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**THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION**

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**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 licensed securities dealer, bank manager, solicitor, professional accountant or other professional adviser.

**If you have sold or transferred** all your shares in Dongfang Electric Corporation Limited (the “Company”), you should at once hand this circular and the reply slips and proxy forms to the purchaser or the transferee or to the bank, stockbroker or other agent through whom the sale or transfer was effected for transmission to the purchaser or the transferee.

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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)

- (1) PROPOSED ADOPTION OF THE RESTRICTED  
A SHARE INCENTIVE SCHEME FOR 2019**
- (2) CONNECTED TRANSACTION – PROPOSED GRANT UNDER  
INCENTIVE SCHEME**
- (3) PROPOSED CHANGE IN USE OF PARTIAL PROCEEDS**

**Independent Financial Adviser of Independent Board Committee and  
Independent Shareholders**



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A letter from the Board is set out on pages 1 to 56 of this circular. A letter from the Independent Board Committee is set out on pages 57 to 58 of this circular. A letter from Gram Capital is set out on pages 59 to 71 of this circular.

The Company will hold the EGM and the H Shares Class Meeting on Friday, 22 November 2019 at conference room of the Company, 18 Xixin Road, High-Tech District (Western District), Chengdu City, Sichuan Province, the PRC. A notice convening the EGM and the H Shares Class Meeting, proxy forms and reply slips were dispatched to the Shareholders on 27 September 2019.

Any Shareholders entitled to attend and vote at the EGM or the H Shares Class Meeting are entitled to appoint one or more proxies to attend and vote on his behalf. A proxy need not be a shareholder of the Company. If you intend to appoint a proxy to attend the EGM or H Shares Class Meeting and vote on your behalf, you are requested to complete the proxy forms in accordance with the instructions printed thereon and return it by hand, by post or by facsimile to the Company's H Share registrar, Hong Kong Registrars Limited at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong (for H Shareholders only) as soon as possible and in any event not less than 24 hours before the time fixed for holding the EGM or the H Shares Class Meeting. Completion and return of the proxy forms will not preclude you from attending the EGM or the H Shares Class Meeting or any adjournment thereof and voting in person if you so wish.

1 November 2019

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## DEFINITIONS

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

“A Share(s)”	the domestic ordinary 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 RMB;
“A Shares Class Meeting”	the 2019 first A shares class meeting to be held on Friday, 22 November 2019 (or any adjournment thereof);
“Administrative Measures”	the Administrative Measures on Share Incentives of Listed Companies (上市公司股權激勵管理辦法);
“Articles of Association”	the articles of association of the Company, as amended from time to time;
“Board”	the board of Directors of the Company;
“China” or “PRC”	the People’s Republic of China, which for the purpose of this circular, excludes Hong Kong, Macau Special Administrative Region of the People’s Republic of China and Taiwan;
“Class Meetings”	the A Shares Class Meeting and the H Shares Class Meeting;
“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 Hong Kong Stock Exchange and A Shares are listed on the Stock Exchange;
“Company Law”	the Company Law of the PRC;
“Connected Participant(s)”	Participant(s) who is/are connected person(s) of the Group;
“connected person(s)”	has the meaning ascribed thereto under the Hong Kong Listing Rules;
“Convertible Bonds”	A share convertible bonds, with a nominal value of RMB4 billion issued by the Company in July 2014. In accordance with the prospectus on public issuance of convertible corporate bonds of the Company, all outstanding Convertible Bonds were redeemed on 16 February 2015;

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## DEFINITIONS

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“CSRC”	China Securities Regulatory Commission;
“Director(s)”	the director(s) of the Company;
“EGM”	the 2019 first extraordinary general meeting of the Company to be held on Friday, 22 November 2019 (or any adjournment thereof);
“EVA”	Economic value added;
“First Grant”	the proposed grant of 29,000,000 Restricted Shares to the Participants pursuant to the Incentive Scheme;
“Grant Date”	the date on which the Company grants the Restricted Shares to the Participants, and the Grant Date must be a trading day;
“Grant Price”	the price of each Restricted Share granted by the Company to the Participants;
“Group”	the Company and its subsidiaries;
“H Shares”	overseas listed foreign shares of the Company with an nominal value of RMB1.00 each, which are listed on the Main Board of the Hong Kong Stock Exchange and traded in Hong Kong dollars;
“H Shares Class Meeting”	the 2019 first H shares class meeting of the Company to be convened on Friday, 22 November 2019 (or any adjournment thereof);
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC;
“Hong Kong Stock Exchange”	The Stock Exchange of Hong Kong Limited;
“Incentive Scheme” or “Scheme”	Restricted A Share Incentive Scheme for 2019 of the Company;
“Independent Board Committee”	the committee formed by all independent non-executive directors of the Company, so as to give advice to Independent Shareholders in respect of the Incentive Scheme and the proposed grant to connected person(s);

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## DEFINITIONS

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“Independent Financial Adviser” or “Gram Capital”	Gram Capital Limited, being a licensed corporation to conduct Type 6 (advising on corporate finance) regulated activities under the SFO, the independent financial adviser appointed by the Company to advise the Independent Board Committee and Independent Shareholders of the proposed grant of Restricted Shares to Connected Participants under the Incentive Scheme;
“Independent Shareholders”	Shareholders other than shareholders who are Connected Participants;
“Latest Practicable Date”	31 October 2019, 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;
“Lock-up Period”	the period during which the Restricted Shares granted to the Participants under the Incentive Scheme shall not be transferred, used as security, or for repayment of debts;
“Notice”	the Notice on Issues concerning Regulating the Implementation of the Share Incentive Schemes by State-Owned Listed Companies (Guo Zi Fa Fen Pei [2008] No. 171) (《關於規範國有控股上市公司實施股權激勵制度有關問題的通知(國資發分配[2008]171號)》);
“Participant(s)”	the Directors, senior management personnel, middle management personnel and Frontline leaders of the Company (including subsidiaries and branches) to be granted the Restricted Shares under the Incentive Scheme;
“Proposed Grant”	the proposed grant of an amount not exceeding 30,000,000 Restricted Shares to the Participants pursuant to the Incentive Scheme;
“Remuneration and Assessment Committee”	the remuneration and assessment committee of the Company, the current members comprise of independent non-executive Directors Mr. Gu Dake (Chairman), Mr. Xu Haihe, Mr. Liu Dengqing, and executive Director Mr. Huang Wei;

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## DEFINITIONS

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“Reserved Grant”	the reserved grant of an amount not exceeding 1,000,000 Restricted Shares to the Participants pursuant to the Incentive Scheme;
“Restricted Shares”/ “Target Shares”	the number of A shares granted to the Participants according to the conditions and price stipulated under the Incentive Scheme which are subject to the Lock-up Period and can only be unlocked and transferred after satisfactory with the unlock conditions;
“RMB”	Renminbi, the lawful currency of the PRC;
“Securities Law”	the Securities Law of the PRC;
“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) as amended, supplemented or otherwise modified from time to time;
“Share(s)”	the share(s) in the ordinary share capital of the Company, with a nominal value of RMB1.00 each, including A Share(s) and H Share(s);
“Shareholder(s)”	holder(s) of Shares;
“Singhatari Project”	the development and construction of Singhatari BTG thermal power project by the Company;
“Stock Exchange”	The Shanghai Stock Exchange;
“Supervisory Committee”	The supervisory committee of the Company;
“Trial Measures”	the Trial Measures on Implementation of Share Incentive Schemes by State-Owned Listed Companies (Domestic) (Guo Zi Fa Fen Pei [2006] No. 175) (國有控股上市公司(境內)實施股權激勵試行辦法(國資發分配[2006]175號));
“Unlocking Condition(s)”	the conditions prescribed under the Incentive Scheme which have to be satisfied to unlock the Restricted Shares granted to the Participants;

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## DEFINITIONS

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“Unlocking Period”	the period during which the Restricted Shares held by the Participants can be unlocked and transferred after all the Unlocking Conditions prescribed under the Incentive Scheme are satisfied;
“Validity Period”	the period commencing on the date of the completion of the registration of the Restricted Shares and ending on the date when all the Restricted Shares are unlocked or repurchased and cancelled;
“%”	per cent; and
“ $\Delta$ EVA”	Change in the economic value added

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## LETTER FROM THE BOARD

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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)

*Directors:*

Mr. Zou Lei (*Chairman*)  
Mr. Yu Peigen (*President*)  
Mr. Huang Wei  
Mr. Xu Peng  
Mr. Bai Yong

*Registered Office:*

18 Xixin Road  
High-Tech District (Western District)  
Chengdu City  
Sichuan Province, the PRC

*Independent Non-executive Directors:*

Mr. Gu Dake  
Mr. Xu Haihe  
Mr. Liu Dengqing

*Principal place of business in Hong Kong:*

40th Floor, Sunlight Tower  
No. 248 Queen's Road East  
Wanchai, Hong Kong

1 November 2019

*To the Shareholders*

Dear Sir or Madam,

**(1) PROPOSED ADOPTION OF THE RESTRICTED  
A SHARE INCENTIVE SCHEME FOR 2019**  
**(2) CONNECTED TRANSACTION – PROPOSED GRANT  
UNDER INCENTIVE SCHEME**  
**(3) PROPOSED CHANGE IN USE OF PARTIAL PROCEEDS**

**I. INTRODUCTION**

Reference is made to the announcement of the Company dated 5 September 2019 in relation to the proposed adoption of the Restricted A Share Incentive Scheme for 2019 by the company and the announcement dated 27 September 2019 in relation to the Amendment to the Restricted A Share Incentive for 2019 (Draft) and confirmation of the Proposed Grant to the List of Participants who are connected persons of the First Grant thereunder.



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## LETTER FROM THE BOARD

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Reference is made to the announcement of the Company dated 17 September 2019 in relation to the Proposed Change in Use of Partial Proceeds.

Reference is made to the notices of EGM and H Shares Class Meeting both dated 27 September 2019, in relation to, among others, the proposed adoption of Restricted A Share Incentive Scheme for 2019; and matters of the Proposed Grant under the Incentive Scheme.

The purpose of this circular is to provide the Shareholders with further information in respect of resolutions regarding the following matters to be proposed at the EGM and the Class Meetings (as the case may be) to enable the Shareholders to make their informed decisions as to how to vote at the EGM and the H Shares Class Meeting:

- (i) To consider and approve the resolution regarding the Restricted A Share Incentive Scheme for 2019 (Amended Draft) and its summary;
- (ii) To consider and approve the resolution regarding the Assessment Management Measures for the Incentive Scheme for Restricted A Shares for 2019;
- (iii) To consider and approve the resolution regarding mandate granted by the general meeting to the Board to handle the relevant matters in respect of the Restricted A Share Incentive Scheme for 2019; and
- (iv) To consider and approve the resolution regarding the change in the use of partial proceeds from Convertible Bonds and the permanent replenishment of working capital.

## II. INCENTIVE SCHEME

### I. Information of the Group

The Group engages in the power equipment industry, offering businesses such as large, advanced sets of equipment for the high-efficiency clean generation of hydropower, thermal power, nuclear power, wind power, gas power and solar thermal, as well as construction contracting and services and power electronics and control, finance, logistics, trade, new energy, industrial and intelligent equipment.

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## LETTER FROM THE BOARD

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### II. Purpose and Principles of the Incentive Scheme

The Incentive Scheme is formulated to further perfect the mid-and-long term incentive and restraint mechanism of the Company and achieve the incentive and restraint on the Directors, senior and middle management and frontline leaders of the Company to more tightly align their interests with the long-term development of the Company, and take on risks while share the interests together, and fully mobilize their enthusiasm and creativity to form a long-term behavior of decision makers and operators, and improve the motivation force of the growth of the Company as well as cohesion and competitiveness of the Company to promote the sustainable and high quality development of the Company so that the value of the Company and Shareholders will be maximized. On the basis of fully safeguarding Shareholders' interests, the Incentive Scheme has been formulated on the principle of aligning return with contribution to the Company and in accordance with relevant laws, regulations and regulatory documents such as the Company Law, the Securities Law, the Administrative Measures, the Trial Measures and the Notice, as well as the relevant requirements of the Articles of Association.

The Incentive Scheme adheres to the following principles:

1. Being lawful, open and transparent, and abiding by laws, regulations and the requirements of the Articles of Association;
2. Safeguarding the interests of the Shareholders and the Company, improving value preservation and appreciation of state-owned assets, and contributing to the Company's sustainable and high-quality development;
3. Combining incentives with constraints, making risks commensurate with returns and reasonably determine the magnitude of incentives for the Participants;
4. Being practicable and standardized, rolling out step by step and improving constantly.

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## LETTER FROM THE BOARD

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### III. Basis for Determining the Scope of the Participants and Allocation

#### *(I) Basis for determining the Participants*

##### *1. Legal basis for determining the Participants*

The Participants of the Incentive Scheme are determined in accordance with the Company Law, the Securities Law, the Administrative Measures, the Trial Measures, the Notice as well as other relevant laws, regulations, regulatory documents and the relevant requirements of the Articles of Association and the actual situation of the Company.

##### *2. Positions held by Participants in the Company*

The Participants under the Incentive Scheme shall include directors, senior and middle management, and frontline leaders of the Company, its branches and subsidiaries.

#### *(II) Participants to be covered*

The total number of Participants proposed at the First Grant under the Incentive Scheme shall be 800, specifically including the Company's (including its branches and subsidiaries):

1. Directors (directors of subsidiaries) and senior management;
2. Middle management;
3. Frontline leaders (non-leadership level's key personnel in marketing, research and development, management and production).

The Participants under the Incentive Scheme do not include the independent non-executive directors and the supervisors of the Company, any Shareholder or actual controller, whether jointly or individually, holding more than 5% of the shares of the Company, or their respective spouses, parents and children.

There is no Director on the list of Participants under the First Grant of the Incentive Scheme.

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## LETTER FROM THE BOARD

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For the above Participant, a Director must have been elected at a general meeting or senior management member must have been engaged by the Board. All Participants should be appointed, employed or hired by the Company or any of the branch or subsidiary of the Company when they are granted incentive interests.

The list of the Participants for the First Grant and the number of Restricted Shares to be granted shall be proposed by the Remuneration and Assessment Committee, considered and approved by the Board and verified by the Supervisory Committee in the EGM and Class Meetings with elaboration of such verification.

Pursuant to Article 8 of the Administration Measures, a person shall not be qualified as a Participant if such person:

- (1) has been deemed as an inappropriate candidate by the Stock Exchange in the last 12 months;
- (2) has been deemed as an inappropriate candidate by the CSRC or any of its dispatched agencies in the last 12 months;
- (3) has been imposed with administrative penalties or a ban from entry into the securities market by the CSRC or any of its dispatched agencies due to material breach of laws and regulations in the last 12 months;
- (4) is prohibited from acting as a director or a member of the senior management of a company under the Company Law;
- (5) is not allowed to participate in any share incentive scheme of a listed company according to applicable laws and regulations; or
- (6) falls under any other circumstances as prescribed by the CSRC.

Pursuant to Article 35 of the Trial Measures, a person shall not be qualified as a Participant if such person:

- (1) has violated relevant laws and regulations of the State or the provisions of the articles of association of the listed companies;
- (2) has caused losses to listed companies during his/her term of office due to his/her violation of laws or disciplines such as bribery, embezzlement, theft, divulgence of confidential information of listed companies in operational and technical aspect and execution of unfair connected transactions, all of which are detrimental to the interests and reputation of listed companies and have a material adverse impact on the image of listed companies.

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## LETTER FROM THE BOARD

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### IV. Source, Number and Allocation of Restricted Shares

#### *(I) Share Incentive Method and Source of Underlying Shares*

The share incentive method of the Incentive Scheme is to grant Restricted Shares to the Participants and the source is from the issuance of the Company's A shares to the Participants.

#### *(II) Number of Restricted Shares to be granted*

30,000,000 Restricted Shares is proposed to be granted under the Incentive Scheme, accounting for approximately 0.97% of the Company's total share capital of 3,090,803,431 shares as at the Latest Practicable Date. Specifically, 29,000,000 Restricted Shares will be granted firstly, accounting for approximately 0.94% of the Company's total share capital as at the Latest Practicable Date, and accounting for approximately 96.67% of the total Restricted Shares available under the Incentive Scheme; and 1,000,000 shares will be reserved, accounting for approximately 0.03% of the Company's total share capital as at the Latest Practicable Date, and accounting for approximately 3.33% of the total Restricted Shares available under the Incentive Scheme. The Reserved Grant shall not exceeded 20% of the total interests available under the Incentive Scheme.

The total number of target shares to be granted under the Incentive Scheme during the validity period will not exceed 10% of the Company's total share capital, and the total number of Restricted Shares to be granted under the Incentive Scheme to any one of the Participants during the Validity Period will not exceed 1% of the total share capital of the Company.

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## LETTER FROM THE BOARD

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### *(III) Allocation of the Restricted Shares to be Granted to Participants*

1. The allocation of the Restricted Shares to be granted under the Proposed First Grant of the Incentive Scheme among all Participants is set out in the table below:

Name	Position	Number of Restricted Shares granted <i>(Unit: '0,000 Shares)</i>	Proportion in the total Restricted Shares granted	Proportion in the total share capital as at the Latest Practicable Date
Gong Dan	Secretary to the Board	15	0.50%	0.0049%
Gao Feng	Vice President	15	0.50%	0.0049%
Chen Huan	Vice President	15	0.50%	0.0049%
Mid-level management and frontline leaders (797 persons in total)		2,855	95.17%	0.9237%
Reserved Grant		<u>100</u>	<u>3.33%</u>	<u>0.0324%</u>
Total (800 persons for the First Grant)		<u><u>3,000</u></u>	<u><u>100.00%</u></u>	<u><u>0.9706%</u></u>

## LETTER FROM THE BOARD

2. The Participants in the Proposed First Grant of which 29 are the chief executives of the Company, directors and supervisors of the Company's subsidiaries and are connected persons of the Company as defined in the Listing Rules (but not including persons who are not regarded as connected persons of the Company pursuant to Rule 14A.09 of the Listing Rules). The details of the Restricted Shares to be granted to the Participants who are Connected Persons and related parties under the Rules Governing the Listing of Stocks on Shanghai Stock Exchange in the First Grant are as below:

No.	Name	Reason for being a connected person/related party	Number of the Restricted Shares granted (*0,000 Shares)	Proportion in the total number of Restricted Shares granted	Proportion in the total share capital of the Company as at the Latest Practicable Date
1	Gong Dan*	Secretary to the Board, Senior management of the Company	15	0.50%	0.0049%
2	Gao Feng*#	Vice President of the Company Senior management of the Company	15	0.50%	0.0049%
3	Chen Huan*#	Vice President of the Company Senior management of the Company	15	0.50%	0.0049%
4	Liu Hui#	Director of a subsidiary	8	0.27%	0.0026%
5	He Jianhua#	Director of a subsidiary	8	0.27%	0.0026%
6	Chen Yu#	Director of a subsidiary	8	0.27%	0.0026%
7	Li Yunjun#	Director of a subsidiary	8	0.27%	0.0026%
8	Lan Xiangjun#	Director of a subsidiary	8	0.27%	0.0026%
9	Luo Shengming#	Director of a subsidiary	8	0.27%	0.0026%
10	Xu Changjian#	Director of a subsidiary	5	0.17%	0.0016%
11	Hu Jun#	Director of a subsidiary	8	0.27%	0.0026%
12	Zheng Xingyi#	Director of a subsidiary	5	0.17%	0.0016%
13	Gong Xueqing#	Supervisor of a subsidiary	2	0.07%	0.0006%
14	Hu Xiukui#	Director of a subsidiary	8	0.27%	0.0026%
15	Tang Yong#	Director of a subsidiary	8	0.27%	0.0026%
16	Xia Xiaoqiang#	Director of a subsidiary	8	0.27%	0.0026%
17	Huo Suoshan#	Director of a subsidiary	8	0.27%	0.0026%
18	Chen Li#	Supervisor of a subsidiary	6	0.20%	0.0019%
19	Cai Tongzhou#	Director of a subsidiary	8	0.27%	0.0026%
20	Wang Xu#	Director of a subsidiary	8	0.27%	0.0026%
21	Gao Yong#	Supervisor of a subsidiary	6	0.20%	0.0019%
22	Luo Zhigang#	Director of a subsidiary	2	0.07%	0.0006%
23	Chen Qiang#	Director of a subsidiary	8	0.27%	0.0026%

## LETTER FROM THE BOARD

No.	Name	Reason for being a connected person/related party	Number of the Restricted Shares granted ( <i>'0,000 Shares</i> )	Proportion in the	Proportion in the
				total number of Restricted Shares granted	total share capital of the Company as at the Latest Practicable Date
24	Xu Ping <sup>#</sup>	Supervisor of a subsidiary	5	0.17%	0.0016%
25	Ping Huiqiong <sup>#</sup>	Director of a subsidiary	3	0.10%	0.0010%
26	Liu Li <sup>#</sup>	Director of a subsidiary	3	0.10%	0.0010%
27	Tang Jianguo <sup>#</sup>	Director of a subsidiary	5	0.17%	0.0016%
28	Ji Ping <sup>#</sup>	Director of a subsidiary	7.5	0.25%	0.0024%
29	Huang Yong <sup>#</sup>	Director of a subsidiary	8	0.27%	0.0026%
30	Wang Zhiwen <sup>#</sup>	Supervisor of a subsidiary	8	0.27%	0.0026%
Total			<u>222.5</u>	<u>7.49%</u>	<u>0.0721%</u>

*Notes:*

- \* A related party as defined by relevant PRC laws and regulations.
- # A connected person as defined by the Listing Rules.
- (1) The above figures shown as totals may not be an arithmetic aggregation of the figures preceding them due to rounding adjustments.
- (2) Mr. Gong Dan will abstain from voting at the EGM and A Shares Class Meeting.

### V. Validity Period, Grant Date, Lock-Up Periods, Unlocking Arrangement and Black-out Provisions of the Incentive Scheme

#### (I) Validity Period

The Validity Period of the Incentive Scheme at the First Grant shall commence on the date of the registration of the Restricted Shares and end on the date when all the Restricted Shares which have been granted to the Participants are unlocked or repurchased and cancelled, and shall not exceed 72 months.

#### (II) Grant Date

The First Grant shall be determined by the Board after the Incentive Scheme is approved by the State-owned Assets Supervision and Administration Commission of the State Council and considered and approved at the EGM and Class Meetings of



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## LETTER FROM THE BOARD

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the Company, and the Grant Date must be a trading day. The Company shall grant the Restricted Shares and complete the registration and announcement procedures within 60 days (excluding the dates which granting are not permitted under relevant laws, regulations and listing rules requirements) from the date on which the Incentive Scheme is considered and approved at the EGM, Class Meetings of the Company, failing to complete the aforesaid tasks within 60 days, the Incentive Scheme will be terminated and the Restricted Shares which have not been granted will lapse.

The grant of Restricted Shares by the Company shall not be carried out in the following periods:

1. the period commencing from 60 days prior to the publication of annual results announcements of the Company, 30 days prior to the interim results announcements and the quarterly results announcements and the respective announcement day of the abovementioned announcements; in the event of delay in publishing the announcements for special reasons, 30 days prior to the originally estimated date of publication and end on one day prior to the date of publication;
2. within 10 days prior to the publication of the announcement of the performance forecast or the announcement of the preliminary performance results;
3. the period commencing from the date of occurrence of any significant event which may have significant effect on the trading price of the Company's shares and their derivatives or the date on which relevant decision-making procedures start, and ending on the second trading day following the disclosure in accordance with laws;
4. such other period as stipulated by the CSRC and the Stock Exchange.

The abovementioned periods during which the Company shall not allowed to grant Restricted Shares shall not be included in the aforementioned period of 60 days.

Where a Participant who is a Director or a member of the senior management of the Company reduces his/her shareholding in the Company within 6 months prior to the grant of the Restricted Shares, the grant of the Restricted Shares shall be postponed for six months from the date of the latest of such shareholding reduction in accordance with the short-swing trading provisions under the Securities Law. The aforementioned postponed period shall not be included in the period of 60 days.

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## LETTER FROM THE BOARD

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### *(III) Lock-Up Periods and Unlocking Arrangement*

The Lock-up Periods of the Restricted Shares granted under the Incentive Scheme shall be 24 months, 36 months and 48 months from the relevant completion date of registration of the Restricted Shares under the grant. The Restricted Shares granted to the Participants under the Incentive Scheme shall not be transferred, pledged or used for repayment of debt during the Lock-up Period.

The Unlocking Periods and unlocking schedule for the first and reserved Restricted Shares granted under the Incentive Scheme are set out in the table below:

<b>Unlocking Period</b>	<b>Unlocking Time</b>	<b>Ratio unlocking</b>
The First Unlocking Period under the First and Reserved Grant	Commencing from the first trading day after expiry of the 24-month period from the date of completion of registration of certain corresponding Restricted Shares and ending on the last trading day of the 36-month period from the date of completion of registration of certain corresponding Restricted Shares	1/3
The Second Unlocking Period under the First and Reserved Grant	Commencing from the first trading day after expiry of the 36-month period from the date of completion of registration of certain corresponding Restricted Shares and ending on the last trading day of the 48-month period from the date of completion of registration of certain corresponding Restricted Shares	1/3
The Third Unlocking Period under the First and Reserved Grant	Commencing from the first trading day after expiry of the 48-month period from the date of completion of registration of certain corresponding Restricted Shares and ending on the last trading day of the 60-month period from the date of completion of registration of certain corresponding Restricted Shares	1/3

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## LETTER FROM THE BOARD

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After the Lock-up Period, the Company will proceed the unlocked arrangement for those Participants satisfied the Unlocking Conditions.

For Restricted Shares held by Participants who does not satisfy the Unlocking Conditions shall be repurchased and cancelled by the Company.

Restricted Shares received by Participants due to capitalisation issue, bonus issue and share subdivision shall also be subject to lock-up restriction, and shall not be disposed in the secondary market or otherwise transferred until they are unlocked. The Unlocking Periods of such shares shall be the same as those of the Restricted Shares. Where the Company repurchases unlocked Restricted Shares, such shares shall be repurchased and cancelled together with those unlocked Restricted Shares.

### ***(IV) Black-out Provisions***

The black-out provisions under the Incentive Scheme shall be implemented in accordance with the Company Law, the Securities Law, other relevant laws, regulations and regulatory documents, and the Articles of Association. Such provisions include but are not limited to:

1. If a Participant is a Director or a member of Senior Management of the Company, the number of shares that may be transferred each year during his/her term of office shall not exceed 25% of the total number of shares held by him/her. He/she shall not transfer any of his/her shares within 6 months after his/her departure.
2. If a Participant, who is a Director or a member of Senior Management of the Company, disposes any shares within six months after the acquisition, or repurchases within six months after disposition, all gains arising therefrom shall belong to the Company and be recovered by the Board.
3. If, during the Validity Period of the Incentive Scheme, there is any change to the requirements regarding the transfer of shares by a Director and a member of senior management of the Company under the Company Law, the Securities Law, other relevant laws, regulations and regulatory documents and the Articles of Association, a Participant shall comply with the relevant amended regulations upon transfer of his/her shares held by him/her.

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## LETTER FROM THE BOARD

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4. A Participant, who is a Director or a member of senior management, shall prolong the Lockup Period of 20% of the aggregate Restricted Shares granted to him/her to the expiry of his/her term of office (the term of office of the position held on the last unlocking date) and unlock the restrictions subject to his/her performance appraisal or the result of economic duty audit during such term.

Whether a Participant is a Director or a member of senior management shall be determined based on the position such Participant holds for the year when he/she was granted the Restricted Shares under the Incentive Scheme; performance appraisal or economic duty audit of a Participant refers to those conducted for the term of office during the year when the Participants were granted the Restricted Shares under the Incentive Scheme.

### **VI. Grant Price and Basis of Determination of the Grant Price**

#### ***(I) Grant Price of the Restricted Shares under the First Grant***

The Grant Price of the Restricted Shares under the First Grant of the Incentive Scheme shall be RMB5.93 per Share. Upon fulfillment of grant conditions, each Participant is entitled to purchase A Shares newly issued to the Participants by the Company at the price of RMB5.93 per share.

#### ***(II) Basis for determination of the Grant Price of the Restricted Shares under the First Grant***

The Grant Price has to comply with the requirements set out under the Administrative Measures promulgated by the CSRC, which requires the issue price of new shares (i) not to be set at a price lower than its nominal value; and (ii) principally not to be set at a price lower than the highest of the (a) 50% of the average trading price on the trading day preceding the date of announcement of the incentive scheme; and (b) 50% of the average price for the period of last 20, 60 or 120 trading days preceding the date of announcement of the A shares incentive scheme.

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## LETTER FROM THE BOARD

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The Grant Price of the Restricted Shares granted by the Company via means of issuing additional shares shall be determined according to principle of fair market price, and shall not be lower than the higher of the following prices:

1. 60% of the average trading price of the Target Shares on the last trading day immediately preceding the date of announcement of the Incentive Scheme on the Stock Exchange (ie. 6 September 2019), which is RMB5.9236;
2. 60% of one of the average trading price of the Target Shares for the last 20 trading days, 60 trading days and 120 trading days immediately preceding the date of announcement of the Incentive Scheme on the Stock Exchange (ie. 6 September 2019), which is RMB5.6326.

Based on the above pricing principles, the Grant Price of the Restricted Shares under the First Grant shall be RMB5.93 per share.

### **VII. Conditions of Grant and Unlocking of Restricted Shares under the Incentive Scheme**

#### ***(I) Conditions of grant of Restricted Shares***

The Company shall grant Restricted Shares to the Participants upon satisfaction of all of the following conditions of grant.

1. There is no occurrence of any of the following on the part of the Company:
  - (1) issue of an auditors' report with an adverse opinion or a disclaimer opinion by certified public accountants in respect of the financial and accounting report of the Company for the latest accounting year;
  - (2) issue of an auditors' report with an adverse opinion or a disclaimer opinion by certified public accountants in respect of the Company's internal control over financial reporting for the latest accounting year;
  - (3) failure to pay dividends in accordance with laws and regulations, the Articles of Association or public undertakings during the 36 months after listing;
  - (4) prohibition from implementation of a share incentive scheme by applicable laws and regulations;
  - (5) any other circumstances as prescribed by the CSRC.

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## LETTER FROM THE BOARD

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2. The Company shall meet the following conditions:
  - (1) it shall have a standardized governance structure, comprising Shareholders' general meeting, the Board meeting and the management structure, with a clear division of responsibilities among them. More than half of the Board members shall be external Directors (being Directors who do not hold any position in the Group, including independent non-executive directors);
  - (2) The Remuneration and Assessment Committee shall be composed of external Directors, with sound system and procedures to ensure operation in accordance with applicable laws and regulations;
  - (3) it shall have sound internal control and performance assessment system and standardized fundamental management rules in place and have established systems for employment, remuneration and benefit and performance assessment that are in line with the requirements of the market economy and modern enterprise management system;
  - (4) it shall have developed a clear and well-defined development strategy, shall be in a sound financial position with quality assets and stable business performance; and there were no financial violation of laws or regulations or negative records regarding the Company during the past three years;
  - (5) any other conditions as prescribed by the securities regulatory authorities.

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## LETTER FROM THE BOARD

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3. A Participant shall not be a person who:
  - (1) has been deemed as an inappropriate candidate by the Stock Exchange in the last 12 months;
  - (2) has been deemed as an inappropriate candidate by the CSRC or any of its dispatched agencies in the last 12 months;
  - (3) has been imposed with administrative penalties or a ban from entry into the securities market by the CSRC or any of its dispatched agencies due to material breach of laws and regulations in the last 12 months;
  - (4) is prohibited from acting as a director or a member of the senior management of a company under the Company Law;
  - (5) is not allowed to participate in any share incentive scheme of a listed company under laws and regulations;
  - (6) falls under any other circumstances as prescribed by the CSRC.
  
4. Pursuant to Article 35 of the Trial Measures, a Participant shall not be a person who:
  - (1) has violated relevant laws and regulations of the state or the provisions in the articles of association of listed companies; or
  - (2) has caused losses to listed companies during his/her term of office due to his/her violations of law or discipline such as bribery, embezzlement and theft, divulgence of confidential information of listed companies in operational and technical aspect and execution of unfair connected transactions, all of which are detrimental to the interests and reputation of listed companies and have a material adverse impact on the image of listed companies.

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## LETTER FROM THE BOARD

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5. The Company is deemed to have achieved the performance target if all of the following conditions are satisfied:

- (1) On the basis of 2017, the year-on-year increase in the growth rate of the net profit attributable to the Shareholders of the Company for 2018 shall not be less than 6% and not lower than industry average level;
- (2) The weighted average return on net assets of the Company for 2018 shall not be less than 3.5% and not lower than industry average level;
- (3) The  $\Delta$ EVA of the Company for 2018 is positive.

*Note* : The abovementioned “Industry” refers to all A-share listed companies in the “general equipment manufacturing industry” under the industry classification by the CSRC.

### ***(II) Unlocking conditions for Restricted Shares***

Within the Unlocking Period, the Restricted Shares granted to a Participant may be unlocked only when all of the following conditions are satisfied:

1. there is no occurrence of any of the following on the part of the Company:
  - (1) issue of an auditors’ report with an adverse opinion or a disclaimer opinion by certified public accountants in respect of the financial and accounting report of the Company for the latest accounting year;
  - (2) issue of an auditors’ report with an adverse opinion or which a disclaimer opinion by certified public accountants in respect of the Company’s internal control over financial reporting for the latest accounting year;
  - (3) failure to pay dividends in accordance with laws and regulations, the Articles of Association and public undertakings during the 36 months after listing;
  - (4) prohibition from implementation of a share option incentive scheme by applicable laws and regulations;
  - (5) any other circumstances as prescribed by the CSRC.



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## LETTER FROM THE BOARD

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2. The Company shall meet the following conditions:
  - (1) it shall have a standardized governance structure, comprising Shareholders' general meeting, the Board meeting and the management structure, with a clear division of responsibilities among them. More than half of the Board members shall be external Directors (including independent non-executive directors);
  - (2) The Remuneration and Assessment Committee shall be composed of external Directors, with sound system and procedures to ensure operations in accordance with applicable laws and regulations;
  - (3) it shall have sound internal control and performance assessment systems and standardized fundamental management rules in place and have established systems for employment, remuneration and benefit and performance assessment that are in line with the requirements of the market economy and modern enterprise management system;
  - (4) it shall have developed a clear and well-defined development strategy, shall be in a sound financial position with quality assets and stable business performance; and there were no financial violations of law or discipline or negative records regarding the Company during the past three years;
  - (5) any other conditions as prescribed by the securities regulatory authorities.

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## LETTER FROM THE BOARD

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3. A Participant shall not be a person who:
  - (1) has been deemed as an inappropriate candidate by the Stock Exchange in the last 12 months;
  - (2) has been deemed as an inappropriate candidate by the CSRC or any of its dispatched agencies in the last 12 months;
  - (3) has been imposed with administrative penalties or a ban from entry into the securities market by the CSRC or any of its dispatched agencies due to material breach of laws and regulations in the last 12 months;
  - (4) is prohibited from acting as a director, or a member of the senior management of a corporation under the Company Law;
  - (5) is not allowed to participate in any share incentive scheme of a listed company under laws and regulations;
  - (6) falls under any other circumstances as prescribed by the CSRC.
  
4. Pursuant to Article 35 of the Trial Measures, a Participant shall not be a person who:
  - (1) has violated relevant laws and regulations of the state or the provisions of the articles of association of listed companies;
  - (2) has caused losses to listed companies during his/her term of office due to his/her violations of law or discipline such as bribery, embezzlement and theft, divulgence of confidential information of listed companies in operational and technical aspect and execution of unfair connected transactions, all of which are detrimental to the interests and reputation of listed companies and have a material adverse impact on the image of listed companies.

In case of occurrence of any of the circumstances as stipulated in paragraphs 1 and/or 2 above to the Company, all the Restricted Shares that have been granted to the Participants but not yet unlocked shall be repurchased and cancelled by the Company at the Grant Price. In case of occurrence of any of the circumstances as stipulated in paragraphs 3 and/or 4 to a Participant, the Restricted Shares that have been granted to such Participant but not yet unlocked under the Incentive Scheme shall be repurchased and cancelled by the Company at the Grant Price.

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## LETTER FROM THE BOARD

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5. Achieving the Company's level performance appraisal targets.

Restricted Shares in the Incentive Scheme at the First Grant shall be appraised on performance and unlocked on a year basis in three accounting years from 2020 to 2022, and an appraisal will be carried out every accounting year to achieve the performance appraisal targets of the Company, which shall be regarded as the unlock conditions of the Participants.

Performance targets of the Company each year are set out in the table below:

<b>Unlocking Period</b>	<b>Performance targets</b>
The First Unlocking Period	<p>(1) On the basis of the net profit for 2018, the compound growth rate of the net profit for 2020 shall not be less than 10% and not lower than industry average level;</p> <p>(2) The return on net assets for 2020 shall not be less than 4% and not lower than industry average level; and</p> <p>(3) The <math>\Delta</math>EVA for 2020 is positive.</p>
The Second Unlocking Period	<p>(1) On the basis of the net profit for 2018, the compound growth rate of the net profit for 2021 shall not be less than 10% and not lower than industry average level;</p> <p>(2) The return on net assets for 2021 shall not be less than 4.5% and not lower than industry average level; and</p> <p>(3) The <math>\Delta</math>EVA for 2021 is positive.</p>

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## LETTER FROM THE BOARD

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### **Unlocking Period**

### **Performance targets**

The Third Unlocking Period

- (1) On the basis of net profit for 2018, the compound growth rate of the net profit for 2022 shall not be less than 10% and not lower than industry average level;
- (2) The return on net assets for 2022 shall not be less than 5% and not lower than industry average level; and
- (3) The  $\Delta$ EVA for 2022 is positive.

Where the reserved portion shall be granted in 2019, performance targets of the reserved portion shall be consistent with the performance targets at the First Grant; Where the reserved portion shall be granted in 2020, performance targets of the reserved each year are set out in the table below:

### **Unlocking Period**

### **Performance targets**

The First Unlocking Period

- (1) On the basis of the net profit for 2018, the compound growth rate of the net profit for 2021 shall not be less than 10% and not lower than industry average level;
- (2) The return on net assets for 2021 shall not be less than 4.5% and not lower than industry average level; and
- (3) The  $\Delta$ EVA for 2021 is positive.

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## LETTER FROM THE BOARD

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### Unlocking Period

### Performance targets

- |                             |  |
|-----------------------------|--|
| The Second Unlocking Period | (1) On the basis of the net profit for 2018, the compound growth rate of the net profit for 2022 shall not be less than 10% and not lower than industry average level; |
|                             | (2) The return on net assets for 2022 shall not be less than 5% and not lower than industry average level; and   |
|                             | (3) The $\Delta$ EVA for 2022 is positive.   |
| The Third Unlocking Period  | (1) On the basis of the net profit for 2018, the compound growth rate of the net profit for 2023 shall not be less than 10% and not lower than industry average level; |
|                             | (2) The return on net assets for 2023 shall not be less than 5.5% and not lower than industry average level; and   |
|                             | (3) The $\Delta$ EVA for 2023 is positive.   |

*Notes :*

- (1) The abovementioned “net profit” refers to net profit attributable to Shareholders of the Company; “return on net assets” refers to weighted average return on net assets.
- (2) During the Validity Period of the Incentive Scheme, in case of additional issuance or allotment of shares etc. that would result in a change in the net assets of the Company, the change in net assets and the income arising therefrom (if such income cannot be accurately calculated, it can be calculated by multiplying the actual financing amount after deducting the financing cost by the interest rate of the national debts of the same term) shall be excluded when conducting an appraisal.

The incentive costs incurred from the Incentive Scheme will be charged to the Company’s administrative expenses.

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## LETTER FROM THE BOARD

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In the event that the Company's performance targets of Restricted Shares in certain Unlocking Period could not be achieved, all Participants' current Restricted Shares shall not be unlocked and shall be repurchased and cancelled by the Company at the lower of the Grant Price and the market price (i.e. the average trading price of the Company's Target Shares in the trading day prior to the date of the announcement of the Board resolution for consideration of the repurchase) of the Company's shares during repurchasing in accordance with the Incentive Scheme.

The Company falls within the "general equipment manufacturing industry" under the "manufacturing" category of industry classification by the CSRC and the Company's industry peers are all domestic A-share listed companies in the "general equipment manufacturing industry" as classified by the CSRC. During the Validity Period of the Incentive Scheme, if the CSRC adjusts the industry classification of the Company or adjusts the constituents in the same industry, the Company shall adopt the then last updated industry classification data in the appraisal of each year. Meanwhile, if there are significant changes in the principal business of or extreme values with excessive performance variation in the same industry samples during the annual appraisal, the Board will remove the samples based on actual conditions.

Identification of the material changes in the principal business of industry peers is primarily based on the changes in the industry classification regarding listed companies where the principal business of industry peers belongs (for specific classification, please refer to the Guidelines for the Industry Classification of Listed Companies (2012 Revision) issued by the CSRC) (subject to the public information) arising from the business reorganisation and operation strategy adjustment of such enterprises from the base year (i.e. 2018) to the end of the evaluation year corresponding to each Unlocking Period.

Identification of extreme values with overly excessive performance variation in the samples mainly depends on whether there is an absolute difference of at least 100% between the compound growth rate of net profits and/or the return on net assets attributable to shareholders of listed companies and the average levels of the general equipment manufacturing industry of such enterprises from the base year (i.e. 2018) to the end of the evaluation year corresponding to each Unlocking Period.

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## LETTER FROM THE BOARD

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6. Reaching performance appraisal requirements at individual level

During the Validity Period of the Incentive Scheme, the Company will make an appraisal on annual performance of the Participants and determine to unlock the restraint ratio according to the results of annual performance appraisal of the Participants in accordance with the Assessment Management Measures for the Incentive Scheme for Restricted A Shares in 2019 (《2019年A股限制性股票激勵計劃實施考核管理辦法》).

The performance results shall be categorised into five grades, namely excellent, good, competent, fair and poor. If the performance results of the Participants in the previous year shall be excellent, good and competent, the individual performance of the Participants in the previous year shall be regarded as “pass”; If the performance results of the Participants in the previous year shall be fair and poor, the individual performance of the Participants in the previous year shall be regarded as “fail”.

If the individual performance appraisal of certain Participant in the previous year shall be regarded as “pass”, the current restricted shares of the Participants shall be unlocked fully. If the individual performance appraisal of certain Participant in the previous year shall be regarded as “fail”, all current restricted shares shall be repurchased and cancelled by the Company at the lower of the Grant Price and the market price (i.e. the average trading price of the Company’s Target Shares in the trading day prior to the date of the announcement of the Board resolution for consideration of the repurchase) of the Company’s shares during repurchasing.

<b>Grade</b>	<b>A</b>	<b>B</b>	<b>C</b>	<b>D</b>	<b>E</b>
Score range	90 to 100	80 to 90	70 to 80	60 to 70	Below 60
Conclusion	Excellent	Good	Competent	Fair	Poor
	Pass			Fail	

7. Where the performance appraisal at the Company level shall fail or the performance appraisal at the individual level leads to unlocking conditions unachieved, the corresponding restricted shares shall not defer to unlock in the next period.

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## LETTER FROM THE BOARD

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### *(III) Scientificity and Reasonableness of the Appraisal Indicators*

The restricted shares appraisal indicators of the Company are categorised into two levels, i.e. performance appraisal at the Company's level and performance appraisal at individual's level.

According to the relevant requirements of State-owned Assets Supervision and Administration Commission of the State Council, performance indicators, in principle, shall contain the comprehensive indicator that shall reflect shareholders' return and the value of the Company and the indicator that shall reflect the sustainability of the Company and the quality of the Company's development. Based on the above requirements, the Incentive Scheme of the Company combined the practice of state-owned enterprises and the characters of the Company, and selected suitable indicators (including compound growth rate of net profit, return on net assets and  $\Delta$ EVA) as the indicators when they are granted and effect for performance appraisal at Company's level. The above indicators shall be the core financial indicators of the Company, reflecting the Company's ability of development, shareholders' return and creating the value of the Company. Through a reasonable projection as well as taking into account the incentive effect of the Incentive Scheme, the Company established the aforementioned performance targets for the Incentive Scheme.

In addition to the performance appraisal at the Company level, the Company has established a strict performance appraisal system for the Participants, which evaluates comprehensively the performance of the Participants in an accurate and all-round manner. The Company will determine whether the Participants meet the unlocking conditions based on their performance appraisal results for the previous year.

Given the above, the appraisal system for the Incentive Scheme of the Company is all-round, comprehensive and operable, and the appraisal indicators are scientific and reasonable, which are binding on the Participants and can serve the appraisal goal of the Incentive Scheme.

The details of the Assessment Management Measures for the Restricted A Shares Incentive Scheme for 2019 is set out in Appendix II of this circular.



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## LETTER FROM THE BOARD

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### VIII. Method and Procedures for Adjustment to the Number and Price of the Restricted Shares of the Incentive Scheme

#### (I) *Method of Adjusting the Number of Restricted Shares*

During the period from the date of this announcement of the Incentive Scheme to the completion of registration of the Restricted Shares held by the Participants, in case of any capitalisation issue, bonus issue, share split, share consolidation or rights issue made by the Company, adjustment to the number of Restricted Shares shall be made by the Company accordingly. The method of adjustment is set out below:

##### 1. *Capitalisation issue, bonus issue and share split*

$$Q = Q_0 \times (1 + n)$$

Where: Q represents the number of Restricted Shares after the adjustment;  $Q_0$  represents the number of Restricted Shares before the adjustment; n represents the ratio of increase of share resulting from the issue of shares by capitalisation issue, bonus issue and share split (i.e. the number of shares increased per share upon capitalisation issue, bonus issue or share split).

##### 2. *Share consolidation*

$$Q = Q_0 \times n$$

Where: Q represents the number of Restricted Shares after the adjustment;  $Q_0$  represents the number of Restricted Shares before the adjustment; n represents the proportion of a share that may result from consolidation of 1 share of the Company (i.e 1 share of the Company in consolidated to n shares).

##### 3. *Rights issue*

$$Q = Q_0 \times P_1 \times (1 + n) / (P_1 + P_2 \times n)$$

Where: Q represents the number of Restricted Shares after the adjustment;  $Q_0$  represents the number of Restricted Shares before the adjustment; n represents the ratio of the rights issue (i.e. the ratio of the number of shares to be issued under the rights issue to the total share capital of the Company before the rights issue);  $P_1$  represents the closing price as at the date of registration of share;  $P_2$  represents the price of the rights issue.

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## LETTER FROM THE BOARD

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4. *Dividend distribution and additional issue of new shares*

Under the circumstance of dividend distribution and additional issue of new shares, no adjustment will be made to the number of Restricted Shares.

**(II) *Method of Adjusting the Grant Price of the Restricted Shares***

In the event that, during the period from the date of this announcement of the Incentive Scheme to the completion of registration of the Restricted Shares held by a Participant, the Company will proceed any capitalisation issue, bonus issue, share spilt, dividend distribution, share consolidation or rights issue, adjustment to the Grant Price of Restricted Shares shall be made by the Company accordingly. The method of adjustment is set out below:

1. *Capitalisation issue, bonus issue and share split*

$$P = P_0 \div (1 + n)$$

Where: P represents the Grant Price after adjustment;  $P_0$  represents the Grant Price before the adjustment; n represents the ratio of increase of shares resulting from the issue of shares by capitalisation issue, bonus issue and share split (i.e the number of Shares increased per Share upon capitalization, bonus issue or share split).

2. *Dividend distribution*

$$P = P_0 - V$$

Where: P represents the Grant Price after adjustment;  $P_0$  represents the Grant Price before the adjustment; V represents the dividend per share.

3. *Share consolidation*

$$P = P_0 \div n$$

Where: P represents the Grant Price after adjustment;  $P_0$  represents the Grant Price before the adjustment; n represents the proportion of a share that may result from consolidation of 1 share of the Company (i.e. 1 share of the Company is consolidated to n shares).

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## LETTER FROM THE BOARD

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4. *Rights issue*

$$P = P_0 \times (P_1 + P_2 \times n) / [P_1 \times (1 + n)]$$

Where: P represents the Grant Price after adjustment;  $P_0$  represents the Grant Price before the adjustment;  $P_1$  represents the closing price as at the date of share registration;  $P_2$  represents the price of the rights issue; n represents the ratio of the rights issue (i.e. the ratio of the number of shares to be issued under the rights issue to the total share capital of the Company before the rights issue).

5. *Additional issue of new shares*

Under the circumstance of additional issue of new shares, no adjustment will be made on the price of the Restricted Shares.

**(III) Adjustment Procedures for the Scheme**

The Board was authorized the power at the general meeting of the Company to determine the adjustment to the Grant Price and the number of the Restricted Shares when the foregoing circumstances occur. The Board will adjust the Grant Price and the number of the Restricted Shares based on the above mentioned requirements and will publish announcement in due course. The Company shall engage a legal adviser to provide professional advice to the Board as to whether such adjustment is in compliance with the Administrative Measures, the Articles of Association and the Scheme.

**IX. Procedures of Implementation of the Incentive Scheme**

**(I) Procedures for the Incentive Scheme to take effect**

1. The Remuneration and Assessment Committee is responsible for preparing the draft of the Incentive Scheme and submit the same to the Board for consideration.
2. The Board of the Company shall arrive at a resolution on the Incentive Scheme in accordance with laws. When the Board considers the Incentive Scheme, any Director who is also a Participant or is a related party to a Participant shall abstain from voting.

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## LETTER FROM THE BOARD

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3. The independent non-executive Directors and the Supervisory Committee shall issue opinions in respect of whether the Incentive Scheme is beneficial to the sustainable development of the Company or whether there is any noticeable damage to the interests of the Company and all Shareholders.
4. The Company shall engage a law firm to issue legal opinions on the Incentive Scheme and the opinions should be announced at the same time with the Incentive Scheme. An independent financial adviser to issue professional opinions.
5. Before convening the general meeting, the Company shall announce the name and position of the Participants internally via Company website or other channels for not less than 10 days. The Supervisory Committee shall review the list of the Participants and take sufficient consideration of the public opinions. The Company shall disclose the explanation of the Supervisory Committee regarding the review of the list of Participants under the Incentive Scheme and the status of announcement 5 days prior to the consideration of the Incentive Scheme at the general meeting.
6. The Company should carry out self-investigation on the trading of shares of the Company by insiders during the 6 months' period prior to the announcement of the draft Scheme to examine whether any insider trading exists.
7. The Incentive Scheme shall be considered and approved by State-owned Assets Supervision and Administration Commission of the State Council.
8. The Company shall issue a notice on the convening of a general meeting.
9. When a general meeting is convened to consider the Incentive Scheme, the independent non-executive Directors shall solicit proxy voting rights from all Shareholders regarding the resolutions related to the Incentive Scheme.
10. The Incentive Scheme shall be proposed and voted at a general meeting and the A shares and H shares class meetings, and be approved by more than 2/3 of the voting rights held by the attending Shareholders. Except for the Directors, supervisors and senior management of the Company, as well as the Shareholders individually or collectively holding more than 5% of the Company's shares, the voting by other Shareholders shall be separately counted and disclosed.

The shareholders as or related to the Participants shall abstain from voting when discussing the Incentive Scheme on general meeting of the Company.

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## LETTER FROM THE BOARD

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*(II) Procedures for grant of the Incentive Scheme*

1. Within 60 days after the Incentive Scheme is considered and approved at the general meeting and the A shares and H shares class meetings, and the conditions for the grant are satisfied, the Company shall convene a Board meeting to consider whether the Participants have satisfied the conditions prescribed in the Incentive Scheme for the grant of the Restricted Shares and determine the Grant Date, and the independent non-executive Directors shall issue opinions. Moreover, the Supervisory Committee shall verify the Grant Date of the Restricted Shares and the list of Participants and issue its opinions.
2. The Company shall engage a lawyer to issue legal opinions as to whether the Participants have satisfied the conditions of the grant, and the independent financial adviser shall issue explicit opinions at the same time.
3. The Company shall sign an agreement on the granting of Restricted Shares with the Participants in order to determine their respective rights and obligations.
4. The Participants shall pay the consideration for subscribing for the Restricted Shares into the account designated by the Company and have it verified and confirmed by a certified public accountant, otherwise such Participant shall be deemed as having waived his or her right to subscribe for the Restricted Shares.
5. The Company shall keep a register for management of the Restricted Shares with reference to the agreements signed by the Participants, and such register shall record the names of the Participants, number of shares granted, the Grant Date and the serial number of the relevant agreement on granting of the Restricted Shares.
6. The Company shall apply to the Stock Exchange for the grant of the Restricted Shares to Participants, and apply to the Depository and Clearing Company for the registration and settlement matters after the confirmation by the Stock Exchange.
7. After the registration of grant of the Restricted Shares is completed, the Company shall, go through the formalities in relation to the registration with the industrial and commercial registration authority if the registration involves change in the registered capital of the Company.

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## LETTER FROM THE BOARD

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### ***(III) Procedures for unlocking of the Incentive Scheme***

1. Prior to the date of unlocking, the Company shall confirm whether the Participants have satisfied the conditions for unlocking the Restricted Shares. The Board shall consider whether the conditions for unlocking the Restricted Shares under the Incentive Scheme have been satisfied and the independent non-executive Directors and Supervisory Committee shall issue their relevant opinions. The Company's legal adviser shall issue legal opinions as to whether the conditions for unlocking the Restricted Shares have been satisfied.
2. As to the Participant who has satisfied the conditions for unlocking the Restricted Shares, the Company shall tender applications to the Stock Exchange to unlock the Restricted Shares. After confirmation by the Stock Exchange, the Company shall apply to the Depository and Clearing Company for the relevant registration and settlement matters.
3. Restricted Shares held by Participants who have not satisfied the conditions for unlocking the Restricted Shares shall be repurchased and cancelled by the Company. The Company shall disclose the implementation thereof timely by way of announcement.
4. Participants may transfer their unlocked Restricted Shares whereas the transfer of the Restricted Shares held by the Company's Directors and members of senior management shall comply with the requirements of the relevant laws, regulations and regulatory documents.

### ***(IV) Procedures for amendments to and termination of the Incentive Scheme***

1. *Procedures for amendments to the Incentive Scheme*
  - (1) Any proposed amendment to the Incentive Scheme prior to approval of the Incentive Scheme by Shareholders at general meeting of the Company shall be subject to consideration and approval of the Board.

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## LETTER FROM THE BOARD

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- (2) Any proposed amendment to the Incentive Scheme after approval of the Incentive Scheme by the Shareholders at general meeting, A shares class meeting and H shares class meeting of the Company shall be subject to consideration and approval at Shareholders' general meeting, A shares class meeting and H shares class meeting of the Company, provided that such amendment shall not:
  - (i) result in unlocking of restriction in advance;
  - (ii) reduce the Grant Price.

The Company shall timely fulfill its responsibility for announcement. The independent directors and the Supervisory Committee shall give independent opinions on whether the amended Scheme is beneficial for the sustainable development of the Company or will damage the benefits of the Company and all shareholders.

The law office shall give professional opinions on whether the amended Scheme complies with the requirements of the Administrative Measures and relevant laws and regulations or will damage the benefits of the Company and all shareholders.

The Company will make further announcement if there is any proposed amendment to the Incentive Scheme in compliance with the Listing Rules as and when appropriate or required.

### *2. Procedures for termination of the Incentive Scheme*

- (1) The Incentive Scheme shall be terminated and the Company shall not proceed to grant new interests to the Participants if one of the circumstances prescribed in Article 7 of the Administrative Measures happened to the Company.
- (2) If the case that the Participants shall not become the Participants as prescribed in Article 8 of the Administrative Measures or Article 35 of Trial Measures arises, the Company will not proceed to grant interests to the Participants, the interests he/she granted but not exercised shall be terminated.

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## LETTER FROM THE BOARD

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- (3) Proposed termination of the Incentive Scheme by the Company prior to approval of the Incentive Scheme by Shareholders at general meeting of the Company shall be subject to consideration and approval of the Board.
- (4) Proposed termination of the Incentive Scheme by the Company after approval of the Incentive Scheme by Shareholders at general meeting, A shares class meeting and H shares class meeting of the Company shall be subject to consideration and approval at Shareholders' general meeting, A shares class meeting and H shares class meeting of the Company. The natural termination in accordance with the provisions of the Incentive Scheme is not included in the aforementioned procedure.
- (5) The law firm engaged by the Company should issue legal opinions as to whether the termination of the Incentive Scheme is in compliance with relevant laws, regulations and regulatory documents, and whether it would noticeably prejudice the interests of the Company or its Shareholders as a whole.
- (6) In case of termination of the Incentive Scheme, the Company shall repurchase and cancel all Restricted Shares that are still locked up and deal with such repurchased shares in accordance with the Company Law.
- (7) The Company shall file an application to the Stock Exchange prior to the repurchase and cancellation of the Restricted Shares. Upon confirmation by the Stock Exchange, the Securities Depository and Clearing agency will deal with the matters of registration and settlement.
- (8) The Company terminated the implementation of the Incentive Scheme, and will not review or disclose the draft of the Incentive Scheme within 3 months from the date of announcement of the Board resolution.



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## LETTER FROM THE BOARD

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### **X. Matters in Relation to Reserved Entitlements Arrangements**

The Company has reserved 1,000,000 Reserved Shares for further distribution, equivalent to approximately 3.33% of the total number of Restricted Shares proposed to be granted.

The Reserved shares to Participants shall be determined within 12 months from the date on which the Incentive Scheme is considered and passed at the general meeting, which shall not be granted to such Participants who have been granted the Incentive Scheme again. The Lock-up Periods, Unlocking Arrangements and method of adjusting the Grant Price of the Reserved Shares will be the same as the initial grant. Following the proposals from the Board, issue of clear opinions by the independent Directors and the Supervisory Committee as well as issue of professional opinions and legal opinions by the legal adviser equipped with legal, the Company shall promptly and accurately disclose the relevant information on such Participants on the designated website pursuant to the relevant requirements. If the reserved part involves with connected persons, the Company will comply with all applicable requirements of the Listing Rules by fulfilling the relevant information disclosure or shareholders' approval (if needed). The reserved entitlements shall become invalid where the Participants for the Reserved Grant are not determined after 12 months from the aforesaid date.

Before each grant of the Reserved Grant of the Restricted Shares under the Incentive Scheme, the Company shall hold a Board meeting to pass the relevant resolution, and shall disclose the information on such grant. The Grant Price of the Restricted Shares granted by the Company via means of issuing additional shares has to comply with the requirements set out in the Administrative Measures and shall be determined according to principle of fair market price and shall not be lower than the higher of the following prices:

1. 60% of the average trading price of the Target Shares of the Company on the last trading day immediately preceding the date of announcement of the Board resolution on the grant of the Reserved Grant;
2. 60% of one of the average trading price of the Target Shares of the Company for the last 20 trading days, 60 trading days and 120 trading days immediately preceding the date of announcement of the Board resolution on the grant of the Reserved Grant.

The Grant Date of the Reserved Grant will be determined when the Directors consider the grant of the reserved entitlements.

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## LETTER FROM THE BOARD

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### XI. Unusual Changes to the Company/Participants

#### *(I) Unusual Changes to the Company*

1. The Scheme shall be terminated immediately in the event that any of the following events occurs to the Company:
  - (1) The Incentive Scheme shall be terminated in case of any issue of an auditors' report with adverse opinion or a disclaimer opinion by a certified public accountant with respect to the financial report of the Company for the latest accounting year;
  - (2) The Incentive Scheme shall be terminated in case of any issue of an auditors' report with adverse opinion or a disclaimer opinion by a certified public accountant with respect to the internal controls over the financial reporting of the Company for the latest accounting year;
  - (3) The Incentive Scheme shall be terminated in case of any failure to conduct profit distribution in accordance with laws and regulations, the Articles of Association and public undertakings during the past 36 months after listing;
  - (4) Other circumstances where the implementation of a share option incentive scheme is prohibited by laws and regulations;
  - (5) Other circumstances under which any share incentive scheme shall be terminated as determined by the CSRC.

Where the Company comes across any of the abovementioned circumstances under which the Incentive Scheme shall be terminated, the Restricted Shares of the Participants which are granted under the Incentive Scheme but not yet unlocked shall be repurchased and cancelled at the Grant Price by the Company.

2. The Incentive Scheme shall remain unchanged and the Company shall proceed to implement the Incentive Scheme as stipulated in the event that any of the following events occurs to the Company:
  - (1) Change of control of the Company;
  - (2) Merger or spin-off of the Company.

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## LETTER FROM THE BOARD

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3. Where false statements or misleading statements in or material omissions from the information disclosure documents of the Company result in non-compliance with conditions of grant or arrangements for unlocking the restrictions, the Restricted Shares not unlocked shall be repurchased and cancelled at the Grant Price by the Company on a uniform basis. In respect of the Restricted Shares granted to the Participants which have been unlocked, the Participants concerned shall return to the Company all interests granted. The Board shall recover all the profits gained by the Participants in accordance with the relevant arrangements under the Incentive Scheme.

### ***(II) Changes in Personal Particulars of the Participants***

1. Within six months from the date of occurrence of any of the following circumstances, the Restricted Shares of the Participants which have satisfied the unlock conditions within the year can be unlocked; Restricted Shares not satisfied with the unlock conditions shall be repurchased by the Company at the Grant Price plus the interests as calculated at the benchmark interest rate for deposits of the same period published by the People's Bank of China when repurchasing and cancelling:
  - (1) A Participant is transferred from the Company and ceases to take office in the Company due to organizational arrangements;
  - (2) A Participant is deceased (his/her legal successor shall unlock the restrictions as required, instead);
  - (3) A Participant loses the capacity for civil conducts;
  - (4) A Participant is dismissed by the Company due to reasons other than incompetence to the position, disqualification in performance appraisal, negligence, violation of laws, non-compliance, etc.
2. When a Participant becomes an independent non-executive Director, supervisor or a person who is prohibited from holding the Company's Restricted Shares, all Restricted Shares held by such Participant that are still locked up shall be repurchased by the Company at the Grant Price plus the interests as calculated at the benchmark interest rate for deposits of the same period published by the People's Bank of China when repurchasing and cancelling.

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## LETTER FROM THE BOARD

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3. All Restricted Shares held by a Participant that are still locked up shall be repurchased and cancelled by the Company at a repurchase price equal to the lower of the Grant Price and the market price of the Company's shares (i.e. the average trading price of the Company's Target Shares in the trading day prior to the date of the announcement of the Board resolution for consideration of the repurchase) if any of the following circumstance occurs:
  - (1) such Participant proposes to terminate his/her employment contract with the Company;
  - (2) such Participant opts not to renew his employment contract with the Company when the contract expires;
  - (3) such Participant becomes disqualified for the Incentive Scheme due to his incompetence to the position, disqualification in performance appraisal, negligence, violation of laws, noncompliance, etc.;
  - (4) such Participant is dismissed due to a breach of his fiduciary duties as required under the Company Law and the Articles of Association, violation of laws and regulations, breach of professional ethics, leakage of the Company's confidential information, dereliction of duty or malpractice or any other acts that damage the interests or reputation of the Company. (The Board reserves the right to recover all or part of the gains from the sale of Restricted Shares which have been unlocked based on the severity of the case).
4. Where a Participant retires upon reaching retirement age stipulated by law, all Restricted Shares held by such Participant that meet unlocking conditions in the year of such retirement can be unlocked within six months from the date of such retirement, and those not satisfied with the unlocking conditions shall be repurchased by the Company at the Grant Price plus the interests as calculated at the benchmark interest rate for deposits of the same period published by the People's Bank of China when repurchasing and cancelling. If, after the grant, there are changes to applicable laws and regulations, the Board will follow new regulations.
5. Other circumstances that are not covered shall be determined by the Board and dealt with in such manner as the Board determines.

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## LETTER FROM THE BOARD

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### ***(III) Resolution of Disputes Between the Company and Participants***

Any dispute between the Company and the Participants shall be resolved in accordance with provisions of the Incentive Scheme and the agreement on the granting of Restricted Shares. Disputes not clearly covered by the provisions shall be negotiated and resolved in accordance with PRC laws and on fair and reasonable principles. Where the disputes cannot be settled through negotiations, they shall be solved through litigation by submitting to the People's Court with jurisdiction over the Company's place of domicile.

## **XII. Principles of Repurchasing and Cancelling Restricted Shares**

### ***(I) Method for adjustment to repurchase volume***

If there is any capitalisation issue, bonus issue, dividends, share split, share consolidation, rights issue and other matters of the Company after completion of the registration of the Restricted Shares granted to the Participants, the Company shall make adjustments to the repurchase volume of the Restricted Shares yet to be unlocked accordingly as follows:

#### ***1. Capitalisation issue, bonus issue and share split***

$$Q = Q_0 \times (1 + n)$$

Where: Q represents the number of Restricted Shares after the adjustment;  $Q_0$  represents the number of Restricted Shares before the adjustment; n represents the ratio of increase of share resulting from the issue of shares by capitalization issue, bonus issue or share split (i.e. the number of shares increased per share upon capitalisation issue, bonus issue or share split).

#### ***2. Share consolidation***

$$Q = Q_0 \times n$$

Where: Q represents the number of Restricted Shares before the adjustment;  $Q_0$  represents the number of Restricted Shares before the adjustment; n represents the proportion of n shares that may result from consolidation of 1 share of the Company.

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## LETTER FROM THE BOARD

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3. *Rights issue*

$$Q = Q_0 \times P_1 \times (1 + n) \div (P_1 + P_2 \times n)$$

Where: Q represents the number of Restricted Shares before the adjustment;  $Q_0$  represents the number of Restricted Shares before the adjustment; n represents the ratio of the rights issue  $P_1$  represents the closing price as at the date of registration of share;  $P_2$  represents the price of the rights issue; (i.e. the ratio of the number of shares to be issued under the rights issue to the total share capital of the Company before the rights issue); Q represents the adjusted number of Restricted Shares.

4. *Dividend distribution and additional issue of new shares*

Under the circumstance of dividend distribution and additional issue of new shares, no adjustment will be made to the number of Restricted Shares.

**(II) Method for adjustment to repurchase price**

In general, if the Company shall repurchase and cancel the Restricted Shares under the requirements of the Incentive Scheme, the repurchase price represents the Grant Price except for those whose repurchase price needs to be adjusted in accordance with the Incentive Scheme.

If there is any capitalisation issue, bonus issue, share split, dividend distribution, share consolidation, rights issue and other matters of the Company affecting the total share capital or the share price of the Company after completion of the registration of the Restricted Shares granted to the Participants, the Company shall make adjustments to the purchase price of the Restricted Shares yet to be unlocked accordingly as follows:

1. *Capitalisation issue, declaration of dividends and share split*

$$P = P_0 \div (1 + n)$$

Where: P represents the repurchase price per Restricted Share after adjustment;  $P_0$  represents the Grant Price per Restricted Share; n represents the rate of increase per Share resulting from capitalisation issue, declaration of dividends, share split per share capital (i.e. the increase in the number of shares per share upon capitalisation issue, bonus issue or share split divided by 1).

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## LETTER FROM THE BOARD

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2. *Rights issue*

$$P = P_0 \times (P_1 + P_2 \times n) \div [P_1 \times (1 + n)]$$

Where:  $P_1$  represents the closing price on the date of share registration;  $P_2$  represents the subscription price of the rights issue;  $n$  represents the ratio of the rights issue (i.e. the number of shares to be issued under the rights issue to the total share capital of the Company prior to the rights issue).

3. *Share consolidation*

$$P = P_0 \div n$$

Where:  $P$  represents the repurchase price per Restricted Share after adjustment;  $P_0$  represents the Grant Price per Restricted Share;  $n$  represents consolidation ratio per share (i.e. the ratio based on which one share of the Company shall be consolidated into  $n$  shares).

4. *Declaration of dividends*

$$P = P_0 - V$$

Where:  $P$  represents the repurchase price per Restricted Share after adjustment;  $P_0$  represents the repurchase price per Restricted Share prior to adjustment;  $V$  represents the amount of dividends per share;  $P$  represents the repurchase price per Restricted Share after adjustment.  $P$  must remain greater than 1 after adjustment.

5. *Additional issue*

In the event of additional issue of new shares, no adjustment shall be made to the repurchase price of the Restricted Shares.

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## LETTER FROM THE BOARD

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### *(III) Adjustment to repurchase volume, repurchase price and cancellation of shares*

The Company promptly convened the Board meeting to consider the adjustment to the repurchase volume or repurchase price according to the above provisions. According to Article 27 of the Administrative Measures, the Company shall timely convene the Board meeting to consider the share repurchase plan, present it to the general meeting, A shares and H shares class meeting for approval and publish the relevant announcement in due course if the Incentive Scheme is terminated, the incentive objects are not qualified to be granted restricted A Shares, unlocking conditions are not fulfilled or it shall be repurchased in accordance with other laws and regulations. The share repurchase plan should be included but limited to the following items:

1. reasons for share repurchase;
2. price and basis of price determination for share repurchase;
3. types and quantities of shares to be repurchased, its proportions of target shares involved in the share incentive plan and total share capital;
4. total capital and source of capital proposed to be used for share repurchase;
5. Change of capital structure of the Company and its impact on the results of the Company upon repurchase.

When the Company carries out repurchases in accordance with the provisions of this incentive plan, it shall apply to the Stock Exchange for cancellation of such restricted shares. After confirmed by the Stock Exchange, it shall promptly complete the cancellation formalities with the securities registration and settlement company and make a public announcement.



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## LETTER FROM THE BOARD

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### **XIII. Accounting Treatment on Restrictive Shares**

In accordance with the requirements of the Accounting Standards for Business Enterprises No. 11-Share-based Payments (《企業會計準則第11號-股份支付》), at each balance sheet date within the Lock-up Period, the Company shall revise the number of the Restricted Shares which are expected to be unlocked according to the change in the latest available number of persons eligible to unlock the Restricted Shares, completion of the performance targets and other subsequent information, and recognize the services acquired during such period in relevant costs or expenses and capital reserve at the fair value of the Restricted Shares on the Grant Date.

#### **(I) Accounting treatment method**

##### *1. Grant Date*

The share capital and capital reserve shall be determined according to the issuance of the Restricted Shares to the Participants by the Company.

##### *2. Each balance sheet date within the Lock-up Period*

In accordance with the requirements of the accounting standards, at each balance sheet date within the Lock-up Period, the services provided by the staff will be recognized in the costs or expenses, and the equity or liability will be recognized at the same time.

##### *3. Unlocking date*

At the unlocking date, the shares can be unlocked if all conditions of unlocking are satisfied; if the Restricted Shares are not unlocked and thus become invalid or cancelled, they shall be dealt with according to accounting standards and relevant requirements.

#### **(II) Method for determining the fair value of the Restricted Shares**

The fair value of the Restricted Shares will be determined by the market price on the Grant Date or the subscription price will be paid by the Participants. On the estimation date, the fair value of share payment per Restricted Shares is equal to the market price of Shares of the Company less the Grant Price, being RMB3.83 per share.

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## LETTER FROM THE BOARD

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***(III) The expected impact of the First Grant of part of the Restricted Shares on the operating performance in each accounting period***

The Company will confirm the fair value of the Restricted Shares on the Grant Date according to relevant valuation tools and determine the share-based payment expenses under the Incentive Scheme eventually. Such expenses will be amortised based on the unlocking proportions during the implementation of the Incentive Scheme. The costs arising from the Incentive Scheme will be presented in recurring profit or loss.

Under the requirements of China accounting standards, assuming the Grant Date will be late November 2019, the estimated effects of the Restricted Shares to be granted for the First Grant under the Incentive Scheme on the accounting costs incurred in each accounting period are as follows:

<b>Number of Restricted Shares to be granted for the First Grant (0'000 Shares)</b>	<b>Total costs (RMB0'000)</b>	<b>2019 (RMB0'000)</b>	<b>2020 (RMB0'000)</b>	<b>2021 (RMB0'000)</b>	<b>2022 (RMB0'000)</b>	<b>2023 (RMB0'000)</b>
2,900.00	11,107.00	334.24	4,010.86	3,856.60	2,056.85	848.45

*Note:* The above result does not represent the final accounting cost. The accounting cost is related not only to the Grant Date, Grant Price and number of Restricted Shares granted, but also to the actual number of the Restricted Shares that are valid and invalid. The final result of the above effects on the operating performance of the Company is subject to the annual audited report issued by the accounting firm.

The costs arising from the Incentive Scheme will be presented in administrative expenses. The Company evaluated on current conditions that, without considering the stimulus effects of the Incentive Scheme on the operation performance of the Company, the amortization of the costs of the Incentive Scheme shall have certain, though not substantial, effect on the net profit of each year during the Validity Period. Taking into consideration the positive impact of the Incentive Scheme on the development of the Company, such as motivating the management team, increasing the operating efficiency and reducing the agency costs, the benefits generated from the improvement in the Company's operation performance due to the Incentive Scheme shall far exceed the increase of costs incurred by the Incentive Scheme.

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## LETTER FROM THE BOARD

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### *(IV) Accounting treatment for the termination of the Incentive Scheme*

Upon the termination of the Incentive Scheme, pursuant to the requirements of the Accounting Standards for Business Enterprises, the Restricted Shares which have been granted but are still locked up (except for those cancelled due to failure to satisfy the performance conditions), shall be subject to the following accounting treatment:

1. the cancellation or settlement will be treated as accelerated exercisable rights and the amount which should have been recognized during the remaining vesting period will be recognized immediately.
2. all payments made to the employee on the cancellation or settlement shall be treated as the repurchase of equity. Should the amount paid for the repurchase exceeds the fair value of the equity instrument on the repurchase day, such excess shall be recognised as the expense of the current period.

The above accounting treatment and its impact shall be for reference purpose only. The actual financial impact shall be measured in accordance with the relevant accounting principles on the termination date.

## **XIV. Respective Rights and Obligations of the Company/Participants**

### ***I. Rights and obligations of the Company***

1. The Company shall have the right to construe and execute the Scheme and shall appraise the performance of the Participants based on the requirements under the Scheme. If a Participant fails to satisfy the unlock conditions required under the Scheme, the Company will repurchase and cancel his/her unlocked Restricted Shares, in accordance with the principles as prescribed under the Scheme.
2. The Company shall withhold and pay the individual income tax on behalf of the Participants in accordance with the provisions of tax laws of China.
3. The Company undertakes not to provide loans and financial support in any other forms, including providing guarantee for loans, to the Participants with respect to the acquisition of the Restricted Shares under the Scheme.
4. The Company shall perform its reporting, information disclosure and other obligations under the Scheme in a timely manner in accordance with the relevant requirements.

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## LETTER FROM THE BOARD

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5. The Company shall actively support the Participants who have satisfied the unlock conditions to unlock the restrictions in accordance with the relevant requirements of the Scheme, the CSRC, the SSE and China Securities Depository and Clearing Corporation Limited. However, the Company is not liable for a Participant's loss arising from the incapability to unlock as desired due to reasons relating to CSRC, SSE or China Securities Depository and Clearing Corporation Limited.
6. The Company confirmed, the Scheme does not mean the guarantee that the Participants are entitled to the right to continue serving the Company and does not constitute a commitment of the Company to the employment term of staff. The employment management of the Company to its staff is still carried out in accordance with the labor contracts entered between the Company and the Participants.
7. Where the Participant severely impaired the interests or reputation of the Company as a result of violating laws, professional ethics, divulging confidential information of the Company, neglecting his/her duty or malfeasance, as considered by the Remuneration and Assessment Committee and approved by the Board of the Company, the Company may repurchase and cancel the Restricted Shares of the Participants subject to the lock-up restrictions. In case of serious circumstance, the Company may also claim compensation for the losses incurred by the Company thereon in accordance with the provisions of relevant laws.
8. Other relevant rights and obligations as stipulated under laws and regulations.

### ***II. Rights and obligations of Participants***

1. A Participant shall comply with the requirements of his position as stipulated by the Company, and shall work diligently and responsibly, strictly observe professional ethics, and make contributions to the development of the Company.
2. A Participant shall be entitled to relevant rights and interests in accordance with the requirements under the Scheme.
3. Source of funds shall be legally self-financed by the Participants.
4. The Restricted Shares granted to the Participants shall not be transferred or used as guarantee or for repayment of debt.

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## LETTER FROM THE BOARD

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5. When the Company pays cash dividends, the Participant is entitled to the cash dividend in respect of the Restricted Shares he/she was granted after withholding and deducting the individual income tax. If the restrictions on the Restricted Shares fail to be released, the Company shall deduct the shares in respect of the cash dividend attributable to the Participant in repurchasing and cancelling the Restricted Shares in accordance with the requirements of the Incentive Scheme and make corresponding accounting treatment.
6. Any gains of the Participants generated from the Scheme are subject to individual income tax and other taxes according to PRC tax laws. The Participants agree that the Company will withhold and pay the individual income tax on his/her behalf.
7. The Participants undertakes, where false statements or misleading statements in or material omissions from the information disclosure documents of the Company result in noncompliance with condition of grant or arrangements for exercise of rights, the Participants concerned shall return to the Company all interests gained through the Scheme when it is confirmed that the relevant information disclosure documents of the Company contain false statements or misleading statements or material omissions.
8. Upon consideration and approval of the Scheme at the general meeting, the A shares class meeting and the H shares class meeting, the Company will sign an agreement on the grant of Restricted Shares with each Participant whereby their respective rights and obligations as well as other relevant matters are stipulated.
9. Other relevant rights and obligations as stipulated by laws, regulations and the Scheme.

As for the full text of the Restricted A Shares Incentive Scheme for 2019 (Amended Draft), please refer to Appendix I of this circular.

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## LETTER FROM THE BOARD

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### **XV. Reasons for and Benefits of the Adoption of the Incentive Scheme**

The Incentive Scheme is formulated to further perfect the mid-and-long term incentive and restraint mechanism of the Company and achieve the incentive and restraint on the Directors, senior and middle management and frontline leaders of the Company to more tightly align their interests with the long-term development of the Company, and take on risks while share the interests together, and fully mobilize their enthusiasm and creativity to form a long-term behavior of decision makers and operators, and improve the motivation force of the growth of the Company as well as cohesion and competitiveness of the Company to promote the sustainable and high quality development of the Company so that the value of the Company and Shareholders will be maximized. On the basis of fully safeguarding Shareholders' interests, the Incentive Scheme is a means to attract skilled and experienced personnel, to incentivize them to remain with the Group and to strive for the future development of the Group by providing them with the opportunity to acquire equity interests in the Company.

The implementation of the Incentive Scheme by the Company can carry out the key initiatives of the CPC Central Committee, the State Council and PRC State-owned Assets Supervision and Administration Commission of the State Council on deepening the system and mechanism reform of the state-owned enterprises and constantly promoting the important focus on the establishment of the mid-long term incentive scheme for state-owned enterprises. In the next few years, the Company shall be at a critical point of implementing the new development strategy "12345" and "Overcome Obstacles, Climb Higher". The implementation of the Incentive Scheme plays an important role in carrying out the 13th Five-Year Plan and 14th Five-Year Plan, cultivating the core talent team of the Company and injecting more vigor of operation and enhancing the motivation of high quality development.

The Incentive Scheme is a form of increasing shares held by our staff. Through the Incentive Scheme and the commitment to performance targets of our staff, the system of constraints and sharing interests between the Company and its staff will bring continuing returns for Shareholders and increase the value of state-owned assets while also help to enhance investors' confidence in the results and market value of the Company, which are conducive to the establishment of a positive corporate image and our influence and recognition in secondary market. The Board is of the view that the adoption of the Incentive Scheme will assist the Company in achieving the aforesaid goals, and that the terms and conditions of the Incentive Scheme are on normal commercial terms, fair, reasonable and in the interests of the Company and Shareholders as a whole.

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## LETTER FROM THE BOARD

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After a careful review by the Remuneration and Assessment Committee of the remuneration policy of the Company and peer group analysis, the Board is of the view that by granting Restricted Shares to senior management and middle management personnel, it will aid in their retention and further encourage them to continue contributing to the growth of the Company. The Board based on the recommendations of the Remuneration and Assessment Committee has determined that the proposed First Grant of Restricted Shares to Participants (including Connected Participants) is appropriate and is consistent with the normal practice of PRC listed companies, and will achieve the purpose of long term motivation of senior and middle management personnel and frontline leaders.

### The Incentive Scheme

- is drafted and revised by the Remuneration and Assessment Committee which is responsible for leading and organizing the appraisals of the Incentive Scheme;
- is managed by the Board;
- is supervised by the Supervisory Committee and independent non-executive Directors.

The majority members of the Remuneration and Assessment Committee are independent non-executive Directors. Independent non-executive Directors and supervisors are not Participants under the Incentive Scheme; Directors are not on the proposed list of Participants under the First Grant thereby avoiding any conflict of interests and can ensure that the Incentive Scheme is implemented fairly and impartially.

### **XVI. Use of Proceeds from grant of Restricted Shares**

The Company intends to use the proceeds from the grant of Restricted Shares under the Incentive Scheme to replenish working capital of the Group.

### **XVII. Proposed grant of mandate to the Board**

To ensure the smooth implementation of the Incentive Scheme, it will be proposed at the EGM and H Shares Class Meeting to grant mandate to the Board to deal with the matters pertaining to the implementation of the Incentive Scheme. For further details, please refer to Appendix III of this circular. The proposal was considered and approved by the Board on 5 September 2019 and 27 September 2019 and is hereby proposed to the EGM and H Shares Class Meeting for consideration and approval.

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## LETTER FROM THE BOARD

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### **XVIII. Listing Rules Implication**

The Incentive Scheme does not constitute a share option scheme pursuant to Chapter 17 of the Listing Rules.

As certain Participants of the First Grant under the Incentive Scheme are the Company's chief executives, directors and supervisors of the subsidiaries of the Company, they are connected persons of the Company pursuant to Chapter 14A of the Listing Rules (but not including persons who are not regarded as connected persons of the Company pursuant to Rule 14A.09 of the Listing Rules). Accordingly, the grant of Restricted Shares to Connected Participants contemplated under the Incentive Scheme will constitute a non-exempt connected transaction of the Company which is subject to reporting, announcement and Independent Shareholders' approval.

As at the Latest Practicable Date, to the knowledge of the Directors, after making all reasonable enquiries. Saved as Mr. Gong Dan holds 2,540 A Shares of the Company which represents 0.000082% of the total issued Shares, requiring to abstain from voting on the relevant resolution of the Restricted A Share Incentive Scheme for 2019, no Shareholder has a material interest in any of the abovementioned resolutions proposed at the EGM and the H Shares Class Meeting and is required to abstain from voting at the EGM and the H Shares Class Meeting.

### **XIX. Independent Board Committee and Independent Financial Adviser**

The Company has established an Independent Board Committee to advise the Independent Shareholders in respect of the adoption of the Incentive Scheme and the proposed First Grant of Restricted Shares to Connected Participants. The full text of a letter of advice prepared by the Independent Board Committee is set out on pages 57 to 58 of the circular.

The Company has appointed Gram Capital as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in respect of the Proposed Grant of Restricted Shares to Connected Participants under the Incentive Scheme. The full text of a letter of advice prepared by Gram Capital is set out on pages 59 to 71 of this circular.



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## LETTER FROM THE BOARD

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### III. PROPOSED CHANGE IN USE OF PARTIAL PROCEEDS FROM CONVERTIBLE BONDS

#### I. Basic Information on from Convertible Bonds proceeds

As approved by the Reply to Approving the Public Issuance of Convertible Bonds by Dongfang Electric Corporation Limited (Zheng Jian Xu Ke [2014] No. 628) (《關於核准東方電氣股份有限公司公開發行可轉換債券的批覆》(證監許可[2014]628號)) issued by China Securities Regulatory Commission (CSRC) on 24 June 2014, the Company issued A share convertible corporate bonds with a total nominal value of RMB4 billion to the public with a term of 6 years in July 2014. The proceeds raised from the public issuance of the Convertible Bonds amounted to RMB4 billion. The net proceeds actually raised from the public issuance of the Convertible Bonds amounted to RMB3,964,271,200 after deduction of the underwriting and sponsorship fees, the lawyer's fees, the expenses on information disclosure and roadshow promotion, the accountant's fees, the issuance and credit rating expenses. The receipt of the proceeds from the issuance of the Convertible Bonds had been verified by ShineWing Certified Public Accountants and it issued the Verification Report on the Actual Receipt of Proceeds from the Public Issuance of A Share Convertible Corporate Bonds by Dongfang Electric Corporation Limited (《東方電氣股份有限公司公開發行A股可轉換公司債券募集資金實收情況的驗證報告》) on 17 July 2014. The Convertible Bonds were listed on the Stock Exchange on 25 July 2014. The conversion period of the Convertible Bonds commenced on 12 January 2015. As the closing price was higher than 130% of the prevailing conversion price for 15 consecutive trading days from 12 January 2015 to 30 January 2015, it had triggered the redemption clause of the Convertible Bonds under the Prospectus on Public Issuance of Convertible Corporate Bonds of the Company, the Company decided to conduct early redemption of all the outstanding Convertible Bonds on 16 February 2015.

## LETTER FROM THE BOARD

As at 30 June 2019, the investment projects funded by proceeds from the Convertible Bonds, the deposit and usage of the proceeds were as follows:

Investment projects	Total amount of proceeds committed to be invested <i>(RMB)</i>	Amount of proceeds actually invested as at 30 June 2019 <i>(RMB)</i>	Progress of capital investment as at 30 June 2019 <i>(%)</i>	Amount of unutilized proceeds as at 30 June 2019 <i>(RMB)</i>	Project reaching the expected usable status
Coastal thermal power EPC project in Vietnam	1,300,000,000.00	1,283,500,000.00 <sup>(3)</sup>	100.00	0	Completed
Stanari thermal power EPC project in Bosnia and Herzegovina	800,000,000.00	789,921,600.00 <sup>(3)</sup>	100.00	0	Completed
Singhatari thermal power BTG project in India	720,000,000.00	311,140,452.46 <sup>(4)</sup>	43.21	432,068,415.67 <sup>(5)</sup>	Suspended
Independent research project of 600MW supercritical circulating fluidized bed boilers	180,000,000.00	185,640,972.91 <sup>(5)</sup>	100.00	0	Completed
Experimental and research and development capabilities promotion and transformation project (Phase I)	330,000,000.00	234,585,134.53 <sup>(5)</sup>	71.09		In progress
Experimental and research and development capabilities improvement project of Dongfang Electrical Machinery	160,000,000.00	84,762,407.92 <sup>(5)</sup>	52.98	206,837,372.71 <sup>(2), (5)</sup>	In progress
Gas turbine research and development capability promotion project (Phase I)	510,000,000.00	543,894,019.13 <sup>(5)</sup>	100.00		Completed
General account of proceeds				4,711,650.13 <sup>(1)</sup>	
<b>Total</b>	<b><u>4,000,000,000.00</u></b>	<b><u>3,433,444,586.95</u></b>		<b><u>643,617,438.51</u></b>	

*Notes:*

- (1) The fund in the general bank account of the proceeds amount to RMB4,711,650.13, which is interest balance on the proceeds.
- (2) The three projects, experimental and research and development capabilities promotion and transformation project (Phase I), experimental and research and development capabilities improvement project of Dongfang Electrical Machinery and gas turbine research and development capability promotion project (Phase I), involve two special bank accounts for proceeds, this figure refers to the balance and interest of these two special bank accounts.
- (3) It refers to the amount after deducting the administrative expenses.
- (4) It refers to the amount after deducting the administrative expenses and adding the interest.
- (5) It refers to the amount after adding the interest.

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## LETTER FROM THE BOARD

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### **II. Information of investment project funded by the proposed change in proceeds from Convertible Bonds**

#### ***(1) Basic information of the project***

The Singhatari BTG thermal power project in India undertaken by the Company is located in Chhattisgarh State in central India and is in the energy center in eastern India. Athena Chhattisgarh Power Limited (ACPL), as the owner of the project, is responsible for development and construction of the project. On 21 December 2009, the Company and ACPL entered into the BTG island supply contract for the 2x600MW subcritical coal-fired power plant project in Singhatari, India, the contract amount was USD409.5 million.

#### ***(2) Financial status of the project***

Since the inception of the Singhatari Project with a contract amount of USD409.5 million on 1 June 2011, the Company has in succession received a total contract amount of USD236 million (equivalent to RMB1,550 million) and paid equipment procurement/service totaling RMB1,412 million. It is expected that the Singhatari Project will record profit upon completion of the final settlement.

#### ***(3) Use of proceeds of the project***

On 13 August 2014, the Company transferred proceeds in an amount of RMB720 million to the Company's special account for proceeds with Qinglong sub-branch of Industrial and Commercial Bank of China Limited to be specifically used for the Singhatari Project. From 2014 to 30 June 2019, proceeds in a total amount of RMB311 million were utilized for the Singhatari Project. The balance funds of RMB432 million (including interest therefrom amounting to RMB33 million) remained in the special account for proceeds.

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## LETTER FROM THE BOARD

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### **III. Reasons for the Proposed Change in the Use of Proceeds from Convertible Bonds**

In October 2018, ACPL, the owner of the Singhatari Project, was petitioned by its creditor, the project loan syndicate, to the National Company Law Tribunal for bankruptcy restructuring as its capital funds were not fully in place and its debts were massive. The National Company Law Tribunal pronounced the commencement of restructuring procedures on 24 May 2019. In view of the current situation of the project, it is expected that Singhatari Project will no longer be carried out in the future.

In order to improve the utilization efficiency of proceeds, the Company proposed to use all of the remaining funds of RMB432 million in the special account for proceeds for the Singhatari Project to permanently replenish working capital, after taking into account various factors including the actual conditions of the investment project funded by proceeds.

### **IV. Impact of the Change in Use of Proceeds from Convertible Bonds on the Company**

The change in the use of partial proceeds and the permanent replenishment of working capital is conducive to improving the utilization efficiency of proceeds, reducing financial costs of the Company and safeguarding the interests of the Company and its shareholders as a whole. As there are no losses on proceeds arising from the implementation of the Singhatari Project, there is no circumstances that will impair the interests of the Company and its shareholders, especially the minority shareholders.

### **V. Opinion of Independent Non-executive Directors**

The independent non-executive Directors consider that the change in the use of partial proceeds of the investment project is in line with the development strategy and actual operating demands of the Company, it has gone through necessary approval procedures and complies with the requirements of relevant laws and regulations, and there is no circumstance that will impair the interests of the Company and its shareholders, especially the minority shareholders.

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## LETTER FROM THE BOARD

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### **VI. Opinion of Supervisory Committee**

The Supervisory Committee is of the view that the change in the use of partial proceeds of the investment project conforms with relevant requirements of the CSRC and the Stock Exchange in relation to the use of proceeds by listed companies, the change is in line with the actual circumstances and development plans of the Company, it will be conducive to improving the utilization efficiency of the proceeds and procedures thereof are lawful and valid, and there is no circumstance that will impair the interests of the Company and its shareholders.

### **VII. Opinion of Sponsor**

CITIC Securities Co., Ltd., the sponsor of the Convertible Bonds, is of the view that the Change in the use of proceeds of the investment project is in keeping with the overall industry trend and the actual circumstances of the Company, and is conducive to the implementation of the development strategy of the Company and safeguarding of the interests of the Company and its shareholders as a whole.

### **IV. EGM AND H SHARES CLASS MEETING**

The notices of the EGM and the H Shares Class Meeting have been dispatched on 27 September 2019. If you are eligible and intend to attend the EGM and the H Shares Class Meeting, please complete and return the reply slips dispatched on 27 September 2019 in accordance with the instructions printed thereon on or before Friday, 1 November 2019. H Shares Shareholders who intend to appoint a proxy to attend the EGM and the H Shares Class Meeting shall complete and return the proxy form dispatched on 27 September 2019 in accordance with the instructions printed thereon not less than 24 hours before the time fixed for holding the EGM or the H Shares Class Meeting or any adjournment(s) thereof (as the case may be). Completion and return of the proxy forms will not preclude you from attending the EGM or the H Shares Class Meeting and voting in person if you so wish.

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## LETTER FROM THE BOARD

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### V. CLOSURE OF REGISTER OF MEMBERS OF H SHARES

The register of members will be closed from 23 October 2019 to 22 November 2019 (both days inclusive), during which no transfer of H Shares will be registered for the identification of Shareholders qualified to attend and vote at the EGM and the H Shares Class Meeting. The share transfer documents accompanied by relevant H Share certificates should be lodged with Tricor Tengis Limited in any event not later than 4:30 p.m. on 22 October 2019. Shareholders or their agents whose names appear on the register of members of the H Shares at the close of business on 23 October 2019 are entitled to attend and vote at the EGM and the H Shares Class Meeting. The address of the Company's H share registrar, Hong Kong Registrars Limited, is at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong.

In accordance with relevant provisions of the Administration Measures issued by the CSRC and pursuant to the appointment by other independent non-executive directors of the Company, Mr. Xu Haihe, an independent non-executive director of the Company, as the soliciting party, solicits voting rights from all Shareholders in connection with the resolutions to be considered at the EGM and the H Shares Class Meeting to be held on 22 November 2019, which include (i) to consider and approve the resolution in respect of the proposed adoption of the Restricted A Share Incentive Scheme for 2019 (Amended Draft) and its summary; (ii) to consider and approve the resolution in respect of the proposed adoption of the Assessment Management Measures for the Restricted A Shares Incentive Scheme for 2019, and (iii) to consider and approve the resolution in respect of the Proposed Grant of mandate to the Board to deal with matters pertaining to the Incentive Scheme. A holder of H shares who decides to appoint the soliciting party as a proxy to vote on his behalf should appoint Mr. Xu Haihe as proxy for the all the special resolutions in the proxy form for the EGM and the proxy form for the H Shares Class Meeting, which have been dispatched to Shareholders on 27 September 2019. For details of procedures and steps of solicitation of voting rights and the voting, please refer to the overseas regulatory announcement dated 27 September 2019 published by the Company in relation to the report of the solicitation of voting rights by the independent non-executive director.

### VI. RECOMMENDATION

Your attention is drawn to the letter from the Independent Board Committee and the letter from Gram Capital, respectively, which set out their recommendations in respect of the First Grant of Restricted Shares to the Connected Participants and the principal factors considered by them in arriving at their recommendations.

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## LETTER FROM THE BOARD

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The Directors (including the independent non-executive Directors) consider that the proposed adoption of the Incentive Scheme and the Assessment Management Measures for the Restricted A shares Incentive Scheme for 2019 as well as the Proposed Grant of Restricted Shares to the Participants (including Connected Participants) under the First Grant is on normal commercial terms and in the ordinary and usual course of the business of the Company, and in the interests of the Company and the Shareholders as a whole. The list of Participants (including Connected Participants) for the proposed First Grant has been approved by the nineteenth meeting of the ninth session of the Board, as no director has any interest in the proposed First Grant, hence no director has to abstain from voting on the resolution. As Mr. Gong Dan is a Participant of the proposed First Grant under the Incentive Scheme, he is required to abstain from voting on the relevant resolutions relating to the Incentive Scheme at the EGM and A Shares Class Meeting.

The Board has approved the change of use of partial proceeds from Convertible Bonds on 17 September 2019.

Accordingly, the Directors recommend the Independent Shareholders to vote in favour of all the relevant resolutions to be proposed at the EGM and the H Shares Class Meeting.

### **VII. VOTING BY POLL**

Pursuant to Rule 13.39(4) of the Listing Rules, any vote of Shareholders at a general meeting must be taken by poll except where the chairman, in good faith, decides to allow a resolution which relates purely to a procedural or administrative matter to be voted on by a show of hands. The chairman of the EGM and H Shares Class Meeting shall therefore demand voting on all resolutions set out in the notices of the EGM and H Shares Class Meeting to be taken by way of poll pursuant to Article 97 of the Articles of Association.

Every shareholder of the Company present in person or by proxy shall have one vote for each Share registered in his name in the register of members of the Company pursuant to Article 95 of the Articles of Association. Shareholders (including proxies of shareholders) entitled to two or more votes need not cast all the votes in favor of or against a resolution pursuant to Article 99 of the Articles of Association.

Yours faithfully,  
By Order of the Board  
**Dongfang Electric Corporation Limited**  
**Zou Lei**  
*Chairman*



**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)

1 November 2019

*To the Independent Shareholders*

Dear Sirs or Madams,

**(1) PROPOSED ADOPTION OF THE RESTRICTED  
A SHARE INCENTIVE SCHEME FOR 2019  
(2) CONNECTED TRANSACTION – PROPOSED GRANT UNDER  
INCENTIVE SCHEME**

We have been appointed to form the Independent Board Committee to consider and advise the Independent Shareholders in accordance with the Listing Rules as to our opinion on, the terms of the Restricted A Shares Incentive Scheme for 2019 and the Proposed Grant, details of which are set out in the circular issued by the Company to the Shareholders dated 1 November 2019 (the “**Circular**”), of which this letter forms part. Terms used herein shall have the same meanings as defined in the Circular unless the context otherwise requires.

As certain Participants of the First Grant under the Incentive Scheme are the Company’s chief executives, directors and supervisors of the subsidiaries of the Company, they are connected persons of the Company pursuant to Chapter 14A of the Listing Rules. Accordingly, the Grant of Restricted Shares to the Connected Participants contemplated under the Incentive Scheme will constitute a non-exempt connected transaction of the Company which is subject to reporting, announcement and Independent Shareholders’ approval requirements under Chapter 14A of the Listing Rules.

We wish to draw the attention of the Independent Shareholders to the letter from the Board and the letter of advice from Gram Capital, set out on pages 1 to 56 and pages 59 to 71 of the Circular.



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## LETTER FROM THE INDEPENDENT BOARD COMMITTEE

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Having taken into account the principal factors and reasons considered by Gram Capital, its conclusion and advice set out on pages 59 to 71 of this Circular, we concur with the view of Gram Capital and is of the view that the terms of the First Grant to Connected Participants of Restricted Shares under the Restricted A Shares Incentive Scheme for 2019 are fair and reasonable, are conducted in the ordinary and usual course of business of the Company and are in the interests of the Company and the Shareholders as a whole.

Accordingly, we recommend the Independent Shareholders to vote in favor of the resolutions to be proposed at the EGM and H Shares Class Meeting to approve the adoption of the Restricted A Share Incentive Scheme for 2019 which includes the Proposed Grant of Restricted Shares to connected persons.

Yours faithfully,  
Independent Board Committee of  
**Dongfang Electric Corporation Limited**  
*Independent Non-executive Directors*  
**Mr. Gu Dake, Mr. Xu Haihe and Mr. Liu Dengqing**

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## LETTER FROM GRAM CAPITAL

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*Set out below is the text of a letter received from Gram Capital, the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders in respect of the Connected Grant for the purpose of inclusion in this circular.*



Room 1209, 12/F.  
Nan Fung Tower  
88 Connaught Road Central/  
173 Des Voeux Road Central  
Hong Kong

1 November 2019

*To: The independent board committee and the independent shareholders  
of Dongfang Electric Corporation Limited*

Dear Sir/Madam,

### CONNECTED TRANSACTION – PROPOSED GRANT UNDER INCENTIVE SCHEME

#### INTRODUCTION

We refer to our appointment as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in respect of the proposed grant of Restricted Shares to Participants under the Revised Incentive Scheme (the “**Connected Grant**”), details of which are set out in the letter from the Board (the “**Board Letter**”) contained in the circular dated 1 November 2019 issued by the Company to the Shareholders (the “**Circular**”), of which this letter forms part. Terms used in this letter shall have the same meanings as defined in the Circular unless the context requires otherwise.

The Board announced on 5 September 2019 that the Board approved the relevant resolution in relation to the proposed adoption of the Incentive Scheme for 2019, the announcement of which was published on the Shanghai Stock Exchange on 6 September 2019 (the “**First Announcement Date**”). The Board further announced on 27 September 2019 that the Board approved the proposed adoption of the amendments to the Incentive Scheme (Amended Draft) (together with the Incentive Scheme, the “**Revised Incentive Scheme**”). The Revised Incentive Scheme shall become effective upon consideration and approval of the EGM and the Class Meetings of the Company.

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## LETTER FROM GRAM CAPITAL

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According to the Revised Incentive Scheme, 30,000,000 Restricted Shares is proposed to be granted under the Revised Incentive Scheme, accounting for approximately 0.97% of the Company's total share capital of 3,090,803,431 shares as at the Latest Practicable Date. 29,000,000 Restricted Shares will be granted firstly, accounting for approximately 0.94% of the Company's total share capital as at the Latest Practicable Date, and accounting for approximately 96.67% of the total Restricted Shares available under the Revised Incentive Scheme; and 1,000,000 shares will be reserved, accounting for approximately 0.03% of the Company's total share capital as at the Latest Practicable Date, and accounting for approximately 3.33% of the total Restricted Shares available under the Revised Incentive Scheme.

In addition, among the total of 29,000,000 Restricted Shares under the first grant: (i) 2,075,000 Restricted Shares will be granted to 29 connected persons of the Company (the "**Connected Participants**"); and (ii) 26,925,000 Restricted Shares will be granted to 771 other Participants.

With reference to the Board Letter, the Connected Grant constitutes a connected transaction of the Company which is subject to reporting, announcement and independent shareholders' approval requirement under Chapter 14A of the Hong Kong Listing Rules.

The Independent Board Committee comprising Mr. Gu Dake, Mr. Xu Haihe and Mr. Liu Dengqing (all being independent non-executive Directors) has been established to advise the Independent Shareholders on (i) whether the terms of the Connected Grant are on normal commercial terms and are fair and reasonable so far as the Independent Shareholders are concerned; (ii) whether the Connected Grant is conducted in the ordinary and usual course of business of the Group and is in the interests of the Company and the Shareholders as a whole; and (iii) how the Independent Shareholders should vote in respect of the resolution(s) to approve the Connected Grant at the EGM and H Shares Class Meeting. We, Gram Capital Limited, have been appointed as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in this respect.

### **INDEPENDENCE**

During the past two years immediately preceding the Latest Practicable Date, Mr. Graham Lam was the person signing off (i) the opinion letter from the independent financial adviser contained in the Company's circular dated 7 December 2017 in respect of major and continuing connected transactions; and (ii) the opinion letter from the independent financial adviser contained in the Company's circular dated 7 November 2017 in respect of (a) major and connected transactions; and (b) application for whitewash waiver.

Notwithstanding the aforesaid past engagements, as at the Latest Practicable Date, we were not aware of any relationships or interests between Gram Capital and the Company or any other parties that could be reasonably regarded as hindrance to Gram Capital's independence as defined under Rule 13.84 of the Listing Rules to act as the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders in respect of the Connected Grant and the transactions contemplated thereunder.

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## LETTER FROM GRAM CAPITAL

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Besides, apart from the advisory fee and expenses payable to us in connection with our appointment as the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders, no arrangement exists whereby we shall receive any other fees or benefits from the Company.

Having considered the above and that none of the circumstances as set out under the Rule 13.84 of the Listing Rules existed as at the Latest Practicable Date, we are of the view that we are independent to act as the Independent Financial Adviser.

### **BASIS OF OUR OPINION**

In formulating our opinion to the Independent Board Committee and the Independent Shareholders, we have relied on the statements, information, opinions and representations contained or referred to in the Circular and the information and representations as provided to us by the Directors. We have assumed that all information and representations that have been provided by the Directors, for which they are solely and wholly responsible, are true and accurate at the time when they were made and continue to be so as at the Latest Practicable Date. We have also assumed that all statements of belief, opinion, expectation and intention made by the Directors in the Circular were reasonably made after due enquiry and careful consideration. We have no reason to suspect that any material facts or information have been withheld or to doubt the truth, accuracy and completeness of the information and facts contained in the Circular, or the reasonableness of the opinions expressed by the Company, its advisers and/or the Directors, which have been provided to us. Our opinion is based on the Directors' representation and confirmation that there is no undisclosed private agreement/arrangement or implied understanding with anyone concerning the Revised Incentive Scheme. We consider that we have taken sufficient and necessary steps on which to form a reasonable basis and an informed view for our opinion in compliance with Rule 13.80 of the Listing Rules.

The 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 the 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 the Circular misleading. We, as the Independent Financial Adviser, take no responsibility for the contents of any part of the Circular, save and except for this letter of advice.

We consider that we have been provided with sufficient information to reach an informed view and to provide a reasonable basis for our opinion. We have not, however, conducted any independent in-depth investigation into the business and affairs of the Company and the Connected Participants or their respective associates, nor have we considered the taxation implication on the Group or the Shareholders as a result of the proposed adoption of the Revised Incentive Scheme. Our opinion is necessarily based on the financial, economic, market and other conditions in effect and the information made available to us as at the Latest Practicable Date. Shareholders should note that subsequent developments (including any

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## LETTER FROM GRAM CAPITAL

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material change in market and economic conditions) may affect and/or change our opinion and we have no obligation to update this opinion to take into account events occurring after the Latest Practicable Date or to update, revise or reaffirm our opinion. In addition, nothing contained in this letter should be construed as a recommendation to hold, sell or buy any Shares or any other securities of the Company.

Lastly, where information in this letter has been extracted from published or otherwise publicly available sources, it is the responsibility of Gram Capital to ensure that such information has been correctly extracted from the relevant sources while we are not obligated to conduct any independent in-depth investigation into the accuracy and completeness of those information.

### PRINCIPAL FACTORS AND REASONS CONSIDERED

In arriving at our opinion in respect of the Connected Grant, we have taken into consideration the following principal factors and reasons:

#### 1. Background of and reasons for the Connected Grant

##### *Information on the Group*

With reference to the Board Letter, the Group engages in the power equipment industry, offering businesses such as large, advanced sets of equipment for the high-efficiency clean generation of hydropower, thermal power, nuclear power, wind power, gas power and solar thermal, as well as construction contracting and services and power electronics and control, finance, logistics, trade, new energy, industrial and intelligent equipment.

Set out below is a summary of the key consolidated financial information of the Group for six months ended 30 June 2019 and the two years ended 31 December 2018 as extracted from the Company's interim report for the six months ended 30 June 2019 (the "2019 Interim Report") and the Company's annual report for the year ended 31 December 2018 (the "2018 Annual Report") respectively:

	<b>For the six months ended 30 June 2019</b>	<b>For the year ended 31 December 2018</b>	<b>For the year ended 31 December 2017</b>	<b>Year-on-year change</b>
	<i>RMB'million (unaudited)</i>	<i>RMB'million (audited)</i>	<i>RMB'million (audited) (Restated)</i>	<i>%</i>
Total operating income	15,841	30,706	33,430	(8.1)
Net profit attributable to the Shareholders	730	1,129	1,057	6.8

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## LETTER FROM GRAM CAPITAL

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As depicted by the above table, the Group recorded an operating income of approximately RMB30,706 million for the year ended 31 December 2018 (“FY2018”), representing a decrease of approximately 8.1% as compared to that for the year ended 31 December 2017 (“FY2017”). With reference to the 2018 Annual Report, such decrease is due to the effect of macroeconomic environment, and the decreased revenue from high-efficient clean energy equipment and engineering and trade segments. Despite the decrease in the Group’s total operating income, the Group’s net profit attributable to the Shareholders for FY2018 increased by approximately 6.8% as compared to that for FY2017.

With reference to the 2019 Interim Report, the Company will focus on rejuvenating wind power business, expanding modern manufacturing service business and bolstering international business and proactively develop emerging growth business. The Company plans to produce power generation equipment with a total capacity of 21,000 MW for the whole year of 2019, turn around the decline in operating revenue and achieve steady growth in operating revenue and continued increase in total profit to drive the Company to achieve high-quality development.

### ***Information on the Connected Participants***

With reference to the Board Letter, the Participants of the Revised Incentive Scheme are determined in accordance with the Company Law, the Securities Law, the Administrative Measures, the Trial Measures, the Notice as well as other relevant laws, regulations, regulatory documents and the relevant requirements of the Articles of Association and the actual situation of the Company. There is no Director on the list of Participants under the First Grant of the Incentive Scheme. Persons who are under the certain circumstances may not be participants, details of which are set out under the section headed “Participants to be covered” of the Board Letter.

The Directors advised us that after finalising the identifications of all Participants (i.e. (i) directors (directors of subsidiaries) and senior management; (ii) middle management; and (iii) frontline leaders (non-leadership level’s key personnel in marketing, research and development, management and production)), the Company further identified if such Participants are connected persons of the Company.

Details of the Connected Participants are set out under the section headed “Allocation of the Restricted Shares to be Granted to Participants” of the Board Letter.

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## LETTER FROM GRAM CAPITAL

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### *Reasons for and benefits of the Connected Grant*

With reference to the Board Letter, the Revised Incentive Scheme is a form of increasing shares held by the Group's staff. Through the Revised Incentive Scheme and the commitment to performance targets of the Group's staff, the system of constraints and sharing interests between the Company and its staff will bring continuing returns for Shareholders and increase the value of state-owned assets while also help to enhance investors' confidence in the results and market value of the Company, which are conducive to the establishment of a positive corporate image and the Company's influence and recognition in secondary market. The Board is of the view that the adoption of the Revised Incentive Scheme will assist the Company in achieving the aforesaid goals, and that the terms and conditions of the Revised Incentive Scheme are on normal commercial terms, fair, reasonable and in the interests of the Company and Shareholders as a whole.

With reference to the Board Letter, the Participants of the Revised Incentive Scheme are determined in accordance with the Company Law, the Securities Law, the Administrative Measures, the Trial Measures, the Notice as well as other relevant laws, regulations, regulatory documents and the relevant requirements of the Articles of Association and the actual situation of the Company. Based on our independent research, we noted that it is a common practice for listed companies in Shanghai Stock Exchange to adopt restricted share incentive scheme for their personnel and employees.

With reference to the Board Letter and as confirmed by the Directors, the Revised Incentive Scheme is (i) drafted and revised by the Remuneration and Assessment Committee<sup>(Note)</sup> which is responsible for leading and organizing the appraisals of the Incentive Scheme; (ii) managed by the Board; and (iii) supervised by the Supervisory Committee and Independent Non-executive Directors. As further advised by the Directors, The majority members of the Remuneration and Assessment Committee are independent non-executive Directors, and independent non-executive Directors and supervisors are not Participants under the Revised Incentive Scheme. Based on the above and that Directors are not on the proposed list of Participants under the First Grant, we consider that the Revised Incentive Scheme could be implemented fairly and impartially.

Having considered the above reasons and that (i) the Connected Grant can motivate the Connected Participants to make contributions to the Group; (ii) adopting restricted share incentive scheme for directors, senior and middle management and frontline leaders is a common practice for listed companies in Shanghai Stock Exchange; and (iii) there will not be any actual cash paid by the Group to the Connected Participants under the Connected Grant, we concur with the Directors that the Connected Grant is conducted in the ordinary and usual course of business of the Group and it is in the interests of the Company and the Shareholders as a whole.

*Note:* Members of Remuneration and Assessment Committee comprise of Mr. Gu Dake, Mr. Xu Haihe, Mr. Liu Dengqing, all being the independent non-executive Directors, and Mr. Huang Wei, being the executive Director.

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## LETTER FROM GRAM CAPITAL

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### 2. Principal terms of the Connected Grant

Set out below are the principal terms of the Connected Grant. Details of the terms of the Connected Grant are set out under the section headed “INCENTIVE SCHEME” of the Board Letter.

#### *Number of Restricted Shares under the Connected Grant*

The number of Restricted Shares to be granted to each of Connected Participants ranged from approximately 0.0006% to 0.0049% of the total share capital of the Company as at the Latest Practicable Date. Details of number of Restricted Shares to be granted to the Connected Participants are set out under the section headed “Allocation of the Restricted Shares to be Granted to Participants” of the Board Letter.

Upon our enquiry, the Company advised us that when determining the above-mentioned numbers of Restricted Shares to be granted, the Company considered (i) the maximum amount of expected return from the Restricted Shares for the Connected Participants; (ii) the average trading price of the A Shares of the Company on the last trading day immediately preceding the First Announcement Date; (iii) the Connected Participant’s positions and seniority; and (iv) the Connected Participant’s intention for subscribing the Restricted Shares (including subscription contribution amounts).

For our due diligence purpose, we obtained assessment records of the Connected Participants and noted that such assessment records were consistent with the aforesaid basis of determining the numbers of Restricted Shares to be granted to the Connected Participants. The actual number of the Restricted Shares for each Connected Participants did not exceed the maximum number of the Restricted Shares for such Connected Participants.

The Directors further advised us that the basis for determination of maximum amount of expected return from the Restricted Shares was in compliance with relevant regulations. According to 《國有控股上市公司(境內)實施股權激勵試行辦法》(Trial Measures for the Implementation of Equity Incentive Plans by Listed State-controlled Companies (Domestic)\*) which was issued by State-owned Assets Supervision and Administration Commission of the State Council, among other things, the expected return level of individual equity incentives for senior management should be controlled within 30% of their total compensation level (including expected return of individual option or equity incentives) during the validity period of such equity incentive plan.

To further assess the fairness and reasonableness of the number of Shares to be granted to the Connected Participants, we identified restricted A shares incentive scheme proposals first announced by companies listed on the Shanghai Stock Exchange from 1 August 2019 to 5 September 2019, being approximate one month immediate before the First Announcement Date. To the best of our knowledge, we found 11 scheme proposals (the “**Comparables**”), which are exhaustive. The table below sets out the summary of the Comparables (the “**Comparables Table**”):



# LETTER FROM GRAM CAPITAL

Date of announcement	Company name (Stock code)	Subject to the compliance with relevant PRC laws/ regulations, was the initial grant price determined only refer to the benchmark price (being only the higher of (i) the closing price/average trading price of the subject A shares on the trading day preceding the date of announcement of the incentive scheme; and (ii) the average closing price/average price of the subject A shares for the period of last 20/60/120 trading days preceding the date of announcement of the incentive scheme (the "Criteria")? (Percentage will be disclosed if yes)	Unlocking provision over a period of time	Lock-up period from the date on which the grant has been registered	Conditions for unlocking the restricted A shares which are based on, amongst others, the participants' performance and/or financial performance of the listed companies	Adjustment for number and the grant price of restricted shares	Percentage of the restricted A shares to be granted to individual director/senior management to the total share capital of the listed company as at the date of respective scheme proposals
6 August 2019	內蒙古伊利實業集團股份有限公司(INNER MONGOLIA YILI INDUSTRIAL GROUP CO.,LTD) (SH600887)	Yes. 50%	Yes	12 months 24 months 36 months 48 months 60 months	Yes	Yes	0.0066% to 0.9972%
8 August 2019	塞力斯醫療科技股份有限公司(Thalys Medical Technology Inc.) (SH603716)	Yes. Approximate 50.2%	Yes	12 months 24 months 36 months 48 months	Yes	Yes	0.03% to 0.20%
14 August 2019	用友網絡科技股份有限公司(Yonyou Network Technology Co., Ltd.) (SH600588)	No. (Note 1)	Yes	12 months 24 months 36 months	Yes	Yes	0.001%
14 August 2019	蕪湖伯特利汽車安全系統股份有限公司(Bethel Auto Safety Systems Co.,Ltd) (SH603596)	Yes. 50%	Yes	36 months 48 months 60 months	Yes	Yes	Nil
16 August 2019	江蘇如通石油機械股份有限公司(JIANGSU RUTONG PETRO-MACHINERY CO., LTD.) (SH603036)	Yes. 50%	Yes	12 months 24 months 36 months	Yes	Yes	0.05%
27 August 2019	上海豫園旅游商城(集團)股份有限公司(Shanghai Yuyuan Tourist Mart Group Co. Ltd.) (SH600655)	Yes. 50%	Yes	12 months 24 months 36 months	Yes	Yes	0.001% to 0.007%

# LETTER FROM GRAM CAPITAL

Date of announcement	Company name (Stock code)	Subject to the compliance with relevant PRC laws/ regulations, was the initial grant price determined only refer to the benchmark price (being only the higher of (i) the closing price/average trading price of the subject A shares on the trading day preceding the date of announcement of the incentive scheme; and (ii) the average closing price/average price of the subject A shares for the period of last 20/60/120 trading days preceding the date of announcement of the incentive scheme (the "Criteria")? (Percentage will be disclosed if yes)	Unlocking provision over a period of time	Lock-up period from the date on which the grant has been registered	Conditions for unlocking the restricted A shares which are based on, amongst others, the participants' performance and/or financial performance of the listed companies	Adjustment for number and the grant price of restricted shares	Percentage of the restricted A shares to be granted to individual director/senior management to the total share capital of the listed company as at the date of respective scheme proposals
28 August 2019	明陽智慧能源集團股份公司 (Ming Yang Smart Energy Group., Ltd.) (SH601615)	Yes. 50%	Yes	12 months	Yes	Yes	0.04%
				24 months			to 0.09%
				36 months			
				48 months			
29 August 2019	上海來伊份股份有限公司 (Shanghai Laiyifen Co., Ltd.) (SH603777)	No. (Note 2)	Yes	12 months	Yes	Yes	0.007%
				24 months			to 0.011%
				36 months			
30 August 2019	科沃斯機器人股份有限公 司(Ecovacs Robotics Co., Ltd.) (SH603486)	Yes. 50%	Yes	12 months	Yes	Yes	0.02%
				24 months			
				36 months			
				48 months			
31 August 2019	佳都新太科技股份有限公司 (PCI-Suntek Technology Co., Ltd.) (SH600728)	Yes. 50%	Yes	12 months	Yes	Yes	0.02%
				24 months			to 0.18%
				36 months			
31 August 2019	上海海立(集團)股份有限 公司(Shanghai Highly (Group) Co., Ltd.) (SH600619)	No. (Note 3)	Yes	24 months	Yes	Yes	0.03%
				36 months			to 0.05%
				48 months			

**Note:**

- The initial grant price of Yonyou Network Technology Co., Ltd. represented 25% of average repurchased prices (i.e. RMB6.11) of its A shares (i.e. RMB6.11), which would be the source of shares under the incentive scheme. The bases of determination of initial grant price included, among other things, (i) the company's the demand for human resource talent in the market according to the company's business transformation and development strategy, (ii) the company's current human resources, and (iii) the company's performance targets.
- The initial grant price of Tianjin Tianyao Pharmaceutical Co., Ltd. was determined based on 50% of the average repurchased prices (i.e. RMB12.19) of its A shares.

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## LETTER FROM GRAM CAPITAL

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3. Other than the Criteria, the initial grant price of Shanghai Highly (Group) Co., Ltd. was also determined based on 50% of the average closing price of the subject A shares for the period of last 30 trading days preceding the date of announcement of the incentive scheme.

Sources: <http://www.cninfo.com.cn/>

As depicted from the Comparables Table, the percentage of the restricted A shares to be granted to individual director/senior management of the Comparables (save for those did not propose to grant to individual director/senior management) to the total share capital of the Comparables ranged from 0.001% to 0.9972% (the “**Comparable Percentage Range**”). The number of Restricted Shares to be granted to each of Connected Participants ranged from approximately 0.0006% to 0.0049% of the total share capital of the Company as at the Latest Practicable Date did not exceed the Comparable Percentage Range.

Having considered the above, we are of the view that the numbers of Restricted Shares to be granted to the Connected Participants are fair and reasonable.

### ***The Grant Price***

With reference to the Board Letter, the Grant Price of the Restricted Shares under the First Grant of the Revised Incentive Scheme shall be RMB5.93 per Share. Upon fulfillment of grant conditions, each Participant is entitled to purchase A Shares newly issued to the Participants by the Company at the price of RMB5.93 per share.

Under the Restricted Share Incentive, the Grant Price of the Restricted Shares granted by the Company via means of issuing additional shares shall be determined according to principle of fair market price, and shall not be lower than the higher of the following prices: (i) 60% of the average trading price of the A Shares of the Company on the last trading day immediately preceding the First Announcement Date (i.e. RMB5.9236); and (ii) 60% of one of the average trading price of the A Shares of the Company for the last 20 trading days, 60 trading days and 120 trading days immediately preceding the First Announcement Date (i.e. RMB5.6326).

As advised by the Directors, the Grant Price has to comply with the requirements set out under the Measures promulgated by the CSRC, which requires the issue price of new shares (i) not to be set at a price lower than its nominal value; and (ii) principally not to be set at a price lower than the highest of the (a) 50% of the average trading price on the trading day preceding the date of announcement of the incentive scheme; and (b) 50% of the average price for the period of last 20, 60 or 120 trading days preceding the date of announcement of the A shares incentive scheme. If a listed company adopts other approaches to determine grant price of restricted A shares, detailed basis of determination of such price should be disclosed in the A shares incentive scheme. As demonstrated above, the Grant Price complies with the Measures.

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## LETTER FROM GRAM CAPITAL

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As demonstrated in the above table, the majority of the Comparables' grant prices were determined based on 50% of the benchmark price (being the higher of (i) the closing price/average trading price of the subject A shares on the trading day preceding the date of announcement of the incentive scheme; and (ii) the average closing price/average price of the subject A shares for the period of last 20, 60, or 120 trading days preceding the date of announcement of the incentive scheme). The Grant Price represented a smaller discount than those of the majority of the Comparables.

Given that the above and that the Grant Price complied with the Measures and represented a smaller discount than the majority of the Comparables, we are of the view that the Grant Price is fair and reasonable so far as the Independent Shareholders are concerned.

***The Validity Period and unlocking conditions (the "Unlocking Conditions")***

With reference to the Board Letter, the Validity Period of the Revised Incentive Scheme at the First Grant shall commence on the date of the registration of the Restricted Shares and end on the date when all the Restricted Shares which have been granted to the Participants are unlocked or repurchased and cancelled, and shall not exceed 72 months.

The Lock-up Periods of the Restricted Shares granted under the Revised Incentive Scheme shall be 24 months, 36 months and 48 months from the relevant completion date of registration of the Restricted Shares under the grant. The Restricted Shares granted to the Participants under the Revised Incentive Scheme shall not be transferred, pledged or used for repayment of debt during the Lock-up Period.

Restricted Shares received by Participants due to capitalisation issue, bonus issue and share subdivision shall also be subject to lock-up restriction, and shall not be disposed in the secondary market or otherwise transferred until they are unlocked. The Unlocking Periods of such shares shall be the same as those of the Restricted Shares. Where the Company repurchases unlocked Restricted Shares, such shares shall be repurchased and cancelled together with those unlocked Restricted Shares.

Certain conditions must be fulfilled before the Company can grant the Restricted Shares under the Revised Incentive Scheme, or the Restricted Shares granted under the Restricted Shares Incentive Scheme can be unlocked. Details of the Unlocking Conditions (including the performance indicators) are set out under Appendix I to the Circular.

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## LETTER FROM GRAM CAPITAL

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We are of the view that the Unlocking Conditions will strengthen the incentive for the Participants (including the Connected Participants) to use their efforts to achieve the performance targets, which will contribute to the growth and development of the Group.

In addition, according to our observation on the Comparables, we note that it is common practice for restricted A shares incentive schemes to have conditions for unlocking the restricted A shares which are based on, amongst others, the participants' performance and/or financial performance of the listed companies.

### *Adjustments*

Number of Restricted Shares and the Grant Price are subject to adjustments according to various situations (e.g. capitalisation issue, bonus issue, sub-division of shares, etc.). For details, please refer to section headed "Method of adjusting the grant price of the restricted shares" as contained in Appendix I to the Circular. We noted that the calculation formulae of adjustments to number of Restricted Shares and the Grant Price are comparable to those of the Comparables. Having considered that the adjustment mechanisms (i) will be applied to all Participants (including Connected Participants); and (ii) are comparable to those of the Comparables, we do not doubt the fairness and reasonableness of the proposed adjustment mechanisms for number of Restricted Shares and the Grant Price.

Having considered the above and that, save as number of Restricted Shares to be granted, other terms of the Connected Grant (i.e. Repurchase and Cancellation of Restricted Shares, adjustments, etc.) are the same as those under the 2019 Incentive Scheme of Restricted Shares, we are of the view that the terms of the Connected Grant are fair and reasonable so far as the Independent Shareholders are concerned.

### **3. Dilution effect on the shareholding interests of the existing shareholders of the Company**

The Connected Grant involves 2,075,000 Restricted Shares, representing approximately 0.0671% of the existing total issued share capital of the Company as at the Latest Practicable Date. Accordingly, the dilution effect on the shareholding interests of the existing shareholders of Company will be immaterial.

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## LETTER FROM GRAM CAPITAL

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### RECOMMENDATION

Having taken into consideration the factors and reasons as stated above, we are of the opinion that (i) the terms of the Connected Grant are fair and reasonable; (ii) the Connected Grant is conducted in the ordinary and usual course of business of the Group and it is in the interests of the Company and the Shareholders as a whole. Accordingly, we recommend the Independent Board Committee to advise the Independent Shareholders to vote in favour of the resolution to be proposed at the EGM and H Shares Class Meeting to approve the Connected Grant, and we recommend the Independent Shareholders to vote in favour of the resolution(s) in this regard.

Yours faithfully,  
**For and on behalf of**  
**Gram Capital Limited**  
**Graham Lam**  
*Managing Director*

*Note:* Mr. Graham Lam is a licensed person registered with the Securities and Futures Commission and a responsible officer of Gram Capital Limited to carry out Type 6 (advising on corporate finance) regulated activity under the SFO. He has over 20 years of experience in investment banking industry.

\* *For identification purpose only*

Stock Abbreviation: Dongfang Electric

Stock Code : **600875**

**DONGFANG ELECTRIC CORPORATION LIMITED**  
**Restricted A Share Incentive Scheme For 2019**  
**(Amended Draft)**

**DONGFANG ELECTRIC CORPORATION LIMITED**  
**September 2019**

**Statements**

Dongfang Electric Corporation Limited (the “**Company**”) and all directors, supervisors guarantee that there are no false records, misleading statements or material omission in the Restricted A Share Incentive Scheme (the “**Incentive Scheme**”) and its summary, and shall individually and jointly assume legal responsibilities for their truthfulness, accuracy and completeness.

**Special Notes**

- I. The Incentive Scheme is formulated in accordance with relevant laws, regulations and regulatory documents such as the Company Law of the People’s Republic of China (中華人民共和國公司法) (the “**the Company Law**”), the Securities Law of the People’s Republic of China (中華人民共和國證券法), the Administrative Measures on Share Incentives of Listed Companies (上市公司股權激勵管理辦法) (the “**Administrative Measures**”), the Trial Measures on Implementation of Share Incentive Schemes by State-Owned Listed Companies (Domestic) (Guo Zi Fa Fen Pei [2006] No. 175) (國有控股上市公司(境內)實施股權激勵試行辦法(國資發分配[2006]175號)) (the “**Trial Measures**”) and the Notice on Issues concerning Regulating the Implementation of the Share Incentive Schemes by State-Owned Listed Companies (Guo Zi Fa Fen Pei [2008] No. 171) (關於規範國有控股上市公司實施股權激勵制度有關問題的通知(國資發分配[2008]171號)) (the “**Notice**”), as well as the requirements of the Articles of Association of Dongfang Electric Corporation Limited (the “**Articles of Association**”).
- II. The incentive instruments under the Incentive Scheme are Restricted Shares and the source of the shares shall be the ordinary A shares issued by the Company to the participants under the Incentive Scheme (the “**Participant(s)**”).
- III. 30,000,000 Restricted Shares shall be granted under the Incentive Scheme (the “**Restricted Shares**”), accounting for approximately 0.97% of the Company’s total share capital of 309,0803,431 shares as at the date of the announcement of the draft Incentive Scheme. Specifically, 29,000,000 shares shall be granted at the initial grant, accounting for approximately 0.94% of the Company’s total share capital of 309,0803,431 shares as at the date of the announcement of the draft Incentive Scheme, and accounting for approximately 96.67% of the total Restricted Shares available under the Incentive Scheme; and 1,000,000 shares shall be reserved, accounting for approximately 0.03% of the Company’s total share capital of 309,0803,431 shares as at the date of the announcement of the draft Incentive Scheme, and accounting for approximately 3.33% of the total Restricted Shares available under the Incentive Scheme. The reserved shall not exceed 20% of the total equity available under the Incentive Scheme.

The total number of underlying shares to be granted under the Share Incentive Scheme during the validity period shall not exceed 10% of the Company’s total share capital, and the total number of Restricted Shares to be granted under the Share Incentive Scheme to any one of the Participants will not exceed 1% of the total share capital of the Company.



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## APPENDIX I – RESTRICTED A SHARE INCENTIVE SCHEME FOR 2019 (AMENDED DRAFT)

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- IV. During the period from the date of announcement of the Incentive Scheme to the completion of the registration of Restricted Shares by the Participants, in case of any capitalisation issue, bonus issue, share split or share consolidation, rights issue or dividend distribution made by the Company, adjustment to the grant price (the “**Grant Price**”) or the number of shares to be granted shall be made accordingly.
- V. The number of Participants under the Incentive Scheme shall be 800 including directors, senior management, mid-level management and frontline leaders of the Company (including its branches and subsidiaries, the same below) when the Incentive Scheme is announced by the Company, excluding independent directors and supervisors, as well as shareholders individually or in aggregate holding 5% or more of the shares of the Company or the de facto controllers and their spouses, parents or children. None of the following circumstances existed as for the Participant that shall not be qualified as the Participant according to Article 8 of the Administrative Measures:
- (I) has been deemed as an inappropriate candidate by the Shanghai Stock Exchange in the last 12 months;
  - (II) has been deemed as an inappropriate candidate by the CSRC or any of its dispatched agencies in the last 12 months;
  - (III) has been imposed with administrative penalties or a ban from entry into the securities market by the CSRC or any of its dispatched agencies due to material breach of laws and regulations in the last 12 months;
  - (IV) is prohibited from acting as a director, supervisor or a member of the senior management of a corporation under the Company Law;
  - (V) is not allowed to participate in any share incentive scheme of a listed company under laws and regulations; or
  - (VI) falls under any other circumstances as prescribed by the CSRC.

The Participants of the reserved grant represent the Participants yet not determined when approved at the general meeting but included in the Incentive Scheme during the lifetime, shall be determined within 12 months from the date on which the Incentive Scheme is considered and passed at the general meeting.

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## APPENDIX I – RESTRICTED A SHARE INCENTIVE SCHEME FOR 2019 (AMENDED DRAFT)

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- VI. A Participant shall not be involved in the following circumstances where no share incentive scheme shall be implemented as provided in Article 35 of the Trial Measures:
- (I) has violated relevant laws and regulations of the state or the provisions of the Articles of Association;
  - (II) has caused losses to the Company during his/her term of office due to his/her violations of law or discipline such as bribery, embezzlement and theft, divulgence of confidential operational and technical information of the Company and execution of unfair connected transactions, all of which are detrimental to the interests and reputation of the Company and have a material adverse impact on the image of the Company.
- VII. The validity period of the Incentive Scheme (the “Validity Period”) shall commence on the date of the registration of the Restricted Shares at the initial grant and end on the date when all the Restricted Shares granted to the Participants are unlocked or repurchased and cancelled, and shall not exceed 72 months.
- VIII. The Company shall not involve in the following circumstances where no share incentive scheme shall be implemented as provided in Clause 7 of the Administrative Measures:
- (I) issue of an auditors’ report with an adverse opinion or a disclaimer opinion by certified public accountants in respect of the financial and accounting report of the Company for the latest accounting year;
  - (II) issue of an auditors’ report with an adverse opinion or a disclaimer opinion by certified public accountants in respect of the Company’s internal control over financial reporting for the latest accounting year;
  - (III) failure to pay dividends in accordance with laws and regulations, the Articles of Association and public undertakings during the 36 months after listing;
  - (IV) prohibition from implementation of a share incentive scheme by applicable laws and regulations;
  - (V) any other circumstances as prescribed by the China Securities Regulatory Commission (the “CSRC”).

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**APPENDIX I – RESTRICTED A SHARE INCENTIVE SCHEME FOR 2019 (AMENDED DRAFT)**

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- IX. The Company shall meet the conditions as provided in Article 5 of the Trial Measures:
- (I) it shall have a standardized governance structure, comprising the general meeting, the board and the management, with a clear division of responsibilities among them. More than half of the board members shall be external directors (including independent non-executive directors, same as below);
  - (II) The remuneration and assessment committee shall be composed of external directors, with sound system and procedures to ensure operations in accordance with applicable laws and regulations;
  - (III) it shall have sound internal control and performance assessment systems and standardized fundamental management rules in place and have established systems for employment, remuneration and benefit and performance assessment that are in line with the requirements of the market economy and modern enterprise management system;
  - (IV) it shall have developed a clear and well-defined development strategy, shall be in a sound financial position with quality assets and stable business performance; and there were no financial violations of law or discipline or negative records regarding the Company during the past three years;
  - (V) any other conditions as prescribed by the securities regulatory authorities.
- X. The Company undertakes not to provide loans and financial support in any other forms, including providing guarantee for loans, to the Participants with respect to the acquisition of the Restricted Shares under the Incentive Scheme.
- XI. The Participants undertake, where false statements or misleading statements in or material omissions from the information disclosure documents of the Company result in non-compliance with condition of grant or arrangements for exercise of rights, the Participants concerned shall return to the Company all interests gained through the Incentive Scheme when it is confirmed that the relevant information disclosure documents of the Company contain false statements or misleading statements or material omissions.

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**APPENDIX I – RESTRICTED A SHARE INCENTIVE SCHEME FOR 2019 (AMENDED DRAFT)**

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- XII. The Incentive Scheme shall be considered and approved for implementation at the general meeting and the A shares and H shares class meetings to be convened by the Company after the Incentive Scheme is considered and approved by State-owned Assets Supervision and Administration Commission of the State Council.
- XIII. Within 60 days after the Incentive Scheme is considered and approved at the general meeting and the A shares and H shares class meetings, and the conditions for the grant are satisfied, the Company shall convene a Board meeting to grant the Restricted Shares to Participants according to relevant provisions and complete registration, announcement and other relevant procedures. If the Company fails to complete the above work within 60 days, the implementation of the Incentive Scheme will be terminated and the Restricted Shares which have not been granted will lapse.
- XIV. The implementation of the Incentive Scheme will not cause the shareholding structure of the Company to fail to meet listing requirements.

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**Chapter I Definitions**

Unless otherwise requires, the following expressions herein shall have the following meanings:

Dongfang Electric, Company	Dongfang Electric Corporation Limited (東方電氣股份有限公司)
Incentive Scheme	Restricted A Share Incentive Scheme of Dongfang Electric Corporation Limited for 2019
Restricted Share(s)	the A shares granted to the Participants according to the conditions and price stipulated under the Incentive Scheme which are subject to the Lockup Period and can only be unlocked and transferred after satisfactory with the unlock conditions
Participant(s)	the Directors, Senior Management personnel, Middle Management personnel and Frontline leaders to be granted the Restricted Shares under the Incentive Scheme
Grant Date	the date on which the Company grants the Restricted Shares to the Participants, and the Grant Date must be a trading day
Grant Price	the price of each Restricted Share granted to the Participants
Lock-up Period	the period during which the Restricted Shares granted to the Participants under the Incentive Scheme shall not be transferred, used as security, or for repayment of debts
Unlocking Period	the period during which the Restricted Shares held by the Participants can be unlocked and transferred after all the Unlocking Conditions prescribed under the Incentive Scheme are satisfied
Unlocking Condition(s)	the conditions prescribed under the Incentive Scheme which have to be satisfied to unlock the Restricted Shares granted to the Participants
Validity Period	the period commencing on the date of the completion of the registration of the Restricted Shares and ending on the date when all the Restricted Shares are unlocked or repurchased and cancelled

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**APPENDIX I – RESTRICTED A SHARE INCENTIVE SCHEME FOR 2019 (AMENDED DRAFT)**

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Company Law	the Company Law of the PRC
Securities Law	the Securities Law of the PRC
Administrative Measures	the Administrative Measures on Share Incentives of Listed Companies (上市公司股權激勵管理辦法)
Trial Measures	the Trial Measures on Implementation of Share Incentive Schemes by State-Owned Listed Companies (Domestic) (Guo Zi Fa Fen Pei [2006] No. 175) (國有控股上市公司(境內)實施股權激勵試行辦法(國資發分配[2006]175號))
Notice	the Notice on Issues concerning Regulating the Implementation of the Share Incentive Schemes by State-Owned Listed Companies (Guo Zi Fa Fen Pei [2008] No. 171) (關於規範國有控股上市公司實施股權激勵制度有關問題的通知(國資發分配[2008]171號))
Articles of Association	the articles of association of Dongfang Electric Corporation Limited
CSRC	China Securities Regulatory Commission
Stock Exchange, SSE	Shanghai Stock Exchange
RMB	Renminbi

- Notes:*
1. Unless otherwise stated, the financial data and financial indicators referenced herein shall mean the financial data prepared on a consolidation basis and the financial indicators calculated based on such financial data, respectively.
  2. Some figures shown as totals herein may not be an arithmetic aggregation of the figures preceding them due to rounding adjustments.

## **Chapter II Purpose and Principles of the Incentive Scheme**

### **I. Purpose of the Incentive Scheme**

The purpose is to further perfect the corporate governance structure of the Company and improve the mid-and-long term incentive and restraint mechanism of the Company and achieve the incentive and restraint on Senior and Middle Management and frontline leaders of the Company to more tightly align their interests with the long-term development of the Company, and take on risks while share the interests together, and fully mobilize their enthusiasm and creativity to form a long-term behavior of decision-makers and operators, and improve the motivation force of the growth of the Company as well as cohesion and competitiveness of the Company to promote the sustainable and high quality development of the Company so that the value of the Company and shareholders will be maximized. On the basis of fully safeguarding Shareholders' interests, the Incentive Scheme has been formulated on the principle of aligning return with contribution to the Company and in accordance with relevant laws, regulations and regulatory documents such as the Company Law, the Securities Law, the Administrative Measures, the Trial Measures and the Notice, as well as the relevant requirements of the Articles of Association.

The implementation of the Incentive Scheme by the Company is designed to carry out the key initiatives of the CPC Central Committee, the State Council and PRC State-owned Assets Supervision and Administration Commission of the State Council on deepening the system and mechanism reform of the state-owned enterprises and constantly promoting the important focus on the establishment of the mid-long term incentive scheme for state-owned enterprises. In the next few years, the Company shall be at a critical point of implementing the new development strategy “12345” and “Overcome Obstacles, Climb Higher”. The implementation of the Incentive Scheme plays an important role in carrying out the 13th and 14th Five-Year Plan, cultivating the core talent team of the Company and injecting more vigor of operation and enhancing the motivation of high quality development.

The Incentive Scheme is a form of increasing shares held by our staff. Through the Incentive Scheme and the commitment to performance targets of our staff, the system of constraints and sharing interests between the Company and its staff will bring continuing returns for shareholders and increase the value of state-owned assets while also help to enhance investors' confidence in the results and market value of the Company, which are conducive to the establishment of a positive corporate image and our influence and recognition in secondary market.



## **II. Principles of the Incentive Scheme**

The Incentive Scheme adheres to the following principles:

1. Being lawful, open and transparent, and abiding by laws, regulations and the requirements of the Articles of Association;
2. Safeguarding the interests of the Shareholders and the Company, improving value preservation and appreciation of state-owned assets, and contributing to the Company’s sustainable and high-quality development;
3. Combining incentives with constraints, making risks commensurate with returns and reasonably determine incentives for the Participants;
4. Being practicable and standardized, rolling out step by step and improving constantly.

### **Chapter III Administrative Bodies of the Incentive Scheme**

- I. The general meeting, as the ultimate authority of the Company, shall be responsible for considering and approving the implementation, modification and termination of the Incentive Scheme. The general meeting may, within its powers and authority, authorise the board of directors (the “Board”) to handle certain matters relating to the Incentive Scheme.
- II. The Board shall act as the executive and administrative body for the Incentive Scheme and be responsible for the implementation of the Incentive Scheme. The Remuneration and Assessment Committee under the Board shall be responsible for drafting and revising the Incentive Scheme, and submitting the Incentive Scheme to the Board for review and approval. Upon approval by the Board, the Incentive Scheme shall be further submitted to the general meeting, the A shares class meeting and the H shares class meeting of the Company for consideration and approval. The Board may handle other matters relating to the Incentive Scheme within its scope of authority as delegated by the general meeting.
- III. The supervisory committee (the “Supervisory Committee”) and independent directors (the “Independent Directors”) shall act as the supervisory authority for the Incentive Scheme, and shall issue opinions as to whether the Incentive Scheme is beneficial to the sustainable development of the Company or is significantly detrimental to the interests of the Company and the Shareholders as a whole. The Supervisory Committee shall supervise the implementation of the Incentive Scheme as to whether it is in compliance with the relevant laws, regulations, regulatory documents and operational rules of the SSE, and shall be responsible for verifying the list of Participants. The Independent Directors shall solicit voting rights by proxy from all shareholders in respect of the Incentive Scheme.

- IV. Where amendments have been made to the Share Incentive Scheme before the Share Incentive is passed at the general meeting, A shares class meeting and H shares class meeting of the Company, the Independent Directors and the Supervisory Committee shall issue independent opinions as to whether the amended Scheme is beneficial to the sustainable development of the Company or is significantly detrimental to the interests of the Company and the shareholders as a whole.
- V. Before any entitlements are granted to a Participant, the Independent Directors and the Supervisory Committee shall issue clear opinions on the conditions to be fulfilled for the Participant to receive such entitlements as set out in the Incentive Scheme. In the event of any discrepancy between the entitlements granted to a Participant and the arrangement under the Incentive Scheme, the Independent Directors and the Supervisory Committee (where there are changes the Participants) shall simultaneously issue clear opinions thereon.
- VI. Before the exercise of the any entitlement by a Participant, the Independent Directors and the Supervisory Committee shall issue clear opinions as to whether the conditions stipulated under the Incentive Scheme for the Participant to exercise such entitlements have been fulfilled.

**Chapter IV Basis for Determining the Participants and Participants  
to be Covered by the Incentive Scheme**

**I. BASIS FOR DETERMINING THE PARTICIPANTS**

**1. Legal basis**

The Participants of the Incentive Scheme are determined in accordance with the Company Law, the Securities Law, the Administrative Measures, the Trial Measures, the Notice as well as other relevant laws, regulations, regulatory documents and the relevant requirements of the Articles of Association and the actual situation of the Company.

**2. Positions held by Participants in the Company**

The Participants under the Incentive Scheme shall include Directors, Senior and Middle management, and Frontline leaders of the Company (including its branches and subsidiaries).

**II. PARTICIPANTS TO BE COVERED BY THE INCENTIVE SCHEME**

The total number of Participants under the Incentive Scheme shall be 800, specifically including:

1. Directors and Senior Management;
2. Middle management; and
3. Frontline leaders.

The Participants under the Incentive Scheme do not include the Independent Non-executive Directors and the Supervisors, any Shareholder or actual controller, whether jointly or individually, holding more than 5% of the shares of the Company, or their respective spouses, parents and children.

To be qualified as a Participant, a Director must have been elected at a general meeting or Senior Management member must have been engaged by the Board. All Participants should be engaged, employed or hired by the Company or any of the branch or subsidiary of the Company when they are granted incentive interests.

A person shall not be qualified as a Participant if such person:

- (1) has been deemed as an inappropriate candidate by the SSE in the last 12 months;
- (2) has been deemed as an inappropriate candidate by the CSRC or any of its dispatched agencies in the last 12 months;
- (3) has been imposed with administrative penalties or a ban from entry into the securities market by the CSRC or any of its dispatched agencies due to material breach of laws and regulations in the last 12 months;
- (4) is prohibited from acting as a director, supervisor or a member of the senior management of a company under the Company Law;
- (5) is not allowed to participate in any share incentive scheme of a listed company according to applicable laws and regulations; or
- (6) falls under any other circumstances as prescribed by the CSRC.

Pursuant to Article 35 of the Trial Measures, a person shall not be qualified as a Participant if such person:

- (1) has violated relevant laws and regulations of the state or the provisions of the Articles of Association of the Company;
- (2) has caused losses to the Company during his/her term of office due to his/her violation of laws or disciplines such as bribery, embezzlement, theft, divulgence of confidential operational and technical information of the Company and execution of unfair connected transactions, all of which are detrimental to the interests and reputation of the Company and have a material adverse impact on the image of the Company.

The reserved Participants shall be determined within 12 months from the date on which the Incentive Scheme is considered and passed at the general meeting, which shall not be granted to such Participants who have been granted the Incentive Scheme again. Following the proposals from the Board, issue of clear opinions by the independent Directors and the supervisory committee as well as issue of professional opinions and legal opinions by the legal adviser, the Company shall promptly and accurately disclose the relevant information on such Participants on the designated website pursuant to the relevant requirements. If the reserved part involves with connected persons, the Company will comply with all applicable requirements of the Listing Rules by fulfilling the relevant information disclosure or shareholders' approval (if needed) The reserved entitlements shall become invalid where the Participants for the Reserved Grant are not determined after 12 months from the aforesaid date.

### **III. VERIFICATION OF THE PARTICIPANTS**

1. After the Incentive Scheme is considered and approved by the Board, the Company shall announce the name and position of the Participants internally via Company website or other channels for not less than 10 days.
2. The Company shall carry out self-inquiry on the trading of Shares and derivatives of the Company by insiders during the six months' period prior to the announcement of the draft Incentive Scheme to examine whether inside trading behavior exists; A person who knows inside information and involves in trading the Company's shares, shall not be a Participant, save as the condition that is not inside trading required by the laws, administrative regulations and relevant judicial interpretations. A person who leaks insider information that leads to insider trading shall not be a Participant.

## APPENDIX I – RESTRICTED A SHARE INCENTIVE SCHEME FOR 2019 (AMENDED DRAFT)

3. The Supervisory Committee of the Company shall review the list of the Participants and take sufficient consideration of the public opinions. The Company shall disclose the explanation of the Supervisory Committee regarding the review of the list of Participants under the Incentive Scheme and the status of announcement 5 days prior to the consideration of the Incentive Scheme at the general meeting, the A shares class meeting and the H shares class meeting of the Company. Any adjustments to the lists of the Participants made by the Board shall also be subject to verification by the Supervisory Committee of the Company.

### IV. LIST OF CONNECTED PERSONS FOR THE FIRST GRANT

The Participants for the proposed First Grant under the Incentive Scheme include connected persons of the Company recognized under relevant requirements of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited. The specific list is as follows:

No.	Name	Reason for being a connected person	Number of the Restricted Shares to be granted ( <i>'0,000 Shares</i> )	Proportion in the total number of Restricted Shares	Proportion in the total share capital of the Company
1	Gong Dan	Senior management of the Company	15	0.50%	0.0049%
2	Gao Feng	Senior management of the Company	15	0.50%	0.0049%
3	Chen Huan	Senior management of the Company	15	0.50%	0.0049%
4	Liu Hui	Director of a subsidiary	8	0.27%	0.0026%
5	He Jianhua	Director of a subsidiary	8	0.27%	0.0026%
6	Chen Yu	Director of a subsidiary	8	0.27%	0.0026%
7	Li Yunjun	Director of a subsidiary	8	0.27%	0.0026%
8	Lan Xiangjun	Director of a subsidiary	8	0.27%	0.0026%
9	Luo Shengming	Director of a subsidiary	8	0.27%	0.0026%
10	Xu Changjian	Director of a subsidiary	5	0.17%	0.0016%
11	Hu Jun	Director of a subsidiary	8	0.27%	0.0026%
12	Zheng Xingyi	Director of a subsidiary	5	0.17%	0.0016%
13	Gong Xueqing	Supervisor of a subsidiary	2	0.07%	0.0006%
14	Hu Xiukui	Director of a subsidiary	8	0.27%	0.0026%
15	Tang Yong	Director of a subsidiary	8	0.27%	0.0026%
16	Xia Xiaoliang	Director of a subsidiary	8	0.27%	0.0026%
17	Huo Suoshan	Director of a subsidiary	8	0.27%	0.0026%
18	Chen Li	Supervisor of a subsidiary	6	0.20%	0.0019%
19	Cai Tongzhou	Director of a subsidiary	8	0.27%	0.0026%
20	Wang Xu	Director of a subsidiary	8	0.27%	0.0026%
21	Gao Yong	Supervisor of a subsidiary	6	0.20%	0.0019%
22	Luo Zhigang	Director of a subsidiary	2	0.07%	0.0006%
23	Chen Qiang	Director of a subsidiary	8	0.27%	0.0026%
24	Xu Ping	Supervisor of a subsidiary	5	0.17%	0.0016%

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No.	Name	Reason for being a connected person	Number of the Restricted Shares to be granted ( <i>'0,000 Shares</i> )	Proportion in the total number of Restricted Shares	Proportion in the total share capital of the Company
25	Ping Huiqiong	Director of a subsidiary	3	0.10%	0.0010%
26	Liu Li	Director of a subsidiary	3	0.10%	0.0010%
27	Tang Jianguo	Director of a subsidiary	5	0.17%	0.0016%
28	Ji Ping	Director of a subsidiary	7.5	0.25%	0.0024%
29	Huang Yong	Director of a subsidiary	8	0.27%	0.0026%
30	Wang Zhiwen	Supervisor of a subsidiary	8	0.27%	0.0026%

**Chapter V Source, Number and Distribution of Restricted Shares****I. SOURCE OF SHARES UNDER THE INCENTIVE SCHEME**

The source of underlying shares involved in the Incentive Scheme shall be the ordinary A shares issued by the Company to the Participants.

**II. NUMBER OF RESTRICTIVE SHARES TO BE GRANTED**

30,000,000 Restricted Shares to be granted under the Incentive Scheme, account for approximately 0.97% of the Company's total share capital of 309,0803,431 shares as at the date of the announcement of the draft Incentive Scheme. Specifically, 29,000,000 shares will be granted firstly, accounting for approximately 0.94% of the Company's total share capital of 309,0803,431 shares as at the date of the announcement of the draft Incentive Scheme, and accounting for approximately 96.67% of the total Restricted Shares available under the Incentive Scheme; and 1,000,000 shares will be reserved, accounting for approximately 0.03% of the Company's total share capital of 309,0803,431 shares as at the date of the announcement of the draft Incentive Scheme, and accounting for approximately 3.33% of the total Restricted Shares available under the Incentive Scheme. The reserved grant shall not exceeded 20% of the total interests available under the Incentive Scheme.

The total number of underlying shares to be granted under the Share Incentive Scheme during the validity period will not exceed 10% of the Company's total share capital, and the total number of Restricted Shares to be granted under the Share Incentive Scheme to any one of the Participants will not exceed 1% of the total share capital of the Company.

## APPENDIX I – RESTRICTED A SHARE INCENTIVE SCHEME FOR 2019 (AMENDED DRAFT)

### III. ALLOCATION OF THE RESTRICTED SHARES TO BE GRANTED TO PARTICIPANTS

The allocation of the Restricted Shares to be granted under the Incentive Scheme among all Participants is set out in the table below:

Name	Position	Number of Restricted Shares granted <i>(Unit: '0,000 shares)</i>	Proportion in the total Restricted Shares granted	Proportion in the total share capital as at the date of the announcement of the draft Incentive Scheme
	Secretary to the			
Gong Dan	Board	15	0.50%	0.0049%
Gao Feng	Vice President	15	0.50%	0.0049%
Chen Huan	Vice President	15	0.50%	0.0049%
	Mid-level management and frontline leaders (797 persons in total)	2,855	95.17%	0.9237%
	Reserved	100	3.33%	0.0324%
	Total (800 persons for the First Grant)	<u>3,000</u>	<u>100.00%</u>	<u>0.9706%</u>

*Note:* 1. The total number of shares of the Company to be granted under the Share Incentive Scheme to any one of the aforesaid Participants will not exceed 1% of the total share capital of the Company as at the date of the announcement of the draft Incentive Scheme. The total number of underlying shares to be granted under the Share Incentive Scheme during the validity period will not exceed 10% of the Company's total share capital as at the date of the announcement of the draft Incentive Scheme.

2. The above figures shown as totals may not be an arithmetic aggregation of the figures preceding them due to rounding adjustments.

**Chapter VI Time Arrangement for the Incentive Scheme**

**I. VALIDITY PERIOD OF THE INCENTIVE SCHEME**

The Validity Period of the Incentive Scheme at the initial grant shall commence on the date of the registration of the Restricted Shares and end on the date when all the Restricted Shares which have been granted to the Participants are unlocked or repurchased and cancelled, and shall not exceed 72 months.

**II. GRANT DATE OF THE INCENTIVE SCHEME**

The Grant Date shall be determined by the Board after the Incentive Scheme is approved by the State-owned Assets Supervision and Administration Commission of the State Council and considered and approved at the general meeting, A shares class meeting and H shares class meeting of the Company, and must be a trading day. The Company shall grant the Restricted Shares and complete the announcement and registration procedures within 60 days from the date on which the Incentive Scheme is considered and approved at the general meeting, A shares class meeting and H shares class meeting of the Company, failing which the implementation of the Incentive Scheme will be terminated and the Restricted Shares which have not been granted will lapse.

The Grant Date of the Reserved Grant will be determined when the Directors consider the grant of the reserved entitlements.

The grant of Restricted Shares by the Company shall not be carried out in the following periods:

1. within 60 days prior to the publication of annual results announcement of the Company, 30 days prior to the interim results announcement and quarterly results announcements, in the event that the date of announcement of regular reports has been postponed for special reasons, the period from 30 days prior to the originally appointed date of announcement to one day prior to the date of publication;
2. within 10 days prior to the publication of the announcement of the performance forecast or the announcement of the preliminary performance results;
3. the period commencing from the date of occurrence of any significant event which may have significant effect on the trading price of the Company's shares and their derivatives or the date on which relevant decision-making procedures start, and ending on the second trading day following the disclosure in accordance with laws;
4. such other period as stipulated by the CSRC and SSE.

The abovementioned periods during which the Company shall not allowed to grant Restricted Shares shall not be included in the aforementioned period of 60 days.

Where a Participant who is a Director or a member of the Senior Management of the Company reduces his/her shareholding in the Company within 6 months prior to the grant of the Restricted Shares, the grant of the Restricted Shares shall be postponed for six months from the date of the latest of such shareholding reduction in accordance with the short-swing trading provisions under the Securities Law. The aforementioned postponed period shall not be included in the period of 60 days.



**III. LOCK-UP PERIODS AND UNLOCKING ARRANGEMENT OF THE INCENTIVE SCHEME**

The Lock-up Periods of the Restricted Shares granted under the Incentive Scheme shall be 24 months, 36 months and 48 months from the completion date of registration of the Restricted Shares under the grant. The Restricted Shares granted to the Participants under the Incentive Scheme shall not be transferred, pledged or used for repayment of debt during the Lock-up Period.

Upon expiry of each Lock-up Period, the Company shall proceed with the unlocking for the Participants who satisfy the unlocking conditions, and the Restricted Shares held by Participants who do not satisfy the unlocking conditions shall be repurchased and cancelled by the Company.

The Unlocking Periods and unlocking schedule for the initial and reserved Restricted Shares granted under the Incentive Scheme are set out in the table below:

<b>Unlocking Period</b>	<b>Unlocking Time</b>	<b>Percentage of Restricted Shares to be unlocked</b>
The First Unlocking Period under the Initial and Reserved Grant	Commencing from the first trading day after expiry of the 24-month period from the date of completion of registration of certain corresponding Restricted Shares and ending on the last trading day of the 36-month period from the date of completion of registration of certain corresponding Restricted Shares	1/3
The Second Unlocking Period under the Initial and Reserved Grant	Commencing from the first trading day after expiry of the 36-month period from the date of completion of registration of certain corresponding Restricted Shares and ending on the last trading day of the 48-month period from the date of completion of registration of certain corresponding Restricted Shares	1/3
The Third Unlocking Period under the Initial and Reserved Grant	Commencing from the first trading day after expiry of the 48-month period from the date of completion of registration of certain corresponding Restricted Shares and ending on the last trading day of the 60-month period from the date of completion of registration of certain corresponding Restricted Shares	1/3

For Restricted Shares which failed to be unlocked during the aforesaid Unlocking Periods, the Company will repurchase and cancel such Restricted Shares in accordance with the principles of the Incentive Scheme.

Restricted Shares received by Participants due to capitalisation issue, bonus issue and share subdivision shall also be subject to lock-up restriction, and shall not be disposed in the secondary market or otherwise transferred until they are unlocked. The Unlocking Periods of such shares shall be the same as those of the Restricted Shares. Where the Company repurchases unlocked Restricted Shares, such shares shall be repurchased and cancelled together with those unlocked Restricted Shares.

#### **IV. BLACK-OUT PROVISIONS UNDER THE INCENTIVE SCHEME**

The black-out provisions under the Incentive Scheme shall be implemented in accordance with the Company Law, the Securities Law, other relevant laws, regulations and regulatory documents, and the Articles of Association. Such provisions include but are not limited to:

1. If a Participant is a Director or a member of Senior Management of the Company, the number of shares that may be transferred each year during his/her term of office shall not exceed 25% of the total number of shares held by him/her. He/she shall not transfer any of his/her shares within 6 months after his/her departure.
2. If a Participant, who is a Director or a member of Senior Management of the Company, disposes any shares within six months after the acquisition, or re-purchases within six months after disposition, all gains arising therefrom shall belong to the Company and be recovered by the Board.
3. If, during the Validity Period of the Incentive Scheme, there is any change to the requirements regarding the transfer of shares by a Director and a member of Senior Management of the Company under the Company Law, the Securities Law, other relevant laws, regulations and regulatory documents and the Articles of Association, a Participant shall comply with the relevant amended regulations upon transfer of his/her shares held by him/her.
4. A Participant, who is a Director or a member of Senior Management, shall prolong the Lockup Period of 20% of the aggregate Restricted Shares granted to him/her to the expiry of his/her term of office (the term of office of the position held on the last unlocking date) and unlock the restrictions subject to his/her performance appraisal or the result of economic duty audit during such term.

Whether a Participant is a Director or a member of Senior Management shall be determined based on the position such Participant holds for the year when he/she was granted the Restricted Shares under the Incentive Scheme; performance appraisal or economic duty audit of a Participant refers to those conducted for the term of office during the year when the Participants were granted the Restricted Shares under the Incentive Scheme.

**Chapter VII Grant Price and Basis of Determination of the Grant Price of Restricted Shares**

**I. Grant Price of the Restricted Shares under the First Grant**

The Grant Price of the Restricted Shares under the First Grant of the Incentive Scheme shall be RMB5.93 per Share. Upon fulfillment of Grant conditions, each Participant is entitled to purchase A Shares newly issued to the Participants by the Company at the price of RMB5.93 per share.

**II. Basis for determination of the Grant Price of the Restricted Shares under the First Grant**

The Grant Price of the restricted shares granted by the Company via means of issuing additional shares shall be determined according to principle of fair market price, and shall not be lower than the higher of the following prices:

1. 60% of the average trading price of the underlying shares of the Company on the last trading day immediately preceding the date of announcement of the draft Incentive Scheme;
2. 60% of one of the average trading price of the underlying shares of the Company for the last 20 trading days, 60 trading days and 120 trading days immediately preceding the date of announcement of the draft Incentive Scheme.

Based on the above pricing principles, the Grant Price of the Restricted Shares under the First Grant shall be RMB 5.93 per share.

**III. Basis for determination of the Grant Price of the reserved Restricted Shares**

Before each grant of the reserved Restricted Shares under the Incentive Scheme, the Company shall hold a Board meeting to pass the relevant resolution, and shall disclose the information on such grant. The Grant Price of the restricted shares granted by the Company via means of issuing additional shares shall be determined according to principle of fair market price, and shall not be lower than the higher of the following prices:

1. 60% of the average trading price of the underlying shares of the Company on the last trading day immediately preceding the date of announcement of the Board resolution on the grant of the reserved Restricted Shares;
2. 60% of one of the average trading price of the underlying shares of the Company for the last 20 trading days, 60 trading days and 120 trading days immediately preceding the date of announcement of the Board resolution on the grant of the reserved Restricted Shares.

**Chapter VIII Conditions of Grant and Unlocking of Restricted Shares**

**I. Conditions of grant of Restricted Shares**

The Company shall grant Restricted Shares to the Participants upon satisfaction of all of the following conditions of grant, and no Restricted Shares shall be granted to the Participants if any of the following conditions of grant has not been satisfied.

*(I) There is no occurrence of any of the following on the part of the Company:*

1. issue of an auditors' report with an adverse opinion or a disclaimer opinion by certified public accountants in respect of the financial and accounting report of the Company for the latest accounting year;
2. issue of an auditors' report with an adverse opinion or a disclaimer opinion by certified public accountants in respect of the Company's internal control over financial reporting for the latest accounting year;
3. failure to pay dividends in accordance with laws and regulations, the Articles of Association or public undertakings during the 36 months after listing;
4. prohibition from implementation of a share incentive scheme by applicable laws and regulations; and
5. any other circumstances as prescribed by the CSRC.

*(II) The Company shall meet the following conditions:*

1. it shall have a standardized governance structure, comprising Shareholders' general meeting, the Board and the management, with a clear division of responsibilities among them. More than half of the Board members shall be external Directors (including Independent Non-executive Directors, same as below);
2. The remuneration and assessment committee shall be composed of external Directors, with sound system and procedures to ensure operation in accordance with applicable laws and regulations;

3. it shall have sound internal control and performance assessment system and standardized fundamental management rules in place and have established systems for employment, remuneration and benefit and performance assessment that are in line with the requirements of the market economy and modern enterprise management system;
4. it shall have developed a clear and well-defined development strategy, shall be in a sound financial position with quality assets and stable business performance; and there were no financial violation of laws or regulations or negative records regarding the Company during the past three years;
5. any other conditions as prescribed by the securities regulatory authorities.

*(III) A Participant shall not be a person who:*

1. has been deemed as an inappropriate candidate by the Stock Exchange in the last 12 months;
2. has been deemed as an inappropriate candidate by the CSRC or any of its dispatched agencies in the last 12 months;
3. has been imposed with administrative penalties or a ban from entry into the securities market by the CSRC or any of its dispatched agencies due to material breach of laws and regulations in the last 12 months;
4. is prohibited from acting as a director, supervisor or a member of the senior management of a company under the Company Law;
5. is not allowed to participate in any share incentive scheme of a listed company under laws and regulations; or
6. falls under any other circumstances as prescribed by the CSRC.

*(IV) Pursuant to Article 35 of the Trial Measures, a Participant shall not be a person who:*

1. has violated relevant laws and regulations of the state or the provisions in the Articles of Association of the Company; or
2. has caused losses to the Company during his/her term of office due to his/her violations of law or discipline such as bribery, embezzlement and theft, divulgence of confidential operational and technical information of the Company and execution of unfair connected transactions, all of which are detrimental to the interests and reputation of the Company and have a material adverse impact on the image of the Company.

*(V) The Company is deemed to have achieved the performance target if all of the following conditions are satisfied:*

1. On the basis of 2017, the year-on-year increase in the growth rate of the net profit attributable to the Shareholders of the Company for 2018 shall not be less than 6% and not lower than industry average level;
2. The weighted average return on net assets of the Company for 2018 shall not be less than 3.5% and not lower than industry average level;
3. The  $\Delta$ EVA of the Company for 2018 is positive.

*Note :* The abovementioned “Industry” refers to all A-share listed companies in the “general equipment manufacturing industry” under the industry classification by the CSRC.

## **II. Unlocking conditions for Restricted Shares**

Within the Unlocking Period, the Restricted Shares granted to a Participant may be unlocked only when all of the following conditions are satisfied:

*(I) there is no occurrence of any of the following on the part of the Company:*

1. issue of an auditors’ report with an adverse opinion or a disclaimer opinion by certified public accountants in respect of the financial and accounting report of the Company for the latest accounting year;
2. issue of an auditors’ report with an adverse opinion or which a disclaimer opinion by certified public accountants in respect of the Company’s internal control over financial reporting for the latest accounting year;

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3. failure to pay dividends in accordance with laws and regulations, the Articles of Association and public undertakings during the 36 months after listing;
4. prohibition from implementation of a share option incentive scheme by applicable laws and regulations; and
5. any other circumstances as prescribed by the CSRC.

(II) The Company shall meet the following conditions:

1. it shall have a standardized governance structure, comprising Shareholders' general meeting, the Board and the management, with a clear division of responsibilities among them. More than half of the Board members shall be external Directors (including Independent Non-executive Directors, same as below);
2. The remuneration and assessment committee shall be composed of external Directors, with sound system and procedures to ensure operations in accordance with applicable laws and regulations;
3. it shall have sound internal control and performance assessment systems and standardized fundamental management rules in place and have established systems for employment, remuneration and benefit and performance assessment that are in line with the requirements of the market economy and modern enterprise management system;
4. it shall have developed a clear and well-defined development strategy, shall be in a sound financial position with quality assets and stable business performance; and there were no financial violations of law or discipline or negative records regarding the Company during the past three years;
5. any other conditions as prescribed by the securities regulatory authorities.

(III) A Participant shall not be a person who:

1. has been deemed as an inappropriate candidate by the Stock Exchange in the last 12 months;
2. has been deemed as an inappropriate candidate by the CSRC or any of its dispatched agencies in the last 12 months;

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3. has been imposed with administrative penalties or a ban from entry into the securities market by the CSRC or any of its dispatched agencies due to material breach of laws and regulations in the last 12 months;
  4. is prohibited from acting as a director, supervisor or a member of the senior management of a corporation under the Company Law;
  5. is not allowed to participate in any share incentive scheme of a listed company under laws and regulations; or
  6. falls under any other circumstances as prescribed by the CSRC.
- (IV) Pursuant to Article 35 of the Trial Measures, a Participant shall not be a person who:
1. has violated relevant laws and regulations of the state or the provisions of the Articles of Association of the Company;
  2. has caused losses to the Company during his/her term of office due to his/her violations of law or discipline such as bribery, embezzlement and theft, divulgence of confidential operational and technical information of the Company and execution of unfair connected transactions, all of which are detrimental to the interests and reputation of the Company and have a material adverse impact on the image of the Company.

In case of occurrence of any of the circumstances as stipulated in paragraphs (I) and/or (II) above to the Company, all the Restricted Shares that have been granted to the Participants but not yet unlocked shall be repurchased and cancelled by the Company at the Grant Price. In case of occurrence of any of the circumstances as stipulated in paragraphs (III) and/or (IV) to a Participant, the Restricted Shares that have been granted to such Participant but not yet unlocked under the Incentive Scheme shall be repurchased and cancelled by the Company at the Grant Price.



(V) Performance Appraisal at the Company's level

Restricted Shares in the Incentive Scheme at the initial grant shall be appraised on performance and unlocked on a year basis in three accounting years from 2020 to 2022, and an appraisal will be carried out every accounting year to achieve the performance appraisal targets of the Company, which shall be regarded as the unlock conditions of the Participants.

1. Performance targets of the Company each year are set out in the table below :

<b>Unlocking Period</b>	<b>Performance targets</b>
The First Unlocking Period	<p>(1) On the basis of the net profit for 2018, the compound growth rate of the net profit for 2020 shall not be less than 10% and not lower than industry average level;</p> <p>(2) The ROE for 2020 shall not be less than 4% and not lower than industry average level;</p> <p>(3) The <math>\Delta</math>EVA for 2020 is positive.</p>
The Second Unlocking Period	<p>(1) On the basis of the net profit for 2018, the compound growth rate of the net profit for 2021 shall not be less than 10% and not lower than industry average level;</p> <p>(2) The ROE for 2021 shall not be less than 4.5% and not lower than industry average level;</p> <p>(3) The <math>\Delta</math>EVA for 2021 is positive.</p>
The Third Unlocking Period	<p>(1) On the basis of net profit for 2018, the compound growth rate of the net profit for 2022 shall not be less than 10% and not lower than industry average level;</p> <p>(2) The ROE for 2022 shall not be less than 5% and not lower than industry average level;</p> <p>(3) The <math>\Delta</math>EVA for 2022 is positive.</p>

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**APPENDIX I – RESTRICTED A SHARE INCENTIVE SCHEME FOR 2019 (AMENDED DRAFT)**

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Where the reserved shall be granted in 2019, performance targets of the reserved shall be consistent with the performance targets at the initial grant; Where the reserved shall be granted in 2020, performance targets of the reserved each year are set out in the table below:

<b>Unlocking Period</b>	<b>Performance targets</b>
The First Unlocking Period	(1) On the basis of the net profit for 2018, the compound growth rate of the net profit for 2021 shall not be less than 10% and not lower than industry average level;  (2) The ROE for 2021 shall not be less than 4.5% and not lower than industry average level;  (3) The $\Delta$ EVA for 2021 is positive.
The Second Unlocking Period	(1) On the basis of the net profit for 2018, the compound growth rate of the net profit for 2022 shall not be less than 10% and not lower than industry average level;  (2) The ROE for 2022 shall not be less than 5% and not lower than industry average level;  (3) The $\Delta$ EVA for 2022 is positive.
The Third Unlocking Period	(1) On the basis of the net profit for 2018, the compound growth rate of the net profit for 2023 shall not be less than 10% and not lower than industry average level;  (2) The ROE for 2023 shall not be less than 5.5% and not lower than industry average level;  (3) The $\Delta$ EVA for 2023 is positive.

*Note* : ① The abovementioned “net profit” refers to net profit attributable to Shareholders of the Company; “ROE” refers to weighted average return on net assets.

② During the Validity Period of the Incentive Scheme, in case of additional issuance or allotment of shares etc. that would result in a change in the net assets of the Company, the change in net assets and the income arising therefrom (if such income cannot be accurately calculated, it can be calculated by multiplying the actual financing amount after deducting the financing cost by the interest rate of the national debts of the same term) shall be excluded when conducting an appraisal.

The incentive costs incurred from the Incentive Scheme will be charged to the Company's administrative expenses.

In the event that the Company's performance targets of Restricted Shares in certain Unlocking Period could not be achieved, all Participants' current restricted shares shall not be unlocked and shall be repurchased by the Company at the lower of the Grant Price and the market price (i.e. the average targeted price of the Company's trading shares on the first trading day before the announcement of the Board's resolution on repurchasing and cancelling shall be considered) of the Company's shares during repurchasing in accordance with the Incentive Scheme.

2. Selection of industry peers in respect of grant of Restricted Shares and unlocking appraisal

The Company falls within the "general equipment manufacturing industry" under the "manufacturing" category of industry classification by the CSRC and the Company's industry peers are all domestic A-share listed companies in the "general equipment manufacturing industry" as classified by the CSRC. During the Validity Period of the Incentive Scheme, if the CSRC adjusts the industry classification of the Company or adjusts the constituents in the same industry, the Company shall adopt the then last updated industry classification data in the appraisal of each year. Meanwhile, if there are significant changes in the principal business of or extreme values with excessive performance variation in the same industry samples during the annual appraisal, the Board will remove the samples based on actual conditions.

Identification of the material changes in the principal business of industry peers is primarily based on the changes in the industry classification regarding listed companies where the principal business of industry peers belongs (for specific classification, please refer to the Guidelines for the Industry Classification of Listed Companies (2012 Revision) issued by the CSRC) (subject to the public information) arising from the business reorganisation and operation strategy adjustment of such enterprises from the base year (i.e. 2018) to the end of the evaluation year corresponding to each Unlocking Period.

Identification of extreme values with overly excessive performance variation in the samples mainly depends on whether there is an absolute difference of at least 100% between the compound growth rate of net profits and/or the return on net assets attributable to shareholders of listed companies and the average levels of the general equipment manufacturing industry of such enterprises from the base year (i.e. 2018) to the end of the evaluation year corresponding to each Unlocking Period.

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**APPENDIX I – RESTRICTED A SHARE INCENTIVE SCHEME FOR 2019 (AMENDED DRAFT)**

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(VI) Reaching Performance appraisal requirements at individual level

In accordance with the Assessment Management Measures for the Incentive Scheme for Restricted A Shares in 2019 (《2019年A股限制性股票激勵計畫實施考核管理辦法》), the Company shall make an appraisal on annual performance of the Participants and determine to unlock the restraint ratio according to the results of annual performance appraisal of the Participants.

During the Validity Period of the Incentive Scheme, all individual performance appraisals of the Participants shall be performed according to the current administrative measures on annual appraisal. The performance results shall be categorised into five grades, namely excellent, good, competent, fair and poor. If the performance results of the Participants in the previous year shall be excellent, good and competent, the individual performance of the Participants in the previous year shall be regarded as “pass”; If the performance results of the Participants in the previous year shall be fair and poor, the individual performance of the Participants in the previous year shall be regarded as “fail”.

If the individual performance appraisal of certain Participant in the previous year shall be regarded as “pass”, the current restricted shares of the Participants shall be unlocked fully. If the individual performance appraisal of certain Participant in the previous year shall be regarded as “fail”, all current restricted shares shall be repurchased by the Company at the lower of the Grant Price and the market price (i.e. the average targeted price of the Company’s trading shares on the first trading day before the announcement of the Board’s resolution on repurchasing and cancelling shall be considered) of the Company’s shares during repurchasing.

<b>Grade</b>	<b>A</b>	<b>B</b>	<b>C</b>	<b>D</b>	<b>E</b>
Score range	90 to 100	80 to 90	70 to 80	60 to 70	Below 60
Conclusion	Excellent	Good	Competent	Fair	Poor
		Pass			Fail

(VII) Where the performance appraisal at the Company level shall fail or the performance appraisal at the individual level leads to unlocking conditions unachieved, the corresponding restricted shares shall not defer to unlock in the next period.

### **III. Scientificity and Reasonableness of the Appraisal Indicators**

The restricted shares appraisal indicators of the Company are categorised into two levels, i.e. performance appraisal at the Company’s level and performance appraisal at individual’s level.

According the relevant requirements of State-owned Assets Supervision and Administration Commission of the State Council, performance indicators, in principle, shall contain the comprehensive indicator that shall reflect shareholders’ return and the value of the Company and the indicator that shall reflect the sustainability of the Company and the quality of the Company’s development. Based on the above requirements, the Incentive Scheme of the Company combined the practice of state-owned enterprises and the characters of the Company, and selected suitable indicators (including compound growth rate of net profit, ROE and  $\Delta$ EVA) as the indicators when they are granted and effect for performance appraisal at Company’s level The above indicators shall be the core financial indicators of the Company, reflecting the Company’s ability of development, shareholders’ return and creating the value of the Company. Through a reasonable projection as well as taking into account the incentive effect of the Incentive Scheme, the Company established the aforementioned performance targets for the Incentive Scheme.

In addition to the performance appraisal at the Company level, the Company has established a strict performance appraisal system for the Participants, which evaluates comprehensively the performance of the Participants in an accurate and all-round manner. The Company will determine whether the Participants meet the unlocking conditions based on their performance appraisal results for the previous year.

Given the above, the appraisal system for the Incentive Scheme of the Company is all-round, comprehensive and operable, and the appraisal indicators are scientific and reasonable, which are binding on the Participants and can serve the appraisal goal of the Incentive Scheme.

**Chapter IX Method and Procedures for Adjustment to the Incentive Scheme****I. METHOD OF ADJUSTING THE NUMBER OF RESTRICTED SHARES**

During the period from the date of announcement of the Scheme to the completion of registration of the Restricted Shares held by the Participants, in case of any capitalisation issue, bonus issue, share split, share consolidation or rights issue made by the Company, adjustment to the number of Restricted Shares shall be made accordingly. The method of adjustment is set out below:

**1. Capitalisation issue, bonus issue and share split**

$$Q = Q_0 \times (1 + n)$$

Where: Q represents the number of Restricted Shares before the adjustment;  $Q_0$  represents the number of Restricted Shares before the adjustment; n represents the ratio of increase of share resulting from the issue of shares by capitalisation issue, bonus issue or share split (i.e. the number of shares increased per share upon capitalisation issue, bonus issue or share split).

**2. Share consolidation**

$$Q = Q_0 \times n$$

Q represents the number of Restricted Shares before the adjustment;  $Q_0$  represents the number of Restricted Shares before the adjustment; n represents the proportion of a share that may result from consolidation of 1 share of the Company.

**3. Rights issue**

$$Q = Q_0 \times P_1 \times (1 + n) \div (P_1 + P_2 \times n)$$

Where: Q represents the number of Restricted Shares before the adjustment;  $Q_0$  represents the number of Restricted Shares before the adjustment; n represents the ratio of the rights issue (i.e. the ratio of the number of shares to be issued under the rights issue to the total share capital of the Company before the rights issue);  $P_1$  represents the closing price as at the date of registration of share;  $P_2$  represents the price of the rights issue.

**4. Dividend distribution and additional issue of new shares**

Under the circumstance of dividend distribution and additional issue of new shares, no adjustment will be made to the number of Restricted Shares.

**II. METHOD OF ADJUSTING THE GRANT PRICE OF THE RESTRICTED SHARES**

In the event that, during the period from the date of announcement of the Scheme to the completion of registration of the Restricted Shares held by a Participant, any capitalisation issue, bonus issue, stock split, dividend distribution, share consolidation or rights issue have been made, adjustment to the Grant Price of Restricted Shares shall be made by the Company accordingly. The method of adjustment is set out below:

**1. Capitalisation issue, bonus issue and share split**

$$P = P_0 \div (1 + n)$$

Where: P represents the Grant Price per Restricted Share after adjustment;  $P_0$  represents the Grant Price before the adjustment; n represents the ratio of increase of shares resulting from capitalisation issue, bonus issue and share split.

**2. Dividend distribution**

$$P = P_0 - V$$

Where: P represents the Grant Price per Restricted Share after adjustment;  $P_0$  represents the Grant Price before the adjustment; V represents the dividend per share.

**3. Share consolidation**

$$P = P_0 \div n$$

Where: P represents the Grant Price per Restricted Share after adjustment;  $P_0$  represents the Grant Price before the adjustment; n represents the proportion of a share that may result from consolidation of 1 share of the Company (i.e. 1 share of Dongfang Electric is consolidated to n shares).

**4. Rights issue**

$$P = P_0 \times (P_1 + P_2 \times n) / [P_1 \times (1 + n)]$$

Where: P represents the Grant Price per Restricted Share after adjustment;  $P_0$  represents the Grant Price before the adjustment;  $P_1$  represents the closing price as at the date of share registration;  $P_2$  represents the price of the rights issue; n represents the ratio of the rights issue (i.e. the ratio of the number of shares to be issued under the rights issue to the total share capital of the Company before the rights issue).

**5. Additional issue of new shares**

Under the circumstance of additional issue of new shares, no adjustment will be made on the price of the Restricted Shares.

**III. ADJUSTMENT PROCEDURES FOR THE SCHEME**

The Board was authorized the power at the general meeting of the Company to determine the adjustment to the Grant Price and the number of the Restricted Shares when the foregoing circumstances occur. The Company shall engage a legal adviser to provide professional advice to the Board as to whether such adjustment is in compliance with the Administrative Measures, the Articles of Association and the Scheme.

**Chapter X Accounting Treatment on Restrictive Shares**

In accordance with the requirements of the Accounting Standards for Business Enterprises No. 11-Sharebased Payments, at each balance sheet date within the Lock-up Period, the Company shall revise the number of the Restricted Shares which are expected to be unlocked according to the change in the latest available number of persons eligible to unlock the Restricted Shares, completion of the performance targets and other subsequent information, and recognize the services acquired during such period in relevant costs or expenses and capital reserve at the fair value of the Restricted Shares on the Grant Date.

**I. Accounting treatment method**

**1. Grant Date**

The share capital and capital reserve shall be determined according to the issuance of the Restricted Shares to the Participants by the Company.

**2. Each balance sheet date within the Lock-up Period**

In accordance with the requirements of the accounting standards, at each balance sheet date within the Lock-up Period, the services provided by the staff will be recognized in the costs or expenses, and the equity or liability will be recognized at the same time.

**3. Unlocking date**

At the unlocking date, the shares can be unlocked if all conditions of unlocking are satisfied; if the Restricted Shares are not unlocked and thus become invalid or cancelled, they shall be dealt with according to accounting standards and relevant requirements.



**II. Method for determining the fair value of the Restricted Shares**

The fair value of the Restricted Shares was determined by the market price on the Grant Date or the subscription price paid by the Participants. On the estimation date, the fair value of share payment per Restricted Shares is equal to the market price of Shares of the Company less the Grant Price, being RMB 3.83.

**III. The expected impact of the first grant of part of the Restricted Shares on the operating performance in each accounting period**

The Company will confirm the fair value of the Restricted Shares on the Grant Date according to relevant valuation tools and determine the share-based payment expenses under the Scheme eventually. Such expenses will be amortised based on the unlocking proportions during the implementation of the Scheme. The costs arising from the Scheme will be presented in recurring profit or loss.

Under the requirements of China accounting standards, assuming the Grant Date will be late November 2019, the estimated effects of the Restricted Shares to be granted for the first time under the Scheme on the accounting costs incurred in each accounting period are as follows:

<b>Number of Restricted Shares to be granted for the first time</b>	<b>Total costs</b>	<b>2019</b>	<b>2020</b>	<b>2021</b>	<b>2022</b>	<b>2023</b>
<i>(0'000)</i>	<i>(RMB0'000)</i>	<i>(RMB0'000)</i>	<i>(RMB0'000)</i>	<i>(RMB0'000)</i>	<i>(RMB0'000)</i>	<i>(RMB0'000)</i>
2,900	11,107.00	334.24	4,010.86	3,856.60	2,056.85	848.45

*Note:* The above result does not represent the final accounting cost. The accounting cost is related not only to the Grant Date, Grant Price and number of Restricted Shares granted, but also to the actual number of the Restricted Shares that are valid and invalid. The final result of the above effects on the operating performance of the Company is subject to the annual audited report issued by the accounting firm.

The costs arising from the Scheme will be presented in administrative expenses. The Company evaluated on current conditions that, without considering the stimulus effects of the Scheme on the operation performance of the Company, the amortization of the costs of the Scheme shall have certain, though not substantial, effect on the net profit of each year during the Validity Period. Taking into consideration the positive impact of the Scheme on the development of the Company, such as motivating the management team, increasing the operating efficiency and reducing the costs of agents, the benefits generated from the improvement in the Company's operation performance due to the Scheme shall far exceed the increase of costs incurred by the Scheme.

**IV. Accounting treatment for the termination of the Incentive Scheme**

Upon the termination of the Incentive Scheme, pursuant to the requirements of the Accounting Standards for Business Enterprises, the Restricted Shares which have been granted but are still locked up (except for those cancelled due to failure to satisfy the performance conditions), shall be subject to the following accounting treatment:

1. the cancellation or settlement will be treated as accelerated exercisable rights and the amount which should have been recognized during the remaining vesting period will be recognized immediately.
2. all payments made to the employee on the cancellation or settlement shall be treated as the repurchase of equity. Should the amount paid for the repurchase exceeds the fair value of the equity instrument on the repurchase day, such excess shall be recognised as the expense of the current period.

The above accounting treatment and its impact shall be for reference purpose only. The actual financial impact shall be measured in accordance with the relevant accounting principles on the termination date.

**Chapter XI Procedures of Implementation of the Scheme**

**I. PROCEDURES FOR THE SCHEME TO TAKE EFFECT**

- (I) The remuneration and assessment committee of the Board is responsible for preparing the draft of the Scheme and submit the same to the Board for consideration.
- (II) The Board of the Company shall arrive at a resolution on the Scheme in accordance with laws. When the Board considers the Scheme, any Director who is also a Participant or is a related party to a Participant shall abstain from voting.
- (III) The Independent Non-executive Directors and the Supervisory Committee shall issue opinions in respect of whether the Scheme is beneficial to the sustainable development of the Company or whether there is any noticeable damage to the interests of the Company and all Shareholders.
- (IV) The Company shall engage a law firm to issue legal opinions on the Scheme and an independent financial adviser to issue professional opinions.

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- (V) Before convening the general meeting, the Company shall announce the name and position of the Participants internally via Company website or other channels for not less than 10 days. The Supervisory Committee shall review the list of the Participants and take sufficient consideration of the public opinions. The Company shall disclose the explanation of the Supervisory Committee regarding the review of the list of Participants under the Scheme and the status of announcement 5 days prior to the consideration of the Scheme at the general meeting.
- (VI) The Company should carry out self-investigation on the trading of shares of the Company by insiders during the 6 months' period prior to the announcement of the draft Scheme to examine whether any insider trading exists.
- (VII) The Scheme shall be considered and approved by State-owned Assets Supervision and Administration Commission of the State Council.
- (VIII) The Company shall issue a notice on the convening of a general meeting and announce the legal opinions.
- (IX) When a general meeting is convened to consider the Scheme, the Independent Non-executive Directors shall solicit proxy voting rights from all Shareholders regarding the resolutions related to the Scheme.
- (X) The Scheme shall be proposed and voted at a general meeting and the A share and H share class meetings, and be approved by more than 2/3 of the voting rights held by the attending Shareholders. Except for the Directors, Supervisors and Senior Management of the Company, as well as the Shareholders individually or collectively holding more than 5% of the Company's shares, the voting by other Shareholders shall be separately counted and disclosed.

The shareholders as or related to the Participants shall abstain from voting when discussing the Scheme on general meeting of the Company.

### II. PROCEDURES FOR GRANT OF THE SCHEME

- (I) Within 60 days after the Scheme is considered and approved at the general meeting and the A shares and H shares class meetings, and the conditions for the grant are satisfied, the Company shall convene a Board meeting to consider whether the Participants have satisfied the conditions prescribed in the Scheme for the grant of the Restricted Shares and determine the Grant Date, and the Independent Non-executive Directors shall issue opinions. Moreover, the Supervisory Committee shall verify the Grant Date of the Restricted Shares and the list of Participants and issue its opinions.

- (II) The Company shall engage a lawyer to issue legal opinions as to whether the Participants have satisfied the conditions of the grant, and the independent financial adviser shall issue explicit opinions at the same time.
- (III) The Company shall sign an agreement on the granting of Restricted Shares with the Participants in order to determine their respective rights and obligations.
- (IV) The Participants shall pay the consideration for subscribing for the Restricted Shares into the account designated by the Company and have it verified and confirmed by a certified public accountant, otherwise such Participant shall be deemed as having waived his or her right to subscribe for the Restricted Shares.
- (V) The Company shall keep a register for management of the Restricted Shares with reference to the agreements signed by the Participants, and such register shall record the names of the Participants, number of shares granted, the Grant Date and the serial number of the relevant agreement on granting of the Restricted Shares.
- (VI) The Company shall apply to the Stock Exchange for the grant of the Restricted Shares to Participants, and apply to the Depository and Clearing Company for the registration and settlement matters after the confirmation by the Stock Exchange.
- (VII) After the registration of grant of the Restricted Shares is completed, the Company shall, go through the formalities in relation to the registration with the industrial and commercial registration authority if the registration involves change in the registered capital of the Company.

### **III. PROCEDURES FOR UNLOCKING OF THE SCHEME**

- (I) Prior to the date of unlocking, the Company shall confirm whether the Participants have satisfied the conditions for unlocking the Restricted Shares. The Board shall consider whether the conditions for unlocking the Restricted Shares under the Scheme have been satisfied and the Independent Non-executive Directors and Supervisory Committee shall issue their relevant opinions. The Company's legal adviser shall issue legal opinions as to whether the conditions for unlocking the Restricted Shares have been satisfied.
- (II) As to the Participant who has satisfied the conditions for unlocking the Restricted Shares, the Company shall tender applications to the Stock Exchange to unlock the Restricted Shares. After confirmation by the Stock Exchange, the Company shall apply to the Depository and Clearing Company for the relevant registration and settlement matters.

- (III) Restricted Shares held by Participants who have not satisfied the conditions for unlocking the Restricted Shares shall be repurchased and cancelled by the Company. The Company shall disclose the implementation thereof timely by way of announcement.
  
- (IV) Participants may transfer their unlocked Restricted Shares whereas the transfer of the Restricted Shares held by the Company’s Directors and members of Senior Management shall comply with the requirements of the relevant laws, regulations and regulatory documents.

**IV. PROCEDURES FOR AMENDMENTS TO AND TERMINATION OF THE SCHEME**

**(I) Procedures for amendments to the Scheme**

- 1. Any proposed amendment to the Scheme prior to approval of the Scheme by Shareholders at general meeting of the Company shall be subject to consideration and approval of the Board.
  
- 2. Any proposed amendment to the Scheme after approval of the Scheme by the Shareholders at general meeting, A shares class meeting and H shares class meeting of the Company shall be subject to consideration and approval at Shareholders’ general meeting, A shares class meeting and H shares class meeting of the Company, provided that such amendment shall not:
  - (1) result in unlocking of restriction in advance; or
  
  - (2) reduce the Grant Price.

The Company shall timely fulfill its responsibility for announcement. The independent directors and the Supervisory Committee shall give independent opinions on whether the amended Scheme is beneficial for the sustainable development of the Company or will damage the benefits of the Company and all shareholders.

The law office shall give professional opinions on whether the amended Scheme complies with the requirements of the Administrative Measures and relevant laws and regulations or will damage the benefits of the Company and all shareholders.

**(II) Procedures for termination of the Scheme**

1. The Scheme shall be terminated and the Company shall not proceed to grant new interests to the Participants if one of the circumstances prescribed in Article 7 of the Administrative Measures happened to the Company.
2. If the case that the Participants shall not become the Participants as prescribed in Article 8 of the Administrative Measures or Article 35 of Trial Measures arises, the Company will not proceed to grant interests to the Participants, the interests he/she granted but not exercised shall be terminated.
3. Proposed termination of the Scheme by the Company prior to approval of the Scheme by Shareholders at general meeting of the Company shall be subject to consideration and approval of the Board.
4. Proposed termination of the Scheme by the Company after approval of the Scheme by Shareholders at general meeting, A shares class meeting and H shares class meeting of the Company shall be subject to consideration and approval at Shareholders' general meeting, A shares class meeting and H shares class meeting of the Company. The natural termination in accordance with the provisions of the Scheme is not included in the aforementioned procedure.
5. The law firm engaged by the Company should issue legal opinions as to whether the termination of the Scheme is in compliance with relevant laws, regulations and regulatory documents, and whether it would noticeably prejudice the interests of the Company or its Shareholders as a whole.
6. In case of termination of the Scheme, the Company shall repurchase and cancel all Restricted Shares that are still locked up and deal with such repurchased shares in accordance with the Company Law.
7. The Company shall file an application to the Stock Exchange prior to the repurchase and cancellation of the Restricted Shares. Upon confirmation by the Stock Exchange, the Securities Depository and Clearing agency will deal with the matters of registration and settlement.
8. The Company terminated the implementation of the Scheme, and will not review or disclose the draft of the Scheme within 3 months from the date of announcement of the Board resolution.

**Chapter XII Respective Rights and Obligations of the Company/Participants**

**I. Rights and obligations of the Company**

- (I) The Company shall have the right to construe and execute the Scheme and shall appraise the performance of the Participants based on the requirements under the Scheme. If a Participant fails to satisfy the unlock conditions required under the Scheme, the Company will repurchase and cancel his/her unlocked Restricted Shares, in accordance with the principles as prescribed under the Scheme.
- (II) The Company shall withhold and pay the individual income tax on behalf of the Participants in accordance with the provisions of tax laws of China.
- (III) The Company undertakes not to provide loans and financial support in any other forms, including providing guarantee for loans, to the Participants with respect to the acquisition of the Restricted Shares under the Scheme.
- (IV) The Company shall perform its reporting, information disclosure and other obligations under the Scheme in a timely manner in accordance with the relevant requirements.
- (V) The Company shall actively support the Participants who have satisfied the unlock conditions to unlock the restrictions in accordance with the relevant requirements of the Scheme, the CSRC, the SSE and China Securities Depository and Clearing Corporation Limited. However, the Company is not liable for a Participant's loss arising from the incapability to unlock as desired due to reasons relating to CSRC, SSE or China Securities Depository and Clearing Corporation Limited.
- (VI) The Company confirmed, the Scheme does not mean the guarantee that the Participants are entitled to the right to continue serving the Company and does not constitute a commitment of the Company to the employment term of staff. The employment management of the Company to its staff is still carried out in accordance with the labor contracts entered between the Company and the Participants.
- (VII) Where the Participant severely impaired the interests or reputation of the Company as a result of violating laws, professional ethics, divulging confidential information of the Company, neglecting his/her duty or malfeasance, as considered by the remuneration and assessment committee of the Board and approved by the Board of the Company, the Company may repurchase and cancel the Restricted Shares of the Participants subject to the lock-up restrictions. In case of serious circumstance, the Company may also claim compensation for the losses incurred by the Company thereon in accordance with the provisions of relevant laws.
- (VIII) Other relevant rights and obligations as stipulated under laws and regulations.

**II. Rights and obligations of Participants**

- (I) A Participant shall comply with the requirements of his position as stipulated by the Company, and shall work diligently and responsibly, strictly observe professional ethics, and make contributions to the development of the Company.
- (II) A Participant shall be entitled to relevant rights and interests in accordance with the requirements under the Scheme.
- (III) Source of funds shall be legally self-financed by the Participants.
- (IV) The Restricted Shares granted to the Participants shall not be transferred or used as guarantee or for repayment of debt.
- (V) When the Company pays cash dividends, the Participant is entitled to the cash dividend in respect of the Restricted Shares he/she was granted after withholding and deducting the individual income tax. If the restrictions on the Restricted Shares fail to be released, the Company shall deduct the shares in respect of the cash dividend attributable to the Participant in repurchasing and cancelling the Restricted Shares in accordance with the requirements of the Incentive Scheme and make corresponding accounting treatment.
- (VI) Any gains of the Participants generated from the Scheme are subject to individual income tax and other taxes according to PRC tax laws. The Participants agree that the Company will withhold and pay the individual income tax on his/her behalf.
- (VII) The Participants undertakes, where false statements or misleading statements in or material omissions from the information disclosure documents of the Company result in noncompliance with condition of grant or arrangements for exercise of rights, the Participants concerned shall return to the Company all interests gained through the Scheme when it is confirmed that the relevant information disclosure documents of the Company contain false statements or misleading statements or material omissions.
- (VIII) Upon consideration and approval of the Scheme at the general meeting, the A shares class meeting and the H shares class meeting, the Company will sign an agreement on the grant of Restricted Shares with each Participant whereby their respective rights and obligations as well as other relevant matters are stipulated.
- (IX) Other relevant rights and obligations as stipulated by laws, regulations and the Scheme.



**Chapter XIII Unusual Changes to the Company/Participants**

**I. UNUSUAL CHANGES TO THE COMPANY**

- (I) The Scheme shall be terminated immediately in the event that any of the following events occurs to the Company:
1. The Scheme shall be terminated in case of any issue of an auditors' report with adverse opinion or a disclaimer opinion by a certified public accountant with respect to the financial report of the Company for its most recent accounting year;
  2. The Scheme shall be terminated in case of any issue of an auditors' report with adverse opinion or a disclaimer opinion by a certified public accountant with respect to the internal controls over the financial reporting of the Company for its most recent accounting year;
  3. The Scheme shall be terminated in case of any failure to conduct profit distribution in accordance with laws and regulations, the Articles of Association and public undertakings during the past 36 months after listing;
  4. Other circumstances where the implementation of the Scheme is prohibited by laws and regulations;
  5. Other circumstances under which the Scheme shall be terminated as determined by the CSRC.

Where the Company comes across any of the abovementioned circumstances under which the Scheme shall be terminated, the Restricted Shares of the Participants which are granted under the Scheme but not yet unlocked shall be repurchased and cancelled at the Grant Price by the Company.

- (II) The Scheme shall remain unchanged and the Company shall proceed to implement the Scheme as stipulated in the event that any of the following events occurs to the Company:
1. Change of control of the Company;
  2. Merger or separation of the Company.

- (III) Where false statements or misleading statements in or material omissions from the information disclosure documents of the Company result in non-compliance with conditions of grant or arrangements for unlocking the restrictions, the Restricted Shares not unlocked shall be repurchased and cancelled at the Grant Price by the Company on a uniform basis. In respect of the Restricted Shares granted to the Participants which have been unlocked, the Participants concerned shall return to the Company all interests granted. The Board shall recover all the profits gained by the Participants in accordance with the relevant arrangements under the Scheme.

## **II. CHANGES IN PERSONAL PARTICULARS OF THE PARTICIPANTS**

- (I) Within six months from the date of occurrence of any of the following circumstances, the Restricted Shares of the Participants which have satisfied the unlock conditions within the year can be unlocked; Restricted Shares not satisfied with the unlock conditions shall be repurchased by the Company at the Grant Price plus the interests as calculated at the benchmark interest rate for deposits of the same period published by the People’s Bank of China when repurchasing:
1. A Participant is transferred from the Company and ceases to take office in the Company due to organizational arrangements;
  2. A Participant is deceased (his/her legal successor shall unlock the restrictions as required, instead);
  3. A Participant loses the capacity for civil conducts;
  4. A Participant is dismissed by the Company due to reasons other than incompetence to the position, disqualification in performance appraisal, negligence, violation of laws, non-compliance, etc.
- (II) When a Participant becomes an Independent Non-executive Director, Supervisor or a person who is prohibited from holding the Company’s Restricted Shares, all Restricted Shares held by such Participant that are still locked up shall be repurchased by the Company at the Grant Price plus the interests as calculated at the benchmark interest rate for deposits of the same period published by the People’s Bank of China when repurchasing and cancelling.

- (III) All Restricted Shares held by a Participant that are still locked up shall be repurchased and cancelled by the Company at a repurchase price equal to the lower of the Grant Price and the market price of the Company's shares (i.e. the average trading price of the Company's shares in the trading day prior to the date of the announcement of the Board Resolution for consideration of the repurchase) if any of the following circumstance occurs:
1. such Participant proposes to terminate his/her employment contract with the Company;
  2. such Participant opts not to renew his employment contract with the Company when the contract expires;
  3. such Participant becomes disqualified for the Scheme due to his incompetence to the position, disqualification in performance appraisal, negligence, violation of laws, noncompliance, etc.; or
  4. such Participant is dismissed due to a breach of his fiduciary duties as required under the Company Law and the Articles of Association, violation of laws and regulations, breach of professional ethics, leakage of the Company's confidential information, dereliction of duty or malpractice or any other acts that damage the interests or reputation of the Company. (The Board reserves the right to recover all or part of the gains from the sale of Restricted Shares which have been unlocked based on the severity of the case).
- (IV) Where a Participant retires upon reaching retirement age stipulated by law, all Restricted Shares held by such Participant that meet unlocking conditions in the year of such retirement can be unlocked within six months from the date of such retirement, and those not satisfied with the unlocking conditions shall be repurchased by the Company at the Grant Price plus the interests as calculated at the benchmark interest rate for deposits of the same period published by the People's Bank of China when repurchasing and cancelling. If, after the grant, there are changes to applicable laws and regulations, the Board will follow new regulations.
- (V) Other circumstances that are not covered shall be determined by the Board and dealt with in such manner as the Board determines.

### **III. RESOLUTION OF DISPUTES BETWEEN THE COMPANY AND PARTICIPANTS**

Any dispute between the Company and the Participants shall be resolved in accordance with provisions of the Scheme and the agreement on the granting of Restricted Shares. Disputes not clearly covered by the provisions shall be resolved in accordance with PRC laws and on arm's length negotiation. Where the disputes cannot be settled through negotiations, they shall be solved through litigation by submitting to the People's Court with jurisdiction over the Company's place of domicile.

**Chapter XIV Principles of Repurchasing And Cancelling Restricted Shares****I. METHOD FOR ADJUSTMENT TO REPURCHASE VOLUME**

If there is any capitalisation issue, bonus issue, dividends, share split, share consolidation, rights issue and other matters of the Company after completion of the registration of the Restricted Shares granted to the Participants, the Company shall make adjustments to the repurchase volume of the Restricted Shares yet to be unlocked accordingly as follows:

**1. Capitalisation issue, bonus issue and share split**

$$Q = Q_0 \times (1 + n)$$

Where: Q represents the number of Restricted Shares after the adjustment;  $Q_0$  represents the number of Restricted Shares before the adjustment; n represents the ratio of increase of share resulting from the issue of shares by capitalization issue, bonus issue or share split (i.e. the number of shares increased per share upon capitalisation issue, bonus issue or share split).

**2. Share consolidation**

$$Q = Q_0 \times n$$

Where: Q represents the number of Restricted Shares before the adjustment;  $Q_0$  represents the number of Restricted Shares before the adjustment; n represents the proportion of a share that may result from consolidation of 1 share of the Company.

**3. Rights issue**

$$Q = Q_0 \times P_1 \times (1 + n) \div (P_1 + P_2 \times n)$$

Where: Q represents the number of Restricted Shares before the adjustment;  $Q_0$  represents the number of Restricted Shares before the adjustment; n represents the ratio of the rights issue  $P_1$  represents the closing price as at the date of registration of share;  $P_2$  represents the price of the rights issue; (i.e. the ratio of the number of shares to be issued under the rights issue to the total share capital of the Company before the rights issue); Q represents the adjusted number of Restricted Shares.

**4. Dividend distribution and additional issue of new shares**

Under the circumstance of dividend distribution and additional issue of new shares, no adjustment will be made to the number of Restricted Shares.

## **II. METHOD FOR ADJUSTMENT TO REPURCHASE PRICE**

In general, if the Company shall repurchase and cancel the Restricted Shares under the requirements of the Scheme, the repurchase price represents the Grant Price except for those whose repurchase price needs to be adjusted in accordance with the Scheme.

If there is any capitalisation issue, bonus issue, share split, dividend distribution, share consolidation, rights issue and other matters of the Company affecting the total share capital or the share price of the Company after completion of the registration of the Restricted Shares granted to the Participants, the Company shall make adjustments to the purchase price of the Restricted Shares yet to be unlocked accordingly as follows:

### **1. Capitalisation issue, declaration of dividends and share split**

$$P = P_0 \div (1 + n)$$

Where: P represents the repurchase price per Restricted Share after adjustment;  $P_0$  represents the Grant Price per Restricted Share; n represents the rate of increase per Share resulting from capitalisation issue, declaration of dividends, share split per share capital (i.e. the increase in the number of shares per share upon capitalisation issue, bonus issue or share split divided by 1).

### **2. Rights issue**

$$P = P_0 \times (P_1 + P_2 \times n) \div [P_1 \times (1 + n)]$$

Where:  $P_1$  represents the closing price on the date of share registration;  $P_2$  represents the subscription price of the rights issue; n represents the ratio of the rights issue (i.e. the number of shares to be issued under the rights issue to the total share capital of the Company prior to the rights issue).

### **3. Share consolidation**

$$P = P_0 \div n$$

Where: P represents the repurchase price per Restricted Share after adjustment;  $P_0$  represents the Grant Price per Restricted Share; n represents consolidation ratio per share (i.e. the ratio based on which one share of the Company shall be consolidated into n shares).

**4. Declaration of dividends**

$$P = P_0 - V$$

Where: P represents the repurchase price per Restricted Share after adjustment;  $P_0$  represents the repurchase price per Restricted Share prior to adjustment; V represents the amount of dividends per share; P represents the repurchase price per Restricted Share after adjustment. P must remain greater than 1 after adjustment.

**5. Additional issue**

In the event of additional issue of new shares, no adjustment shall be made to the repurchase price of the Restricted Shares.

**III. ADJUSTMENT TO REPURCHASE VOLUME, REPURCHASE PRICE AND REPURCHASE AND CANCELLATION OF SHARES**

The Company promptly convened the Board meeting to consider the adjustment to the repurchase volume or repurchase price according to the above provisions. According to Article 27 of the Administrative Measures, the Company shall timely convene the Board meeting to consider the share repurchase plan, present it to the general meeting, A shares and H shares class meeting for approval and publish the relevant announcement in due course if the Incentive Scheme is terminated, the incentive objects are not qualified to be granted restricted A Shares, unlocking conditions are not fulfilled or it shall be repurchased in accordance with other laws and regulations. The share repurchase plan should be included but limited to the following items:

1. reasons for share repurchase;
2. price and basis of price determination for share repurchase;
3. types and quantities of shares to be repurchased, its proportions of target shares involved in the share incentive plan and total share capital
4. total capital and source of capital proposed to be used for share repurchase;
5. Change of capital structure of the Company and its impact on the results of the Company upon repurchase.

When the Company carries out repurchases in accordance with the provisions of this incentive plan, it shall apply to the stock exchange for cancellation of such restricted shares. After confirmed by the stock exchange, it shall promptly complete the cancellation formalities with the securities registration and settlement company and make a public announcement.

**Chapter XV Supplemental Provisions**

- I. Where relevant terms of the Incentive Scheme conflict with relevant laws, regulations and administrative rules and regulatory documents of the state, it shall be subject to or adjusted pursuant to relevant laws, regulations and administrative rules and regulatory documents of the state. Where it is not explicitly provided in the Incentive Scheme, it shall be subject to or adjusted pursuant to relevant laws, regulations and administrative rules and regulatory documents of the state.
- II. Where Participants are in violation of the Incentive Scheme, the Articles of Association or relevant laws, regulations and administrative rules and regulatory documents of the state, all gains arising from the disposal of the shares granted under the Incentive Scheme shall belong to the Company and the Board of the Company shall be responsible for the implementation.
- III. The Incentive Scheme shall come into effect after being considered and approved by the State-owned Assets Supervision and Administration Commission of the State Council and being considered and approved at the general meeting and the A shares and H shares class meetings of the Company.
- IV. The Incentive Scheme shall be interpreted by the Board of the Company

**Dongfang Electric Corporation Limited**  
Board of Directors

27 September 2019



**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)

**Dongfang Electric Corporation Limited**

**APPRAISAL Management Measures for Implementation of the Restricted A Share  
Incentive Scheme in 2019**

These measures are formulated in accordance with the relevant requirements of the PRC and the actual situation of Dongfang Electric Corporation Limited (hereinafter referred to as the “**Company**”) in order to ensure satisfactory implementation of the Restricted A Share Incentive Scheme in 2019 (hereinafter referred to as the “**Incentive Scheme**”) of the Company, to further refine the corporate governance structure of the Company, to develop a good and balanced value distribution system, to motivate the Company’s directors, senior management, mid-level management and frontline leaders to work diligently so as to ensure steady growth of the Company’s performance and realisation of the Company’s development strategy and business objectives.

**I. PURPOSE OF APPRAISAL**

The purpose of appraisal is to further improve the corporate governance structure of the Company, establish and improve the incentive and restrictive mechanism of the Company, to incentivise the Participants to perform duties with honesty and diligence, so that the development strategies and operation objectives of the Company can be attained, the sustainable development of the Company can be furthered and the implementation of the Incentive Scheme smoothed.



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## **APPENDIX II – ASSESSMENT MANAGEMENT MEASURES FOR THE INCENTIVE SCHEME FOR RESTRICTED A SHARES IN 2019**

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### **II. PRINCIPLES OF APPRAISAL**

1. The principle of legal compliance. The Incentive Scheme and related plans shall comply with the requirements of various laws and regulations promulgated by the SASAC and the CSRC, and shall be implemented in accordance with the plan reviewed and approved by the SASAC.
2. The principle of fairness and impartiality. The appraisal implemented by the Incentive Scheme must be conducted to the principles of impartiality, openness and fairness, and in strict compliance with the appraisal rules determined by these measures to assess the performance of Participants.
3. The principle of performance orientation. The implementation of the Incentive Scheme must be linked to the performance and contribution of the Participants, so as to effectively promote management performance, improve operating result and maximize the Company's interests.

### **III. PARTICIPANTS TO BE COVERED BY THE APPRAISAL**

These measures are applicable to all the Participants as determined under the Incentive Scheme, including the Company's directors, senior management, mid-level management and core personnel.

### **IV. APPRAISAL INSTITUTION**

1. The Remuneration and Assessment Committee under the Board shall be responsible for leading and organising the appraisal on Participants.
2. The human resource department of the Company, together with the office of the board of directors, the asset and finance department and relevant departments, shall put good effort in the preparation and reporting of the specific plan for the implementation of the Incentive Scheme, and shall be responsible for the authenticity and reliability of the data.
3. The board of directors of the Company shall be responsible for the approval of these measures and the review of appraisal results.

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## APPENDIX II – ASSESSMENT MANAGEMENT MEASURES FOR THE INCENTIVE SCHEME FOR RESTRICTED A SHARES IN 2019

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### V. APPRAISAL INDICATOR

#### (I) Performance appraisal at the company level

The performance of restricted share under first grant of the Incentive Scheme shall be assessed and unlocked on a yearly basis in the three accounting years from 2020 to 2022. The performance targets of the Company for each year are set out in the table follow:

<b>Unlocking Period</b>	<b>Performance targets</b>
The First Unlocking Period	<ul style="list-style-type: none"><li>(1) On the basis of net profit in 2018, the compound growth rate of net profit in 2020 shall not be less than 10% and not lower than industry average performance;</li><li>(2) the ROE in 2020 shall not be less than 4% and not lower than industry average performance;</li><li>(3) the <math>\Delta</math>EVA in 2020 shall be positive.</li></ul>
The Second Unlocking Period	<ul style="list-style-type: none"><li>(1) On the basis of net profit in 2018, the compound growth rate of net profit in 2021 shall not be less than 10% and not lower than industry average performance;</li><li>(2) the ROE in 2021 shall not be less than 4.5% and not lower than industry average performance;</li><li>(3) the <math>\Delta</math>EVA in 2021 shall be positive.</li></ul>

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## APPENDIX II – ASSESSMENT MANAGEMENT MEASURES FOR THE INCENTIVE SCHEME FOR RESTRICTED A SHARES IN 2019

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- The Third Unlocking Period
- (1) On the basis of net profit in 2018, the compound growth rate of net profit in 2022 shall not be less than 10% and not lower than industry average performance;
  - (2) the ROE in 2022 shall not be less than 5% and not lower than industry average performance;
  - (3) the  $\Delta$ EVA in 2022 shall be positive.

If the reserved portion is granted in 2019, the performance targets for reserved portion shall be consistent with the first grant. If the reserved portion is granted in 2020, the performance targets of the reserved portion for each year are set out in the table follow:

<b>Unlocking Period</b>	<b>Performance targets</b>
The First Unlocking Period	<ol style="list-style-type: none"><li>(1) On the basis of net profit in 2018, the compound growth rate of net profit in 2021 shall not be less than 10% and not lower than industry average performance;</li><li>(2) the ROE in 2021 shall not be less than 4.5% and not lower than industry average performance;</li><li>(3) the <math>\Delta</math>EVA in 2021 shall be positive.</li></ol>
The Second Unlocking Period	<ol style="list-style-type: none"><li>(1) On the basis of net profit in 2018, the compound growth rate of net profit in 2022 shall not be less than 10% and not lower than industry average performance;</li><li>(2) the ROE in 2022 shall not be less than 5% and not lower than industry average performance;</li><li>(3) the <math>\Delta</math>EVA in 2022 shall be positive.</li></ol>

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## APPENDIX II – ASSESSMENT MANAGEMENT MEASURES FOR THE INCENTIVE SCHEME FOR RESTRICTED A SHARES IN 2019

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- The Third Unlocking Period
- (1) On the basis of net profit in 2018, the compound growth rate of net profit in 2023 shall not be less than 10% and not lower than industry average performance;
  - (2) the ROE in 2023 shall not be less than 5.5% and not lower than industry average performance;
  - (3) the  $\Delta$ EVA in 2023 shall be positive.

*Note:*

- ① The aforesaid “net profit” indicators refer to the net profit attributable to shareholders of listed companies; and “ROE” refers to the weighted average return on net assets.
- ② During the Validity Period of the Share Incentive Scheme, in case of additional issuance or allotment of shares etc. that would result in a change in the net assets of the Company, the change in net assets and the income arising therefrom (if such income cannot be accurately calculated, it can be calculated by multiplying the actual financing amount after deducting the financing cost by the interest rate of the national debts of the same term) shall be excluded when conducting an appraisal.

### (II) Performance appraisal at individual level

During the validity period of the Incentive Scheme, the appraisal for individual performance of all Participants shall be implemented according to the Company’s current annual appraisal management measures. The human resources department shall, based on the scores of annual performance appraisal of the Participants of the Company and its subsidiaries, propose advises for annual comprehensive appraisal results, submit to the Remuneration and Assessment Committee for review, and determine its unlocked proportion in accordance with the review results.

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## APPENDIX II – ASSESSMENT MANAGEMENT MEASURES FOR THE INCENTIVE SCHEME FOR RESTRICTED A SHARES IN 2019

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The appraisal results shall be divided into five grades, including excellent, good, qualified, basically qualified and not qualified. If the result of individual performance appraisal of the Participants for previous year is excellent, good and qualified, the individual performance of the Participants for the previous year shall be “qualified”. If the result of individual performance appraisal of the Participants for previous year is basically qualified or not qualified, the individual performance of the Participants for the previous year shall be “unqualified”.

<b>appraisal grade</b>	A	B	C	D	E
<b>Range of score</b>	90~100	80~90	70~80	60~70	Below 60
<b>appraisal conclusion</b>	Excellent	Good Qualified	Qualified	Basically qualified	Not qualified Unqualified

### VI. APPRAISAL PERIOD AND TIMES OF APPRAISAL

#### 1. Appraisal period

The accounting year before granting or unlocking of the restricted share to the Participants.

#### 2. Times of appraisal

Once a year during the period of implementation of the Incentive Scheme.

### VII. APPRAISAL PROCEDURES

1. The Company’s human resources department shall be responsible for the specific appraisal work under the guidance of the Remuneration and Assessment Committee under the Board. It shall preserve the appraisal results based on which a performance appraisal report shall be formulated and submitted to the Remuneration and Assessment Committee under the Board.
2. The Remuneration and Assessment Committee shall determine the qualification of a Participant to have the restricted shares unlocked and its and quantity.

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## **APPENDIX II – ASSESSMENT MANAGEMENT MEASURES FOR THE INCENTIVE SCHEME FOR RESTRICTED A SHARES IN 2019**

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### **VIII. FEEDBACK AND APPLICATION OF APPRAISAL RESULTS**

1. The appraisal object shall have the right to be informed of his/her appraisal results. The Remuneration and Assessment Committee or the human resource department entrusted by the Remuneration and Assessment Committee shall inform the appraisal object of the appraisal results within 30 working days from completion of the appraisal.
  
2. In the event that appraisal object has objection to the appraisal results, he/she can lodge a complaint with the Remuneration and Assessment Committee within 30 working days from receipt of the appraisal notice. The Remuneration and Assessment Committee may review the appraisal results according to the actual circumstances, and modify the appraisal results based on the results of the review.
  
3. The appraisal results shall be the basis for unlocking the restricted shares. In the event the Company fails to meet the performance targets during an unlocked period, the restricted shares of all Participants during the period shall not be unlocked, and shall be repurchased by the Company at the lower of the grant price and market price of shares in repurchasing (the average trading price of the subject shares of the Company on last trading day immediately preceding the date of board resolutions announcement for considering the repurchase) according to the Incentive Scheme. If the a Participant' personal performance appraisal results of the previous year are qualified, all restricted shares of the Participants in the period shall be unlocked. If a Participant' personal performance appraisal results of the previous year are unqualified, the Company shall repurchase the restricted shares of the Participant in the period at the lower of the grant price and market price of shares in repurchasing (the average trading price of the subject shares of the Company on last trading day immediately preceding the date of board resolutions announcement for considering the repurchase).

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## **APPENDIX II – ASSESSMENT MANAGEMENT MEASURES FOR THE INCENTIVE SCHEME FOR RESTRICTED A SHARES IN 2019**

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### **IX. ARCHIVING OF APPRAISAL RESULTS**

1. After the appraisal, the human resource department shall keep all appraisal conclusion of performance appraisal.
2. In order to ensure the effectiveness of the performance appraisal, performance records are not allowed to be altered. Any modification or new record shall be confirmed and signed by the person concerned.
3. Performance appraisal results shall be kept as confidential information.

### **X. SUPPLEMENTAL PROVISIONS**

1. The measures shall be interpreted by the Board.
2. The measures shall be implemented after being considered and approved at the general meeting of the Company and after the Incentive Scheme comes into effect.

**Dongfang Electric Corporation Limited**  
Board of Directors

5 September 2019

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## **APPENDIX III – PROPOSED GRANT OF MANDATE TO THE BOARD TO DEAL WITH MATTERS PERTAINING TO THE SHARE INCENTIVE SCHEME**

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Details for the resolution of the proposed grant of mandate to the Board to deal with matters pertaining the Incentive Scheme at the EGM and Class Meetings are as follows:

To ensure the smooth implementation of the Incentive Scheme, it will be proposed at the general meeting to grant mandate to the Board to deal with the matters pertaining to the implementation of the Incentive Scheme.

(I) Proposed grant of mandate at the general meeting of the Company to the Board to be responsible for the following matters in relation to the implementation of the Incentive Scheme:

1. To grant mandate to the Board to determine the Grant Date of the Incentive Scheme;
2. To grant mandate to the Board to adjust the number of Restricted Shares and underlying shares with the methods under the Incentive Scheme in case of capitalisation issue, bonus issue, share split or share consolidation, rights issue, additional issue of new shares, dividend distribution and other matters of the Company;
3. To grant mandate to the Board to adjust the Grant Price with the methods under the Incentive Scheme in case of capitalisation issue, bonus issue, share split or share consolidation, rights issue, additional issue of new shares, dividend distribution and other matters of the Company;
4. To grant mandate to the Board to grant Restricted Shares to the Participants (including those who are regarded as connected persons) when they meet conditions and deal with all matters required for the grant of Restricted Shares including signing relevant agreements on share incentive with the Participants;
5. To grant mandate to the Board to review and confirm the unlocking qualification and conditions of the Participants and permit the Board to delegate such right to the Remuneration and Assessment Committee;
6. To grant mandate to the Board to determine whether the Restricted Shares held by the Participants can be unlocked;
7. To grant mandate to the Board to deal with all matters required for unlocking for the Participants, including but not limited to making application to the SSE for unlocking and making application to Depository and Clearing Company for registration and settlement;
8. To grant mandate to the Board to determine in accordance with the Incentive Scheme whether to recover the gains of the Participants arising from unlocking and deal with all necessary matters;



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**APPENDIX III – PROPOSED GRANT OF MANDATE TO THE BOARD TO DEAL WITH  
MATTERS PERTAINING TO THE SHARE INCENTIVE SCHEME**

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9. To authorize the Board to proceed with the change and termination of the incentive scheme including but not limited to disqualification of the incentive participants for unlocking, dealing with the repurchase and cancellation of the unlocked restricted shares, dealing with the inheritance of unlocked restricted shares of the deceased (died) incentive participants and termination of the incentive scheme;
  10. To authorize the Board to manage and adjust the incentive scheme, and irregularly formulate or amend the management and implementation rules of the incentive scheme on the premise of compliance with the terms of the incentive scheme. However, if such amendments are subject to approval at the general meeting or/and by relevant regulatory authorities under laws, regulations or the requirements of relevant regulatory authorities, such amendments by the Board shall be subject to such approvals;
  11. To authorize the Board to proceed with the matters of the incentive scheme including but not limited to amendments to the Articles of Association and registration of changes in the registered capital as involved in unlocking, repurchase and cancellation, etc.;
  12. To grant mandate to the Board to implement other matters as required by the Incentive Scheme, except the rights to be exclusively exercised by the general meeting as explicitly required under relevant documents.
- (II) Proposed grant of mandate at the general meeting of the Company to the Board to complete procedures with relevant governments and authorities in relation to the Incentive Scheme including review, registration, filing, approval and consent; to sign, execute, amend and complete documents submitted to relevant governments, authorities, organizations, and individuals; and to carry out all other actions necessary, appropriate, or expedient in relation to the Incentive Scheme, except the rights to be exclusively exercised by the general meeting as explicitly required under relevant documents.
- (III) Proposed approval of the term of the grant of mandate to the Board to be consistent with the Validity Period of the Incentive Scheme at the general meeting of the Company.

Save as specifically required by the laws, administrative regulations, rules of the CSRC, regulatory documents, the Incentive Scheme, or the Articles of Association of the Company to be approved by the Board through resolutions, the above grant of mandate may be directly exercised on behalf of the Board by the chairman of the Board or appropriate persons authorized thereby.

**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****(i) Interests of Directors, Supervisors, Chief Executives of the Company**

As at the Latest Practicable Date, none of the Directors, Supervisors and chief executives of the Company had any interest or short positions in the shares and underlying shares of the Company and its associated corporations (within the meaning of Part XV of the SFO) which (a) were 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 they were taken or deemed to have under such provisions of the SFO), (b) were required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein or (c) were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Companies, to be notified to the Company and the Stock Exchange.

**(ii) Interests of Substantial Shareholders' of the Company**

As at the Latest Practicable Date and to the best knowledge of the Directors and the chief executives of the Company, persons having interests and short positions in 5% or more in the Shares and underlying Shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, and required to be recorded in the register of interests and short positions required to be kept by the Company pursuant to section 336 of the SFO were as follows:

<b>Name of shareholder</b>	<b>Capacity and nature of interest</b>	<b>Number of Shares held</b>	<b>Percentage of total share capital (%)</b>	<b>Percentage in the respective class of share capital (%)</b>
Dongfang Electric Corporation	Beneficial owner	1,727,919,826 (L) A Shares	55.91%	62.82%
	Interest held by controlled corporation	858,800 (L) H Shares	0.028%	0.25%

(L)—Long position

**3. SERVICE CONTRACTS**

As at the Latest Practicable Date, none of the Director or supervisor of the Company had entered into any service contract with any member of the Group (excluding contracts expiring or determinable by the relevant member of the Group within one year without payment of compensation (other than statutory compensation)).

**4. COMPETING INTERESTS**

As at the Latest Practicable Date, none of the Directors or their respective close associates (as defined under the Listing Rules) had any interest in other business which competes or is likely to compete with the business of the Group directly or in indirectly.

**5. INTERESTS IN THE GROUP'S ASSETS OR SIGNIFICANT CONTRACTS**

As at the Latest Practicable Date, none of the Directors, had any direct or indirect interest in any assets which had been since 31 December 2018 (being the date to which the latest published audited accounts of the Company were made up) acquired or disposed of by or leased to, or were proposed to be acquired or disposed of by or leased to, any member of the Group.

As at the Latest Practicable Date, none of the Directors was materially interested in any contract or arrangement entered into by any member of the Group which was subsisting as at the Latest Practicable Date and which was significant in relation to the business of the Group.

#### 6. NO MATERIAL ADVERSE CHANGE

As at the Latest Practicable Date, the Directors were of the view that there was no material adverse change in the financial or trading position of the Group since 31 December 2018, being the date to which the latest published audited accounts of the Company were made up.

#### 7. MATERIAL LITIGATION

As at the Latest Practicable Date, certain members of the Group were a party to certain litigations arising from the ordinary course of business or assets acquisition. The likely outcome of these contingent liabilities, litigations or other legal proceedings cannot be ascertained at present, but the management of the Group believes that any possible legal liability which may result from the aforesaid cases will not have material adverse effect on the financial position and operating results of the Group. Save as disclosed, as at the Latest Practicable Date, no material litigation or claims were pending or threatened or made against the Group so far as the Directors are aware.

#### 8. CONSENT AND QUALIFICATION OF EXPERT

The following is the qualification of the expert who has given opinion or advice on the information contained in this circular:

<b>Name</b>	<b>Qualifications</b>
Gram Capital	Type 6 (advising on corporate finance) regulated activity as defined under the SFO

As at the Latest Practicable Date, Gram Capital has given and has not withdrawn its written consent to the issue of this circular with the inclusion of its letter prepared for incorporation in this circular and references to its name in the form and context in which they appear herein.

As at the Latest Practicable Date, Gram Capital did not have any shareholding in any member of the Group or any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group.

As at the Latest Practicable Date, Gram Capital did not have any interest, either directly or indirectly, in any assets which had been acquired or disposed of by or leased to any member of the Group, or were proposed to be acquired or disposed of by or leased to any member of the Group since 31 December 2018 (being the date to which the latest published audited consolidated financial statements of the Company were made up).

**9. MISCELLANEOUS**

- (a) The registered office of the Company is situated at 18 Xixin Road, High-Tech District (Western District), Chengdu City, Sichuan Province, the PRC and the principal place of business in Hong Kong is situated at 40/F, Sunlight Tower, 248 Queen's Road East, Wanchai, Hong Kong.
- (b) The company secretary of the Company is Mr. Gong Dan. He graduated from Department of Mechanics of Hefei Industrial University majoring in casting and obtained a bachelor's degree of engineering. He attended the postgraduate program in the Department of Economic Management of Sichuan University where he majored in economic management. He holds the title of senior engineer and senior accountant.
- (c) The Hong Kong share registrar and transfer office of the Company is Hong Kong Registrars Limited at Shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong.

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

**10. DOCUMENTS AVAILABLE FOR INSPECTION**

Copies of the following documents are available for inspection from 9:00 a.m. to 6:00 p.m. (Monday to Friday) at 40/F, Sunlight Tower, 248 Queen's Road East, Wanchai, Hong Kong, the principal place of business in Hong Kong from the date of this circular up to and including the date of the EGM and the Class Meetings:

- (a) the Articles of Association;
- (b) the Restricted A Share Incentive Scheme for 2019 (Amended Draft), the text of which is set out on pages 72 to 120 of this circular;
- (c) the letter from the Independent Board Committee, the text of which is set out on pages 57 to 58 of this circular;
- (d) the letter from Gram Capital, the text of which is set out on pages 59 to 71 of this circular;
- (e) the letter of consent referred to in the paragraph headed "Consent and qualification of expert" in this appendix; and
- (f) the circular.