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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 TRANSACTIONS
POSSIBLE DEEMED DISPOSAL OF
EQUITY INTERESTS IN SUBSIDIARIES**

**POSSIBLE DEEMED DISPOSAL OF EQUITY INTERESTS IN
SUBSIDIARIES**

The Board hereby announces that on 28 December 2022, a Board meeting was convened to approve and agree that DEC shall convert RMB232.9827 million out of the state funds of RMB610 million in aggregate which it is proposed to contribute to the Target Companies to be additional registered capital of the Target Companies, and the remaining shall be recognized in the capital reserve of the Target Companies contributed by DEC (Subject to financial treatment). Upon completion of the Capital Increase through Conversion of State Funds, the controlling interests held by the Company in the Target Companies will be diluted, the Company shall still maintain its actual control over the Target Companies. The Target Companies will remain as subsidiaries of the Company and will be accounted for as subsidiaries in the financial statements of the Group. As at the date of this announcement, the Company has not entered into the capital increase agreement with DEC in respect of the Proposed Capital Increase through Conversion of State Funds. The Company will make an announcement as required under the Listing Rules in due course.

LISTING RULES IMPLICATION

As at the date of this announcement, DEC is a substantial shareholder of the Company and holds approximately 55.40% of the total issued Shares of the Company. Therefore, DEC is a connected person of the Company. Accordingly, the transactions contemplated under the Proposed Capital Increase through Conversion of State Funds proposed by DEC constitute connected transactions of the Company. Upon completion of the Capital Increase through Conversion of State Funds, the controlling interests held by the Company in the Target Companies will be diluted. The transactions contemplated under the Proposed Capital Increase through Conversion of State Funds will constitute deemed disposal transactions of the Company under Chapter 14 of the Hong Kong Listing Rules pursuant to Rule 14.29 of the Listing Rules. Taking into account that the Proposed Capital Increase through Conversion of State Funds were conducted by the Company with the same connected party, the deemed disposal of equity interests in Dongfang Boiler, Dongfang Steam Turbine and the DEC Academy shall be aggregated pursuant to Rule 14.22 and Rule 14A.81 of the Listing Rules. As the highest applicable percentage ratio on an aggregated basis is higher than 0.1% but less than 5%, the deemed disposal of equity interests in the Target Companies is subject to the reporting and announcement requirements but is exempt from the circular (including independent financial opinions) and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

POSSIBLE DEEMED DISPOSAL OF EQUITY INTERESTS IN SUBSIDIARIES

On 28 December 2022, the Board hereby announces that a Board meeting was convened to approve and agree that DEC shall convert RMB232.9827 million out of the state funds of RMB610 million in aggregate which it is proposed to contribute to the Target Companies to be additional registered capital of the Target Companies, and the remaining shall be recognized in the capital reserve of the Target Companies contributed by DEC (Subject to financial treatment). Upon completion of the Capital Increase through Conversion of State Funds, the controlling interests held by the Company in the Target Companies will be diluted, the Company shall still maintain its actual control over the Target Companies. The Target Companies will remain as subsidiaries of the Company and will be accounted for as subsidiaries in the financial statements of the Group. As at the date of this announcement, the Company has not entered into the capital increase agreement with DEC in respect of the Proposed Capital Increase through Conversion of State Funds. The Company will make an announcement as required under the Listing Rules in due course.

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

The proposed capital increase was based on the asset valuation report on the individual Target Companies issued by China Enterprise Appraisals Co., Ltd. The independent appraiser has conducted appraisal on the entire equity interests of the shareholders of the Target Companies with the valuation conclusions as follows:

Dongfang Boiler

According to the asset valuation report of Dongfang Boiler, the book value of the net assets of Dongfang Boiler as at the valuation benchmark date (i.e. 30 September 2022) was RMB7,351.0052 million based on the asset-based method, and the appraised value was RMB9,984.4352 million, representing an appreciation rate of 35.82%.

Dongfang Steam Turbine

According to the asset valuation report of Dongfang Steam Turbine, the book value of the net assets of Dongfang Steam Turbine as at the valuation benchmark date (i.e. 30 September 2022) was RMB6,988.8379 million based on the asset-based method, and the appraised value was RMB12,405.2808 million, representing an appreciation rate of 77.50%.

DEC Academy

According to the asset valuation report of DEC Academy, the book value of the net assets of DEC Academy as at the valuation benchmark date (i.e. 31 October 2022) was RMB189.6902 million based on the asset-based method, and the appraised value was RMB360.7677 million, representing an appreciation rate of 90.19%.

The Company and DEC agreed to take the the current corresponding net assets per RMB1 of capital contribution converted at the appraised value of the net assets of each of the Target Companies as set out in their respective valuation report as the price of the Proposed Capital Increase through Conversion of State Funds. The converted corresponding net assets (appraised value) per RMB1 of capital contribution for Dongfang Boiler, Dongfang Steam Turbine and DEC Academy amounted to RMB5.3543, RMB2.2566 and RMB2.1222, respectively.

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

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

1. The capital increase of the Target Companies proposed by DEC was, in accordance with the relevant regulations of the PRC, to inject capital by way of conversion of state funds into capital funds using the budgeted capital funds which it invested into the Target Companies, to effectively realise the state-owned capital equity interest.
2. Upon the completion of the Capital Increase through Conversion of State Funds, the gearing ratio of the Target Companies will decrease, which will be conducive to further reduction of the financial leverage level of the Target Companies and to achieving the control objective of reducing the gearing ratio of the Group. At the same time, the capital structure of the Target Companies will be optimised, and the long-term development of the Target Companies will be promoted.

EFFECTS OF THE PROPOSED CAPITAL INCREASE THROUGH CONVERSION OF STATE FUNDS ON THE SHAREHOLDING OF THE TARGET COMPANIES

Upon completion of the Proposed Capital Increase through Conversion of State Funds, the shareholding of the Target Companies will be adjusted as follows:

	The Company				DEC				Other shareholders			
	Prior to the completion		Upon completion		Prior to the completion		Upon completion		Prior to the completion		Upon completion	
	Contribution		Contribution		Contribution		Contribution		Contribution		Contribution	
	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%
	(RMB0'000)		(RMB0'000)		(RMB0'000)		(RMB0'000)		(RMB0'000)		(RMB0'000)	
Dongfang Boiler	180,486.07	96.79	180,486.07	95.35	5,814.68	3.12	8,616.19	4.55	175.94	0.09	175.94	0.09
Dongfang Steam Turbine	518,888.16	94.39	518,888.16	91.30	30,839.73	5.61	49,451.62	8.70	-	-	-	-
DEC Academy	17,000.00	100.00	17,000.00	90.02	-	-	1,884.87	9.98	-	-	-	-

FINANCIAL EFFECT ON THE GROUP

Upon completion of the Proposed Capital Increase through Conversion of State Funds, the Company will still hold the controlling interests in the Target Companies and the Target Companies will remain as subsidiaries of the Group. Therefore, the operating results and financial conditions of the Target Companies 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 Target Companies, the deemed disposal caused by the Capital Increase will be recognized as equity transactions, and will not have any material impact on the consolidated profit of the current period during which such transactions took place.

INFORMATION ON THE TARGET COMPANIES, THE COMPANY AND DEC

Dongfang Boiler

Dongfang Boiler is principally engaged in development, design, manufacturing, and marketing of power station boilers, power station auxiliary equipment, industrial boilers, power station valves, petrochemical vessels, nuclear reaction equipment and biomass power.

The key financial indicators of Dongfang Boiler for the year 2021 and from January to September 2022 are as follows:

	For the year ended 31 December 2021 (audited) <i>(RMB0'000)</i>	As of 30 September 2022 (unaudited) <i>(RMB0'000)</i>
Revenue	1,021,630.59	929,265.95
Total profit	74,416.33	67,024.58
Net profit	64,946.54	53,993.96
Total assets	2,152,940.58	2,468,385.97
Total liabilities	1,420,156.64	1,711,981.66
Net assets	732,783.94	756,404.31

Dongfang Steam Turbine

The main business scope of Dongfang Steam Turbine includes production, processing, design and sale of steam turbines, water turbines, gas turbines and other turbine equipment, manufacture of compressors, wind turbines, pumps and auxiliary equipment, nuclear power equipment; wind turbines, solar energy and renewable energy, industrial control and automation; machinery and equipment and their accessories, research, design, installation and commissioning, renovation, maintenance and complete set of sales of general and special equipment, power stations and their equipment.

The key financial indicators of Dongfang Steam Turbine for the year 2021 and from January to September 2022 are as follows:

	For the year ended 31 December 2021 (audited) <i>(RMB0'000)</i>	As of 30 September 2022 (unaudited) <i>(RMB0'000)</i>
Revenue	870,955.39	810,004.69
Total profit	49,246.07	59,974.08
Net profit	53,767.70	62,253.01
Total assets	2,551,992.37	2,913,850.55
Total liabilities	1,883,883.50	2,211,189.78
Net assets	668,108.87	702,660.76

DEC Academy

The principal business scope of DEC Academy includes information security equipment; computer software and hardware, Internet of Things, new energy technology development, technology consultation, technology services, technology promotion, technology transfer; information system integration; engineering and technology research and experimental development; water pollution treatment; air pollution treatment; industrial design services; engineering management services; intellectual property rights services; business management consultation; sales: mechanical and electrical equipment, electronic appliances, computer software and hardware.

The key financial indicators of DEC Academy for the year 2021 and from January to September 2022 are as follows:

	For the year ended 31 December 2021	As of 30 September 2022
	(audited)	(unaudited)
	<i>(RMB0'000)</i>	<i>(RMB0'000)</i>
Revenue	14,912.13	11,467.61
Total profit	1,224.46	790.31
Net profit	1,224.46	861.41
Total assets	19,148.37	34,678.11
Total liabilities	9,965.48	15,246.03
Net assets	9,182.89	19,432.07

THE COMPANY

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.

DEC

DEC is mainly engaged in investment management as well as 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 of 31 December 2021, the total assets of DEC amounted to approximately RMB105,962,791,489, the total

liabilities amounted to approximately RMB67,468,092,959, the total revenue amounted to approximately RMB49,264,392,373, and the net profit amounted to approximately RMB2,624,035,868. As at the date of this announcement, DEC owns approximately 55.40% of the total issued shares of the Company, therefore is a substantial shareholder of the Company, and it is beneficially owned by the State-owned Assets Supervision and Administration Commission of the State Council.

OPINIONS OF THE DIRECTORS

The Proposed Capital Increase through Conversion of State Funds has been considered and approved at the 21st meeting of the tenth session of the Board of the Company. Each of Mr. Yu Peigen, Mr. Xu Peng, Mr. Liu Zhiquan, Mr. Zhang Jilie and Mr. Zhang Yanjun, being a Director who holds a management position with DEC, is considered to have material interests in the Capital Increase through Conversion of State Funds, and has abstained from voting on the Board resolution approving the Proposed Capital Increase through Conversion of State Funds. The remaining three independent non-executive Directors (Mr. Liu Dengqing, Mr. Huang Feng and Mr. Ma Yongqiang) have voted on and considered and approved unanimously the Board resolution approving the Proposed Capital Increase through Conversion of State Funds. 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 (including all independent non-executive Directors) of the Company are of the opinion that the transactions under the Proposed Capital Increase through Conversion of State Funds: (i) are 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) are in the interests of the Company and the Shareholders as a whole.

LISTING RULES IMPLICATION

As at the date of this announcement, DEC is a substantial shareholder of the Company and holds approximately 55.40% of the total issued Shares of the Company. Therefore, DEC is a connected person of the Company. Accordingly, the transactions contemplated under the Proposed Capital Increase through Conversion of State Funds proposed by DEC constitute connected transactions of the Company. Upon completion of the Capital Increase through Conversion of State Funds, the controlling interests held by the Company in the Target Companies will be diluted. The transactions contemplated under the Proposed Capital Increase through Conversion of State Funds will constitute deemed disposal transactions of the Company under Chapter 14 of the Hong Kong Listing Rules pursuant to Rule 14.29 of the Listing Rules. Taking into account that the Proposed Capital Increase through Conversion of State Funds were conducted by the Company with the same connected party, the deemed disposal of equity interests in Dongfang Boiler, Dongfang Steam Turbine and the DEC Academy shall be aggregated pursuant to Rule 14.22 and Rule 14A.81 of the Listing Rules. As the highest applicable percentage ratio on an aggregated basis is higher than 0.1% but less than 5%, the deemed disposal of equity interests in the Target Companies is subject to the reporting and announcement requirements but is exempt from the circular (including independent financial opinions) and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

DEFINITIONS

“A Share(s)”	the domestic ordinary share(s) in the share capital of the Company with a nominal value of RMB1.00 each, which are listed on the Shanghai Stock Exchange and traded in RMB
“Board”	the board of directors of the Company
“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 a substantial shareholder of the Company
“DEC Academy”	DEC Academy of Science and Technology Co., Ltd., a company incorporated in the PRC with limited liability and is a wholly-owned subsidiary of the Company as at the date of this announcement
“Director(s)”	the director(s) of the Company
“Dongfang Boiler”	DEC Dongfang Boiler Group Co., Ltd., a company incorporated in the PRC with limited liability and is held by the Company and DEC as to approximately 96.79% and approximately 3.12%, respectively, as at the date of this announcement
“Dongfang Steam Turbine”	DEC Dongfang Steam Turbine Co., Ltd., a company incorporated in the PRC with limited liability and is held by the Company and DEC as to approximately 94.39% and approximately 5.61%, respectively, as at the date of this announcement
“Group”	the Company and its subsidiaries
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“H Share(s)”	the foreign ordinary share(s) 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
“Listing Rules”	the 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, excluding Hong Kong, the Macau Special Administrative Region of the PRC and Taiwan
“Proposed Capital Increase through Conversion of State Funds”	increase of capital contribution to Dongfang Boiler, Dongfang Steam Turbine and DEC Academy by RMB150 million, RMB420 million and RMB40 million, respectively, by DEC through the proposed converted state funds, of which RMB28.0151 million will be included in the registered capital of Dongfang Boiler, RMB186.1189 million will be included in the registered capital of Dongfang Steam Turbine and RMB18.8487 million will be included in the registered capital of DEC Academy, and the remaining of which will be included in the capital reserve (subject to final accounting treatment)
“RMB”	Renminbi, the lawful currency of the PRC
“Share(s)”	the A Share(s) and H Share(s) of the Company
“Shareholder(s)”	holder(s) of the Share(s) of the Company
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Target Companies”	Dongfang Boiler, Dongfang Steam Turbine and DEC Academy
“%”	per cent

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

Chengdu, Sichuan, the People’s Republic of China
28 December 2022

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

Directors: *Yu Peigen, Xu Peng, Zhang Yanjun, Liu Zhiquan and Zhang Jilie*

Independent Non-executive Directors: *Liu Dengqing, Huang Feng and Ma Yongqiang*