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

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

(Stock Code: 1072)

CONNECTED TRANSACTION
PROPOSED CAPITAL INCREASE THROUGH CONVERSION OF
STATE FUNDS AND POSSIBLE DEEMED DISPOSAL OF
EQUITY INTERESTS IN DONGFANG HEAVY MACHINE

PROPOSED CAPITAL INCREASE THROUGH CONVERSION OF STATE FUNDS

The Board of the Company hereby announces that the Proposed Capital Increase through Conversion of State Funds of RMB131,070,000 by Dongfang Heavy Machine was approved at the 29th meeting of the ninth session of the Board of the Company held on 19 June 2020. DEC will, through this proposed capital increase, increase the capital of Dongfang Heavy Machinery by RMB131,070,000, of which RMB68,623,000 will be included in the registered capital and the remaining will be included in the capital reserve (subject to the final accounting treatment). Upon completion of the Proposed Capital Increase through Conversion of the State Funds, the total controlling equity interests by the Company and Dongfang Boiler (a subsidiary of the Company) in Dongfang Heavy Machine will be diluted from approximately 64.74% to approximately 61.08%, the Company still maintain the actual control over Dongfang Heavy Machine. Dongfang Heavy Machine will remain a subsidiary of the Company and will be consolidated in the financial statements of the Group as a subsidiary.

LISTING RULES IMPLICATION

As at the date of this announcement, DEC is the substantial shareholder of the Company and holds approximately 55.43% of the issued shares of the Company. Therefore, DEC is a connected person (as defined under the Listing Rules) of the Company. Accordingly, the increase in capital in Dongfang Heavy Machine by DEC through the Proposed Capital Increase through Conversion of State Funds constitutes a connected transaction of the Company. Upon completion of the Proposed Capital Increase through Conversion of the State Funds, the controlling equity interests by the Company and Dongfang Boiler in Dongfang Heavy Machine will be diluted from approximately 64.74% to approximately 61.08%. The relevant dilution may be deemed as a disposal of Dongfang Heavy Machine under Rule 14.29 of the Listing Rules. As all relevant percentage ratios in respect of the deemed disposal of equity interests in Dongfang Heavy Machine exceed 0.1% but are less than 5%, the deemed disposal of equity interests in Dongfang Heavy Machine is subject to the reporting and announcement requirements but is exempt from the circular (including independent financial opinions) and independent shareholders' approval requirement under Chapter 14A of the Listing Rules.

PROPOSED CAPITAL INCREASE THROUGH CONVERSION OF THE STATE FUNDS

The Board of the Company hereby announces that the Proposed Capital Increase through Conversion of State Funds of RMB131,070,000 by Dongfang Heavy Machine was approved at the 29th meeting of the ninth session of the Board of the Company held on 19 June 2020. DEC will, through this proposed capital increase, increase the capital of Dongfang Heavy Machinery by RMB131,070,000, of which RMB68,623,000 will be included in the registered capital and the remaining will be included in the capital reserve (subject to the final accounting treatment). Upon completion of the Proposed Capital Increase through Conversion of the State Funds, the total controlling equity interests by the Company and Dongfang Boiler (a subsidiary of the Company) in Dongfang Heavy Machine will be diluted from approximately 64.74% to approximately 61.08%, the Company still maintain the actual control over Dongfang Heavy Machine. Dongfang Heavy Machine will remain a subsidiary of the Company and will be consolidated in the financial statements of the Group as a subsidiary.

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

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

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

FINALIZING THE PROPOSED CAPITAL INCREASE THROUGH CONVERSION OF STATE FUNDS

The finalization of the proposed capital increase through conversion of state funds is subject to:

- (1) the Proposed Capital Increase through Conversion of the State Funds being considered and approved as a special resolution at a general meeting of Dongfang Heavy Machine; and
- (2) the Capital Increase Agreement being signed by all the shareholders of Dongfang Heavy Machine and officially coming into effect.

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

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

1. The source of capitals involved in the Capital Increase by DEC is the capital budget fund appropriated by the central government. All the state funds of RMB131,070,000 receivable by Dongfang Heavy Machine have arrived in its account before 19 December 2017, and have been used as expenses for special programs of Dongfang Heavy Machine; it is currently accounted for as special payables and long-term borrowings (with interest to be paid regularly) of Dongfang Heavy Machine. The capital increase through conversion of the State Fund can solve the historical issue of the long-term charging of the capital to the book, better reflect the economic and business changes and ensure the effective implementation of state-owned capitals.

2. Upon the completion of the Proposed Capital Increase through Conversion of State Funds, the gearing ratio of Dongfang Heavy Machine will decrease from approximately 46.59% to approximately 42.47%, meeting the requirements of the State on “reducing the leverage ratio of enterprises”. At the same time, the asset structure of Dongfang Heavy Machine will be optimized, the financial risks will be reduced and the momentum for the development of the enterprise will be further boosted.

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

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

Name of shareholder	Prior to the completion of the Proposed Capital Increase through Conversion of State Funds		Upon completion of the Proposed Capital Increase through Conversion of State Funds		
	Contribution amount (RMB0'000)	Approximate contribution proportion (%)	Equivalent to new contribution (RMB0'000)	Contribution amount (RMB0'000)	Approximate contribution proportion (%)
Dongfang Electric Corporation Limited	58,757.9826	51.05	0	58,757.9826	48.17
Guangdong Energy Group Co., Ltd.	31,079.5826	27.00	0	31,079.5826	25.48
DEC Dongfang Boiler Group Co., Ltd.	16,272.00	14.14	0	16,272.00	13.34
Guangzhou Nansha Gonghua Investment Co., Ltd. (廣州南沙工化投資有限公司)	3,960.00	3.44	0	3,960.00	3.25
Guangzhou Guangzhong Group Co., Ltd. (廣州廣重企業集團有限公司)	3,600.00	3.13	0	3,600.00	2.95
China Second Heavy Machinery Corporation (中國第二重型機械集團有限公司)	1,440.00	1.25	0	1,440.00	1.18
Dongfang Electric Corporation	0	0	6,862.3037	6,862.3037	5.63
Total	115,109.5652	100.00	6,862.3037	121,971.8689	100.00

Note:

- The figures above shown as totals may not be an arithmetic aggregation of the figures preceding them due to rounding adjustments.
- Upon completion of the Proposed Capital Increase Through Conversion of State Funds, the Company will, directly and indirectly, hold equities in Dongfang Heavy Machine, representing approximately 61.08% of its total controlling equity interest. Dongfang Heavy Machine is still a controlling subsidiary of the Company.

FINANCIAL EFFECT ON THE GROUP

Upon completion of the Capital Increase, the total controlling equity interests by the Company and Dongfang Boiler in Dongfang Heavy Machine will be diluted from approximately 64.74% to approximately 61.08% and Dongfang Heavy Machine will remain a subsidiary of the Group. Therefore, the operating results and financial conditions of Dongfang Heavy Machine will continue to be included in the consolidated financial statements of the Group. As the impact of Capital Increase will not result in the Group's loss of control over Dongfang Heavy Machine, the deemed disposal caused by the Capital Increase will be recognized as an equity transaction, and will not have any material impact on the consolidated profit of the current period.

INFORMATION OF DONGFANG HEAVY MACHINE, THE GROUP AND DEC

Dongfang Heavy Machine

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

FINANCIAL INFORMATION OF DONGFANG HEAVY MACHINE

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

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

The Group

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

DEC

DEC is mainly engaged in import and export business; general contracting and subcontracting of projects of hydro-, thermal- and nuclear-power stations; whole set technological development of power station equipment and technical consultation; manufacturing and sales of whole-set equipment; sales of machinery and electrical auxiliary; general contracting and subcontracting of related projects; and house leasing. As at the date of this announcement, DEC owns approximately 55.43% of the entire issued shares of the Company, therefore is a substantial shareholder of the Company, and is beneficially owned by the State-owned Assets Supervision and Administration Commission of the State Council.

OPINIONS OF THE DIRECTORS

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

The Directors of the Company (including all independent non-executive Directors) are of the opinion that the Proposed Capital Increase through Conversion of the State Fund has followed the principles of fairness, justice and integrity and is in the interests of the Company and all Shareholders as a whole without prejudice to the interests of non-controlling shareholders.

LISTING RULES IMPLICATION

As at the date of this announcement, DEC is the substantial shareholder of the Company and holds approximately 55.43% of the issued shares of the Company. Therefore, DEC is a connected person (as defined under the Listing Rules) of the Company. Accordingly, the increase in capital in Dongfang Heavy Machine by DEC through Proposed Capital Increase through Conversion of State Funds constitutes a connected transaction of the Company. Upon completion of the Proposed Capital Increase through Conversion of the State Funds, the controlling equity interests by the Company and Dongfang Boiler in Dongfang Heavy Machine will be diluted from approximately 64.74% to approximately 61.08%. The relevant dilution may be deemed as a disposal of Dongfang Heavy Machine under Rule 14.29 of the Listing Rules. As all relevant percentage ratios in respect of the deemed disposal of equity interests in Dongfang Heavy Machine exceed 0.1% but are less than 5%, the deemed disposal of equity interests in Dongfang Heavy Machine is subject to the reporting and announcement requirements but is exempt from the circular (including independent financial opinions) and independent shareholders' approval requirement under Chapter 14A of the Listing Rules.

As the Proposed Capital Increase through Conversion of State Funds is subject to the consideration and approval of the shareholders of Dongfang Heavy Machine and the official signing of an agreement, the Proposed Capital Increase through Conversion of State Fund may or may not proceed, Shareholders and potential investors should exercise caution when dealing in the securities of the Company.

The Company will make further announcement(s) on the Proposed Capital Increase through Conversion of the State Funds as and when appropriate and in accordance with the Listing Rules.

DEFINITIONS

“A Shares”	the domestic ordinary share(s) of nominal value RMB1.00 each in the share capital of the Company, which are listed on the Shanghai Stock Exchange and traded in RMB
“Board”	the board of directors of the Company
“Company”	東方電氣股份有限公司(Dongfang Electric Corporation Limited), a joint stock limited company incorporated in the PRC with limited liability whose H Shares are listed on the Main Board of the Stock Exchange and A Shares are listed on the Shanghai Stock Exchange
“connected person(s)”	has the meaning ascribed thereto under the Listing Rules
“DEC”	中國東方電氣集團有限公司(Dongfang Electric Corporation), a wholly state-owned company incorporated in the PRC with limited liability and the substantial shareholder of the Company
“Director(s)”	director(s) of the Company
“Dongfang Heavy Machine”	東方電氣(廣州)重型機器有限公司(Dongfang Electric (Guangzhou) Heavy Machine Co., Ltd.), a company incorporated in the PRC with limited liability and a subsidiary of the Company
“Dongfang Boiler”	DEC Dongfang Boiler Group Co., Ltd., a company incorporated in the PRC with limited liability and was held by the Company and DEC as to approximately 96.79% and approximately 3.12%, respectively, as at the date of this announcement

“Dongfang Heavy Machine Valuation Report”	the asset valuation report dated 23 December 2019 regarding the proposed capital increase of Dongfang Heavy Machine prepared by the Independent Appraiser, involving the value of the entire equity interests of shareholders of Dongfang Heavy Machine
“Hong Kong”	The Hong Kong Special Administrative Region of the PRC
“H Share(s)”	foreign ordinary shares of the Company with a nominal value of RMB1.00 each, which are listed on the Main Board of the Stock Exchange and traded in Hong Kong dollars
“Independent Appraiser”	中聯國際評估諮詢有限公司 (Allied Appraisal Co., Ltd.)
“Listing Rules”	Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited
“percentage ratio(s)”	the percentage ratio(s) under Rule 14.07 of the Listing Rules
“PRC”	the People’s Republic of China which, for the purpose of this announcement, excludes Hong Kong, the Macau Special Administrative Region of the PRC and Taiwan
“Proposed Capital Increase through Conversion of the State Fund”	the proposed capital increase through conversion of the state funds of RMB131,070,000 by Dongfang Heavy Machine
“RMB”	Renminbi, the lawful currency of the PRC
“Share(s)”	A Shares and H Shares of the Company

“Shareholder(s)”	holder(s) of Shares of the Company
“substantial shareholder” or “DEC”	中國東方電氣集團有限公司(Dongfang Electric Corporation)
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“%”	Percent

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

Chengdu, Sichuan, the PRC
19 June 2020

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

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

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