreement entered into among the Company, Other Shareholders of Dongfang Heavy Machine and DEC in relation to the Capital Increase through Conversion of State Funds
“Capital Increase through Conversion of State Funds”	the capital increase through conversion of state funds of RMB131,070,000 by Dongfang Heavy Machine
“China Second Heavy Corporation”	中國第二重型機械集團有限公司(China Second Heavy Machinery Corporation), a company established in the PRC with limited liability
“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
“Dongfang Boiler”	DEC Dongfang Boiler Group Co., Ltd., a company incorporated in the PRC with limited liability
“Dongfang Heavy Machine”	東方電氣(廣州)重型機器有限公司(Dongfang Electric (Guangzhou) Heavy Machine Co., Ltd.), a company incorporated in the PRC with limited liability and a subsidiary of the Company
“Dongfang Heavy Machine Valuation Report”	the asset valuation report dated 23 December 2019 regarding the capital increase of Dongfang Heavy Machine prepared by the Independent Appraiser, involving the value of the entire equity interests of shareholders of Dongfang Heavy Machine
“Guangdong Energy Group”	Guangdong Energy Group Co., Ltd., a company established in the PRC with limited liability
“Guangzhou Guangzhong Group”	廣州廣重企業集團有限公司(Guangzhou Guangzhong Group Co., Ltd.), a company established in the PRC with limited liability
“Guangzhou Nansha Gonghua”	廣州南沙工化投資有限公司(Guangzhou Nansha Gonghua Investment Co., Ltd.), a company established in the PRC with limited liability
“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”	中聯國際評估諮詢有限公司(Allied Appraisal Co., Ltd.)

“Listing Rules”	Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited
“Other Shareholders of Dongfang Heavy Machine”	Guangdong Energy Group, Dongfang Boiler, Guangzhou Nansha Gonghua, Guangzhou Guangzhong Group and China Second Heavy Corporation
“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 of the PRC 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
“%”	Percent

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

Chengdu, Sichuan, the PRC  
3 July 2020

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

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

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