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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)

**CONTINUING CONNECTED TRANSACTION
REVISION OF ANNUAL CAP FOR
2019 SALES AND PRODUCTION SERVICES
FRAMEWORK AGREEMENT**

2019 SALES AND PRODUCTION SERVICES FRAMEWORK AGREEMENT

Reference is made to the announcement dated 27 December 2018, that the Company entered into the 2019 DEC Framework Agreements with DEC Group of which is the 2019 Sales and Production Services Framework Agreement, pursuant to the agreement, the Company supply the following products to DEC Group: raw materials, semi-finished products, finished products, turbine products, boiler products, nuclear products, gas turbines products, power generation equipment, production equipment, components, spare parts, supporting materials, employee necessities and other related products and materials.

REVISION OF ANNUAL CAP

Based on internal estimates and the anticipated continuing growth of business in the forth quarter of 2021, the Directors are of the view that the Existing 2021 Annual Cap will not be sufficient for the business needs of the Group. The board of the Company approved the "Proposal on revising the Existing 2021 daily continuous connected transactions Annual Cap" On 8 December 2021, the Company entered into the Supplemental Sales and Production Services Framework Agreement with DEC to revise the Existing 2021 Annual Cap. Save for the revision of the Existing 2021 Annual Cap from RMB300 million to RMB800 million for the year ending 31 December 2021. Apart from above, all other terms and conditions under the Sales And Production Services Framework Agreement remain the same.

HONG KONG LISTING RULES IMPLICATIONS

As at the date of this announcement, DEC is a controlling shareholder of the Company, holding approximately 55.40% of the total issued shares of the Company, therefore DEC is a connected person of the Company as defined under the Hong Kong Listing Rules. As such, the Supplemental Sales and Production Services Framework Agreement and the transactions contemplated thereunder will constitute continuing connected transactions of the Company under Chapter 14A of the Hong Kong Listing Rules. The Company has entered into the Supplemental Sales and Production Services Framework Agreement to revise the Annual Cap for continuing connected transactions. Therefore, the Company must once again comply with the provisions on continuing connected transactions under Chapter 14A of the Hong Kong Listing Rules.

As the highest applicable percentage ratio calculated in respect of the Supplemental Sales and Production Services Framework Agreement exceeds 0.1% but is less than 5%, the related transactions are subject to the reporting, annual review and announcement requirements, but exempt from the independent shareholders' approval requirement under Chapter 14A of the Hong Kong Listing Rules.

INTRODUCTION

Reference is made to the announcement dated 27 December 2018, that the Company entered into the 2019 DEC Framework Agreements with DEC Group of which is the 2019 Sales and Production Services Framework Agreement, pursuant to the agreement, the Company supply the following products to DEC Group: raw materials, semi-finished products, finished products, turbine products, boiler products, nuclear products, gas turbines products, power generation equipment, production equipment, components, spare parts, supporting materials, employee necessities and other related products and materials. The term of the 2019 Sales and Production Services Framework Agreement is from 1 January 2019 to 31 December 2021.

Based on internal estimates and the anticipated continuing growth of business in the forth quarter of 2021, the Directors are of the view that the Existing 2021 Annual Cap will not be sufficient for the business needs of the Group. The board of the Company approved the "Proposal on revising the Existing 2021 daily continuous connected transactions Annual Cap" On 8 December 2021, the Company entered into the Supplemental Sales and Production Services Framework Agreement with DEC to revise the Existing 2021 Annual Cap. Save for the revision of the Existing 2021 Annual Cap from RMB300 million to RMB800 million for the year ending 31 December 2021. Save for that, all other terms and conditions under the previous framework agreement remain unchanged.

Supplemental Sales and Production Services Framework Agreement

The principal terms of the Supplemental Sales and Production Services Framework Agreement are summarised as follows:

Date:

8 December 2021

Parties:

- (a) The Company; and
- (b) DEC

	For the eight months ended 31 August 2021 (RMB'000)
2019 Sales and Production Services Framework Agreement historical amount	

The total amount of products and services provided by the Group to DEC Group	<u><u>280,000</u></u>
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Revision of Annual Cap under the Supplemental Sales and Production Services Framework Agreement

In view of the increase in international energy prices and the number of related products purchased by DEC Group from the Group has increased significantly. According to the reasonable forecast of the sales and production service transactions between the Group and DEC Group in the fourth quarter of 2021, the current 2021 Annual Cap will not be sufficient to meet the Company's requirements for the financial year ending 31 December 2021. Therefore, the Company has revised the Existing 2021 Annual Cap as follows:

	Existing 2021 Annual Cap (RMB'000)	Revised Annual Cap (RMB'000)
For the year ending 31 December 2021	<u><u>300,000</u></u>	<u><u>800,000</u></u>

The Board has considered the following factors when revising the 2021 Annual Cap:

- (a) The international energy market undergoes drastic changes, energy prices rises rapidly, and the domestic thermal coal market is in short supply in 2021.
- (b) DEC Group's demand for energy commodities increases rapidly in the second half of 2021 and increases its purchase of thermal coal from the Group.

REASONS FOR AND BENEFITS OF THE REVISION OF ANNUAL CAP

In view of the long-term close business relationship between DEC Group and the Group, the Company believes that the revision of the 2021 Annual Cap is in line with the daily operation needs of DEC Group; maintaining a stable supply of products and services is very important for DEC's operations. Moreover, the Supplemental Sales and Production Services Framework Agreement is conducted on normal commercial terms during the usual course of the Company's daily business, which are fair and reasonable, and will increase the stable income of the Group and improve the financial performance of the Group.

INTERNAL CONTROL MEASURES

The Company has established connected transaction management policy (關聯交易管理辦法), (the “**CT Management Policy**”) to ensure that connected transactions will be conducted in a fair, equal and public manner, on normal commercial terms and not prejudicial to the interests of the Company and its minority Shareholders.

The office of the Board, the management unit of connected transactions of the Company, is responsible for overseeing the approval of connected transactions procedures, disclosure of the information of connected transactions and management of the operations of continuing connected transaction framework agreements. The legal affairs department is responsible for the management of continuing connected transaction framework agreements and the new connected transaction agreements that are not included in the framework agreements, and the filing and registration of associate. The finance department will summarise and categorise the specific amount occurred in the connected transaction agreements, and assist the auditor in auditing the summarized data of the connected transactions. Each member of the Group shall formulate respective measures on management of connected transactions which include specifying the department responsible for managing connected transactions, and for the report, operation, management and control of connected transactions of the respective member.

Where various units and controlled subsidiaries of the Company enter into continuing connected transaction agreements with the same associate (as defined under the Hong Kong Listing Rules) in consecutive years, the responsible department for managing connected transactions shall, at the last month of the year, estimate reasonably the accumulated maximum amount for similar connected transactions for the whole of next year on the same basis and propose to the office of the Board. The office of the Board will review together with the legal affairs department of the Company and finance department of the Company and report to the Board for consideration and approval in accordance with the relevant requirements of the CT Management Policy.

Various units and controlled subsidiaries of the Company shall compile a report on the execution of connected transaction agreements for the last quarter and submit to the finance department of the Company within ten working days of the beginning of each quarter. The finance department of the Company will summarise and categorise and report to the office of the Board. The office of the Board will make specific management opinions and submit a Connected Transactions Operation Performance Report (關聯交易運行簡報), based on the performance of connected transactions to the Board (including independent non-executive directors) for consideration.

For determining the prices of the products, materials and services to be supplied by the Group, the price at which each transaction under the agreement is to be conducted will be determined on the following bases:

- (a) market price (i.e. the price offered by the party supplying products or providing production services to an independent third party in respect of the supply or provision of the same or similar products or production services in the ordinary course of business or the price obtained by the party purchasing products or receiving production services by way of open tender or negotiated tender, provided that independent third parties shall participate in the open tender or negotiated tender and the procedures of the open tender or negotiated tender shall comply with the requirements of applicable laws and regulations of the PRC government); or
- (b) if market price is not available, then the cost incurred by the relevant member of the Group for the production or supply of such product or material or provision of such service (as the case may be) plus a service charge of not more than 15% of such cost. The service charge of not more than 15% is determined with reference to the market practice adopted by other industry players. The finance department of the Company regularly reviews service charges adopted by other participants within the power equipment manufacturing industry to ensure that any service charge applied is in line with market trends and shall not be more favourable than the terms and conditions offered by the Group to any independent third parties for the supply or provision of the same or similar products and production services.

In order to ensure the terms of the continuing connected transactions under the 2019 Sales and Production Services Framework Agreement and the Supplemental Sales and Production Services Framework Agreement are fair and reasonable and proceed in accordance with normal commercial terms, currently all products and services under the framework agreement are supplied at market prices negotiated within prescribed price range in accordance with the Company's internal sales policy between the parties. The market price will be determined or approved by the authorized department of the Group in relation to the particular transaction.

HONG KONG LISTING RULES IMPLICATIONS

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As the highest applicable percentage ratio calculated in respect of the Supplemental Sales and Production Services Framework Agreement exceeds 0.1% but is less than 5%, the related transactions are subject to the reporting, annual review and announcement requirements, but exempt from the independent shareholders' approval requirement under Chapter 14A of the Hong Kong Listing Rules.

GENERAL INFORMATION

The Group

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

The Company is principally engaged in the manufacture and sales of high efficiency and clean energy generation products, new energy generation products, hydro-electric power and environmental protection equipment and the provision of construction services for power stations.

DEC

DEC is a wholly state-owned company established in the PRC with limited liability in 1984. Its total registered and paid-up capital was RMB5,046,960,279.03. DEC is principally engaged in investment management and import and export business. According to the audited consolidated financial statements of DEC for the year ended 31 December 2020 prepared in accordance with the PRC accounting standard, its total asset value, net asset value, Operating income and net profits were approximately RMB100,159 million, RMB35,913 million, RMB38,172 million and RMB2,078 million, respectively. DEC is a controlling shareholder of the Company, holding approximately 55.91% of the total issued shares of the Company as at the date of this announcement.

DEFINITIONS

In this announcement, unless the context otherwise requires, the following terms shall have the following meanings:

“2019 DEC Framework Agreements”	the 2019 Sales and Production Services Framework Agreement, the 2019 Properties and Equipment Lessee Framework Agreement, 2019 Combined Ancillary Services Framework Agreement and the 2019 Financial Services Framework Agreement
“2019 Sales and Production Services Framework Agreement”	the conditional 2019 sales and production services framework agreement dated 28 December 2019 and entered into between the Company and DEC in relation to the supply of products and provision of production services by the Group to DEC Group
“A Shares”	the domestic shares of the Company with a nominal value of RMB1.00 each, which are listed on the Shanghai Stock Exchange and traded in RMB
“associate(s)”	has the meaning ascribed thereto under the Hong Kong Listing Rules
“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 Hong Kong Listing Rules
“continuing connected transactions”	the transactions contemplated under the 2019 Sales and Production Services Framework Agreement which constitute continuing connected transactions of the Company within the meaning of the Hong Kong Listing Rules
“controlling shareholder”	has the meaning ascribed thereto under the Hong Kong Listing Rules
“DEC”	中國東方電氣集團有限公司 (Dongfang Electric Corporation), a wholly state-owned company established in the PRC with limited liability and the controlling shareholder of the Company
“DEC Finance”	東方電氣集團財務有限公司 (Dongfang Electric Finance Co., Ltd.), a non-bank finance company with limited liability established under the PRC law and a subsidiary of the Company
“DEC Group”	DEC and its associates (excluding members of the Group)
“Director(s)”	director(s) of the Company
“Group”	the Company and its subsidiaries
“H Share(s)”	overseas listed foreign 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
“Hong Kong”	The Hong Kong Special Administrative Region of the PRC
“Hong Kong Listing Rules”	Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited
“PBOC”	中國人民銀行 (The People’s Bank of China)

“PRC”	the People’s Republic of China which, for the purpose of this announcement, excludes Hong Kong, the Macau Special Administrative Region and Taiwan
“RMB”	Renminbi, the lawful currency of the PRC
“Share(s)”	the shares of the Company, including A Shares and H Shares
“Shareholder(s)”	holder(s) of Shares
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“%”	per cent

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

Chengdu, Sichuan, the PRC
8 December 2021

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

Directors: *Yu Peigen, Xu Peng and Zhang Yanjun*

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