

Hong Kong Exchanges and Clearing Limited and The Stock Exchange of Hong Kong Limited take no responsibility for the contents of this announcement, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this announcement.



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 TRANSACTIONS
RENEWAL OF 2019 DEC FRAMEWORK AGREEMENTS,
ENTERING INTO PURCHASE AND PRODUCTION SERVICES
FRAMEWORK AGREEMENT
AND
ENTERING INTO PROPERTIES AND EQUIPMENT LESSOR
FRAMEWORK AGREEMENT**

RENEWAL OF 2019 DEC FRAMEWORK AGREEMENTS

Reference is made to the announcement dated 27 December 2018, that the Company and DEC Finance (a subsidiary of the Company) have respectively entered into the 2019 DEC Framework Agreements with DEC. The framework agreements will expire on 31 December 2021. In order to continue the continued connected transactions, on 8 December 2021 the Company and DEC entered into the 2022 Sales and Production Services Framework Agreement, the 2022 Combined Ancillary Services Framework Agreement and the 2022 Properties and Equipment Lessee Framework Agreement, DEC Finance entered into the 2022 Financial Services Framework Agreement with DEC for terms commencing on 1 January 2022 and ending on 31 December 2024, and determined the annual caps of the transactions under the agreement.

ENTERING INTO PURCHASE AND PRODUCTION SERVICES FRAMEWORK AGREEMENT

On 8 December 2021, the Company entered into the Purchase and Production Services Framework Agreement with DEC, pursuant to which, DEC Group agreed to provide products and production services to the Group for a term commencing on 1 January 2022 and ending on 31 December 2024, and determine the annual caps of such continuing connected transactions.

ENTERING INTO PROPERTIES AND EQUIPMENT LESSOR FRAMEWORK AGREEMENT

On 8 December 2021, the Company entered into the Properties and Equipment Lessor Framework Agreement with DEC, pursuant to which, the Company agreed to lease certain properties and equipment to DEC Group for a term commencing on 1 January 2022 and ending on 31 December 2024, and determine the annual caps of such continuing connected transactions.

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, 2022 DEC Framework Agreements and the transactions contemplated thereunder will constitute continuing connected transactions of the Company under Chapter 14A of the Hong Kong Listing Rules.

As the highest applicable percentage ratio calculated in respect of the transactions for each of the Purchase and Production Services Framework Agreement, 2022 Sales and Production Services Framework Agreement, 2022 Combined Ancillary Services Framework Agreement (excluding the ancillary services to be provided by the Group to DEC) and 2022 Properties and Equipment Lessee Framework exceeds 0.1% but is less than 5%, and hence these transactions are subject to the reporting, annual review and announcement requirements and are exempted from the independent shareholders' approval requirement as prescribed under Chapter 14A of the Hong Kong Listing Rules.

As each of the applicable percentage ratios calculated in respect of the transactions for the ancillary services to be provided by the Group to DEC Group under the 2022 Combined Ancillary Services Framework Agreement and Properties and Equipment Lessor Framework Agreement is less than 0.1% and hence fall within the de minimis threshold as stipulated under Rule 14A.76 of the Hong Kong Listing Rules, they are therefore exempt from the reporting, annual review, announcement and independent shareholders' approval requirements of the Hong Kong Listing Rules.

As the deposits services under the 2022 Financial Services Framework Agreement are conducted on normal commercial terms and in the interests of the Group, and the Group has not pledged any asset to DEC in respect of such deposit services, pursuant to Rule 14A.90 of the Hong Kong Listing Rules, the deposits services under the 2022 Financial Services Framework Agreement are exempt from reporting, annual review, announcement and independent shareholders' approval requirements under Chapter 14A of the Hong Kong Listing Rules.

As the highest applicable percentage ratio calculated in respect of the loan services transactions under the 2022 Financial Services Framework Agreement exceeds 0.1% but is less than 5%, the related transactions are only 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.

The other services including fund settlement services, other investment and financial services under the 2022 Financial Services Framework Agreement are conducted on normal commercial terms. The Company expects that all of the applicable percentage ratios will be less than 0.1% and lower than the de minimis threshold as stipulated under Rule 14A.76 of the Hong Kong Listing Rules. They are therefore exempt from the reporting, annual review, announcement and independent shareholders' approval requirements under the Hong Kong Listing Rules.

SHANGHAI LISTING RULES IMPLICATIONS

As the total annual cap amount of the 2022 DEC Framework Agreements is more than RMB 30 million and has reached more than 5% of the Group's net assets as audited in the latest period, according to the Shanghai Listing Rules and the "Guidelines for the Implementation of Related Party Transactions for Listed Companies on the Stock Exchange", the 2022 DEC Framework Agreements must be approved by independent shareholders at the Company's general meeting of shareholders.

THE EGM

The Company will convene an EGM to approve the 2022 DEC Framework Agreement. DEC and its connected persons will abstain from voting on the relevant proposals. The notice of the EGM will be despatched to the H Shareholders on 13 December 2021.

In order to determine the entitlement to attend and vote at the EGM, the register of members of the Company will be closed from Thursday, 23 December 2021 to Tuesday, 28 December 2021 (both dates inclusive) during which period no transfers of H Shares will be effected. All transfer documents accompanied by the relevant share certificates must be lodged with the Company's share registrar in respect of H Shares, namely Hong Kong Registrars Limited, at Shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong no later than 4:30 p.m. on Wednesday, 22 December 2021. The record date and arrangements in respect of the holders of A Shares who are entitled to attend the EGM will be determined and announced separately in the PRC by the Company.

INTRODUCTION

References are made to the announcement dated 27 December 2018 in relation to the renewal of 2019 DEC Framework Agreements in respect thereof between the Company and DEC Finance (a subsidiary of the Company) and DEC, respectively. The renewed framework agreements will expire on 31 December 2021 and the Group intends to continue the transactions under the existing Sales and Production Services Framework Agreement, the Combined Ancillary Services Framework Agreement and the Properties and Equipment Lessee Framework Agreement and provide DEC Group with financial services.

Hence, on 8 December 2021, the Company entered into the 2022 Sales and Production Services Framework Agreement, the 2022 Combined Ancillary Services Framework Agreement and the 2022 Properties and Equipment Lessee Framework Agreement with DEC, and DEC Finance, a subsidiary of the Company, entered into the 2022 Financial Services Framework Agreement with DEC, which will take effect on 1 January 2022 and expire on 31 December 2024.

The Board announces that On 8 December 2021, the Company entered into the Purchase and Production Services Framework Agreement with DEC, pursuant to which, DEC agreed to provide products and production services to the Group for a term commencing on 1 January 2022 and ending on 31 December 2024, and determine the annual caps of such continuing connected transactions. On 8 December 2021, the Company entered into the Properties and Equipment Lessor Framework Agreement with DEC, pursuant to which, the Company agreed to lease properties and equipment to DEC Group for a term commencing on 1 January 2022 and ending on 31 December 2024, and determine the annual caps of such continuing connected transactions.

PURCHASE AND PRODUCTION SERVICES FRAMEWORK AGREEMENT

The principal terms of the Purchase and Production Services Framework Agreement are summarized as follows:

Date:

8 December 2021

Parties:

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

Contents:

Products and materials to be supplied to the Group

Pursuant to the agreement, DEC will, and will procure that other members of DEC Group will, supply the following products to the Group: raw materials, semifinished products, auxiliary equipment, supporting materials, parts and components, production tools and equipment, processing tools, labor insurance supplies and other related products and materials (such as resin, wind turbine housing, wind power products and offshore engineering products).

Production services to be provided to the Group

Pursuant to the agreement, DEC will, and will procure that other members of DEC Group will, provide the following services to the Group: processing services, import agency services, technical services, inspection and testing services, after-sales services, transportation services, maintenance, repair and management services for equipment and tools, repair of vehicles and other related services.

The Company is entitled (but not obliged) to request the relevant members of DEC Group to provide ancillary services to the Group according to the terms and conditions of this agreement. The ancillary services to be provided by DEC Group to the Group under the agreement will be on normal commercial terms.

Term:

From 1 January 2022 to 31 December 2024

Proposed annual caps and basis of determination:

Products, materials and production services to be provided to the Group:

	For the year ended 31 December		For the 6 months ended
	2019	2020	30 June 2021
	(RMB'000)		
Total amount paid by the Group to DEC Group	0	546,240	367,290
	For the year ending 31 December		
	2022	2023	2024
	(RMB'000)		
Proposed annual caps	1,800,000	1,800,000	1,800,000

In determining the proposed annual caps for 2022, 2023 and 2024, the Board has considered the following factors: (a) the past transactions and the amount of transactions; (b) the promotion of the development of natural power generation such as hydropower and new energy by national policies, and the estimated demand for related production services for manufacturing power generation equipment; and (c) a buffer for unexpected sales growth in the next three years.

Basis of price determination:

The price of each transaction under the agreement will be determined on the following basis:

- (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 applicable to the party purchasing products or receiving production services in accordance with the requirements of applicable laws and regulations of the PRC government); or
- (b) if market price is not available, the cost incurred by the relevant member of DEC Group for the supply of such products or materials or provision of such services (as the case may be) plus a service charge of not more than 15% of such cost, which is the maximum profit margin for similar products or services and 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. The market price is derived upon negotiation with relevant members of DEC Group, while the service charge applied shall not be less favourable than those offered by independent third parties.

Time and method of payment:

Based on the products, materials or production services to be supplied to the Group, the time and method of payment for each transaction under the agreement will be determined on the following basis:

- (a) market practice, in which payments are usually settled by way of bank transfers within an average credit period of 180 days; or
- (b) if there is no market practice, then the time and method of payment adopted by independent third parties to whom the same services are provided.

2022 SALES AND PRODUCTION SERVICES FRAMEWORK AGREEMENT

The principal terms of the 2022 Sales and Production Services Framework Agreement are summarised as follows:

Date:

8 December 2021

Parties:

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

Subject Matter:

Products and materials to be supplied by the Group

Pursuant to the agreement, the Company will, and will procure other members of the Group to, supply the following products to DEC Group: raw materials, semi-finished products, finished products, turbine products, boiler products, nuclear power products, gas turbines products, power generation equipment, production equipment, components, spare parts, supporting materials, employee necessities and other related products and materials such as thermal coal, photovoltaic equipment, etc.

Production services to be provided by the Group

Pursuant to the agreement, the Company will, and will procure other members of the Group to, provide the following production services to DEC Group: processing services, technical services, transportation services, import agency services, and other related production services.

While DEC Group has agreed to purchase products and use production services, the Company is entitled (but not obliged) to provide and procure the members of the Group to provide products and production services to DEC Group according to the terms and conditions of this agreement.

Term:

From 1 January 2022 to 31 December 2024

Proposed annual caps and basis of determination:

Supply of products and provision of services	For the year ended/ending 31 December		
	2019	2020	2021
	<i>(RMB'000)</i>		
Historical annual caps	<u>300,000</u>	<u>300,000</u>	<u>800,000</u> ^{Note}

Note: Revised of 2021 annual cap. Please refer to the announcement of the Company dated 8 December 2021 related to Revision of Annual Cap for 2019 Sales and Production Services Framework Agreement

	For the year ended 31 December		For the six months ended
	2019	2020	30 June 2021
	<i>(RMB'000)</i>		
Total amount paid by DEC Group to the Group	<u>19,200</u>	<u>6,930</u>	<u>5,980</u>

	For the year ending 31 December		
	2022	2023	2024
	<i>(RMB'000)</i>		
Proposed annual caps	<u>1,800,000</u>	<u>1,800,000</u>	<u>1,800,000</u>

The proposed annual caps set at RMB1,800,000,000 for each of the three years ending 31 December 2022, 2023 and 2024 are determined by reference to the average total amount to be received by the Group for the products and materials to be supplied, and the production services to be provided, to DEC Group for the years ended 31 December 2019 and 2020 and the six months ended 30 June 2021; DEC Group's estimated demand for products and services during the term of the agreement; and the estimated prices of product materials.

Basis of price determination:

For determining the prices of the products, materials and services to be supplied by the Group, the price of each transaction contemplated under the agreement 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 or 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 products or materials or provision of such services (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.

Time and method of payment:

Based on the products, materials or production services to be supplied by the Group, the time and method of payment for each transaction under the agreement will be determined on the following basis:

- (a) market practice; or
- (b) if there is no market practice, then the time and method of payment adopted by independent third parties to whom the same products, materials or services are provided.

2022 COMBINED ANCILLARY SERVICES FRAMEWORK AGREEMENT

The principal terms of the 2022 Combined Ancillary Services Framework Agreement are summarised as follows:

Date:

8 December 2021

Parties:

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

Subject Matter:***Ancillary services to be provided to the Group***

Pursuant to the agreement, DEC will, and will procure that other members of DEC Group will, provide the following ancillary services to the Group: medical services, cleaning services, employee management services, nursery services, management services for retired employees, militia services, educational services, training services, and other ancillary services.

The Company is entitled but not obliged to request the relevant members of DEC Group to provide ancillary services to the Group in accordance with the terms and conditions of the agreement. The ancillary services provided by DEC Group to the Group shall be on normal commercial terms.

Ancillary services to be provided by the Group

Pursuant to the agreement, the Company will, and will procure that the other members of the Group will, provide the following ancillary services to DEC Group: training services, shared utility services (including water, electricity and gas), communication services, combined management services and other ancillary services.

DEC is entitled but not obliged to request the relevant members of the Group to provide ancillary services to DEC Group in accordance with the terms and conditions of the agreement. The ancillary services to be provided by the Group to DEC Group under the agreement are expected to be on normal commercial terms.

Term:

From 1 January 2022 to 31 December 2024

Proposed annual cap and basis of determination:

(a) Ancillary services to be provided to the Group:

Use of ancillary services	For the year ended/ending 31 December		
	2019	2020	2021
	(RMB'000)		
Historical annual caps	<u>100,000</u>	<u>100,000</u>	<u>100,000</u>
	For the year ended	For the six	
	31 December	months ended	
	2019	2020	30 June
	(RMB'000)		
		2021	
Total service fees paid by the Group to DEC Group	<u>410</u>	<u>0</u>	<u>0</u>

	For the year ending 31 December		
	2022	2023	2024
	(RMB'000)		
Proposed annual caps	<u>6,000</u>	<u>6,000</u>	<u>6,000</u>

The proposed annual caps for the three years ending 31 December 2022, 2023 and 2024 are RMB6,000,000 respectively, which are determined by reference to (a) the historical transactions and transaction amount; and (b) the projected demand for the ancillary services to be provided by DEC Group so as to meet the daily business operation needs and the market level and inflation of fees charged for those services in 2022, 2023 and 2024.

(b) Ancillary services to be provided by the Group:

The total service fees paid by DEC Group to the Group for the years 2019 and 2020 and the six months ended 30 June 2011 amounted to RMB0.

The Company expects that the total fees payable by DEC Group to the Group for such services for the three years ending 31 December 2022, 2023 and 2024 will be RMB0.

Basis for fee determination:

The fees of each transaction under the agreement will be determined on the following basis:

- (a) for shared utilities including water, electricity and gas and communication services provided by the Group, government-prescribed fees apply. The government-prescribed fees are determined with reference prices published from time to time by relevant government authorities; or
- (b) for services with no applicable government-prescribed fee (such as cleaning and training services), the market price applies. The market price is the price offered by the party providing the services to an independent third party in respect of provision of the same or similar services in the relevant markets, or price offered by any independent third party to other independent third parties in respect of provision of the same or similar services in the relevant markets, or price determined with reference to the industry standards or practice in respect of provision of the same or similar services in the relevant markets; or

- (c) if there is no applicable government prescribed fee or market price, the cost incurred for the provision of the service plus a service charge of not more than 15% of such cost applies. The service charge of not more than 15% is determined with reference to the market practice adopted by other industry players. The Company regularly reviews the rates of service charged by other independent third parties providing similar services and determines the prices by negotiation with reference to the prevailing market conditions.

Time and method of payment:

The time and method of payment for each transaction under the agreement will be determined on the following basis:

- (a) market practice; or
- (b) if there is no market practice, then the time and method of payment adopted by independent third parties to whom the same services are provided.

2022 FINANCIAL SERVICES FRAMEWORK AGREEMENT

The principal terms of the 2022 Financial Services Framework Agreement are summarised as follows:

Date:

8 December 2021

Parties:

- (a) DEC Finance; and
- (b) DEC.

Subject Matter:

Pursuant to 2022 Financial Services Framework Agreement, DEC Finance will provide the following financial services to DEC Group: deposit services, loans services, fund settlement services and other investment and financial services approved by the CBIRC.

DEC Finance and DEC (or members of DEC) shall separately enter into further specific contracts in relation to the use of relevant financial services to provide for specific transaction terms (including but not limited to repayment period and detailed rules on deposit and withdrawal services). Such specific contracts shall be based on and in line with the principles, terms and conditions under the 2022 Financial Services Framework Agreement and relevant laws and regulations (including but not limited to the Hong Kong Listing Rules).

DEC, based on consideration after comparing the terms and conditions offered by DEC Finance and any third parties, is entitled to select the most favourable transaction terms and conditions and use the financial services provided by independent third parties to DEC Group and its members.

Term:

From 1 January 2022 to 31 December 2024

Proposed annual caps and basis of determination:

(a) Deposits services

An annual cap of RMB10,000,000,000 for each of the three years ending 31 December 2022, 2023 and 2024, in respect of the maximum daily balance of deposits (including accrued interest) that DEC Group maintained with DEC Finance, is proposed.

The annual caps in respect of the deposits services were determined by the Board after taking into account: (a) DEC Group was not obliged to use the deposits service provided by DEC Finance; and (b) interest rates offered by other banks in the PRC for comparable deposits.

(b) Loan Services:

	For the year ended/ending 31 December		
	2019	2020	2021
	<i>(RMB'000)</i>		
Historical annual caps	<u>1,050,000</u>	<u>1,050,000</u>	<u>1,050,000</u>
			For the six months
	For the year ended 31		ended 30
	December		June
	2019	2020	2021
	<i>(RMB'000)</i>		
Loans and interest	<u>949,290</u>	<u>149,530</u>	<u>623,110</u>
	For the year ending 31 December		
	2022	2023	2024
	<i>(RMB'000)</i>		
Proposed annual caps			
Maximum daily balance of loans			
(including accrued interest)			
provided to DEC Group	<u>1,800,000</u>	<u>1,800,000</u>	<u>1,800,000</u>

DEC agreed with DEC Finance that the daily balance under the loan services provided to DEC Group shall not exceed the daily deposits balance of members of DEC Group. In the event that DEC Group defaults on the loans, DEC Finance has the right to write them off with such deposits. The interest charged by DEC Finance for such loans shall be no favourable than that charged by other independent financial institutions and is on normal commercial terms or more favourable terms for DEC Finance.

The proposed annual caps for each of the years ending 31 December 2022, 2023 and 2024 in respect of the loan services are determined by the Board after taking into account: (a) the demand for loans services arising from the operation and development of members of DEC Group; (b) interest rates offered by other commercial banks in the PRC to DEC Group for comparable loans; and (c) the Group's cash on hand and the amount of accounts receivable.

(c) Other services:

The other services including fund settlement services, other investment and financial services to be provided by DEC Finance to DEC Group are conducted on normal commercial terms and in the interests of the Group. DEC Finance will not pay any amount in advance on its own to settle the amounts payable by DEC Group, and the amount for other services shall be paid by DEC Group so as to settle any amount payable to the third parties by DEC Group.

Basis of fee determination:

The interest rate for deposits and loans provided by DEC Finance to DEC Group will be determined based on the relevant interest rates as announced by the PBOC from time to time.

DEC Finance provides fund settlement services and will charge settlement fee. The fee for other investment and financial services shall be determined with reference to but not less favourable than those charged by other commercial banks in the PRC.

Time and method of payment:

The time and method of payment for each transaction under the agreement will be determined on the following basis:

- (a) market practice; or
- (b) if there is no market practice, then the time and method of payment for provision of the same services to independent third parties.

For illustration purpose, DEC Finance shall settle interest in relation to general deposit services (current and agreement deposits except fixed term and call deposits) and loan services on a quarterly basis; and interest for fixed term and call deposits shall be settled on maturity date. In the event of withdrawal of fixed term and call deposits before maturity or early repayment of loans, interest will be settled on the withdrawal date and repayment date, respectively. This is in line with the practice of accrual of interest on a quarterly basis of the banks in the PRC.

2022 PROPERTIES AND EQUIPMENT LESSEE FRAMEWORK AGREEMENT

The principal terms of the 2022 Properties and Equipment Lessee Framework Agreement are summarised as follows:

Date:

8 December 2021

Parties:

- (a) The Company (as lessee); and
- (b) DEC (as lessor).

Subject matter:

Pursuant to the agreement, DEC will, and will procure that other members of DEC Group will, lease real estate properties, factories, warehouse, land and equipment relating to the business of the Group to the Group and warrant that the Group will, within the lease term, continuously enjoy exclusive rights to use them in accordance with the law. The Company will, and will procure that other members of the Group will, lease real estate properties, factories, warehouse, land and equipment relating to the business of the Group from DEC Group.

Term:

From 1 January 2022 to 31 December 2024

Proposed annual caps and basis of determination:

Lease of properties, production facilities and equipment

	For the year ended/ending 31 December		
	2019	2020	2021
	<i>(RMB'000)</i>		
Historical annual caps	<u>200,000</u>	<u>200,000</u>	<u>200,000</u>

	For the year ended 31 December 2019 2020 (RMB'000)		For the six months ended 30 June 2021
Total rents paid by the Group to DEC Group	<u>117,520</u>	<u>115,920</u>	<u>57,920</u>
	For the year ending 31 December 2022 2023 2024 (RMB'000)		
Proposed annual caps	<u>500,000</u>	<u>500,000</u>	<u>500,000</u>

The proposed annual cap for each of the three years from 2022 to 2024 is RMB500,000,000, which was determined by the Board after considering: (a) the historical transactions and transaction amount; and (b) the expected increase in number of properties (including office premises and factories for manufacturing) and equipment within the term of the agreement to be leased by the Group from DEC Group will be determined by the demands.

Basis of rent determination:

The rental of each transaction under the agreement will be determined on the following basis:

- (a) market price (if available). The market price refers to market rents paid by an independent third party for leasing land or buildings in similar location and with similar area or identical or similar manufacturing equipment, or the local government statistical prices in respect of the rents of rental properties of the same type; or
- (b) if market price is not available, then the cost incurred by the relevant member of DEC Group in leasing out the relevant properties or equipment plus a profit of not more than 15% of such cost. The margin of not more than 15% has been determined with reference to the market practice adopted by other industry players. The finance department of the Company will regularly review the rate of margin paid by industry players, and negotiate a precise percentage of margin with reference to the prevailing market conditions.

Time and method of payment:

Rental is payable every quarter by transferring the aggregate rent for the three months to the designated bank account of the relevant member of DEC Group in the first month of each quarter; or payable at any time within the leasing term if the leasing term is less than a quarter.

PROPERTIES AND EQUIPMENT LESSOR FRAMEWORK AGREEMENT

The principal terms of the Properties and Equipment Lessor Framework Agreement are summarised as follows:

Date:

8 December 2021

Parties:

- (a) The Company (as lessor); and
- (b) DEC (as lessee).

Subject matter:

Pursuant to the agreement, the Company will lease real estate properties (such as office premises), factories, warehouse, land and equipment (such as hot and cold island facilities and tooling for use in the solar energy engineering technology) relating to the business of DEC Group to DEC Group and ensure that DEC Group has uninterrupted and legally exclusive right to use them within the lease term.

Term:

From 1 January 2022 to 31 December 2024

Proposed annual caps and basis of determination:

	For the year ending 31 December		
	2022	2023	2024
	(RMB'000)		
Proposed annual caps	<u>2,000</u>	<u>2,000</u>	<u>2,000</u>

The proposed annual caps are set at RMB2,000,000 for each of the three years ending 31 December 2022, 2023 and 2024. The Board has considered, when determining the proposed annual caps, (a) the transactions from 2019 to 2021 and the transaction amount of RMB0; and (b) the expected number of properties (including offices and production plants) and equipment that DEC Group may need to lease from the Group.

Basis of rent determination:

The rental of each transaction under the agreement will be determined on the following basis:

- (a) market price (if available). The market price refers to the market rent paid by an independent third party for leasing land or buildings in similar location or with similar area or identical or similar production equipment, or the local government statistical prices in respect of the rents of rental properties of the same type; or
- (b) if market price is not available, then the cost incurred by the relevant member of the Group in leasing out the relevant properties or equipment plus a profit of not more than 15% of such cost. The margin of not more than 15% has been determined with reference to the market practice adopted by other industry players. The finance department of the Company will regularly review the rate of margin paid by industry players, and negotiate a precise percentage of margin with reference to the prevailing market conditions.

Time and method of payment:

Rental is payable every quarter by transferring the aggregate rent for the three months to the designated bank account of the relevant member of the Group in the first month of each quarter; or payable at any time within the leasing term if the leasing term is less than a quarter.

HONG KONG LISTING RULES IMPLICATIONS

In relation to 2022 Financial Services Framework Agreement

DEC is a controlling shareholder of the Company, holding approximately 55.40% of the total issued shares of the Company, and therefore is a connected person of the Company. The transactions contemplated under the 2022 Financial Services Framework Agreement will constitute continuing connected transactions of the Company under the Hong Kong Listing Rules.

As the deposits services under the 2022 Financial Services Framework Agreement are conducted on normal commercial terms and in the interests of the Group, and the Group has not pledged any asset to DEC in respect of such deposit services, pursuant to Rule 14A.90 of the Hong Kong Listing Rules, the deposits services under the 2022 Financial Services Framework Agreement are exempt from reporting, annual review, announcement and independent shareholders' approval requirements under Chapter 14A of the Hong Kong Listing Rules.

As the highest applicable percentage ratio calculated in respect of the proposed annual cap for the loan services under the 2022 Financial Services Framework Agreement exceeds 0.1% but is less than 5%, the related transactions are only 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.

The other services including fund settlement services, other investment and financial services under the 2022 Financial Services Framework Agreement are conducted on normal commercial terms. The Company expects that all of the applicable percentage ratios of the total cost of other services will be less than 0.1% and lower than the threshold as stipulated under Rule 14A.76 of the Hong Kong Listing Rules. They are therefore exempt from the reporting, annual review, announcement and independent shareholders' approval requirements under the Hong Kong Listing Rules.

In relation to 2022 Sales and Production Services Framework Agreement, 2022 Combined Ancillary Services Framework Agreement, Purchase and Production Services Framework Agreement, Properties and Equipment Lessor Framework Agreement and 2022 Properties and Equipment Lessee Framework Agreement

As the highest applicable percentage ratio calculated in respect of the maximum annual cap proposed to be adopted for each of the 2022 Sales and Production Services Framework Agreement, 2022 Combined Ancillary Services Framework Agreement (excluding the ancillary services to be provided by the Group to DEC Group), Purchase and Production Services Framework Agreement and 2022 Properties and Equipment Lessee Framework Agreement for the three years ending 31 December 2022, 2023 and 2024 exceeds 0.1% but is less than 5%, these transactions are subject to the reporting, annual review and announcement requirements and are exempted from the independent shareholders' approval requirement as prescribed under Chapter 14A of the Hong Kong Listing Rules.

As each of the applicable percentage ratios calculated in respect of the annual cap proposed to be adopted for 2022 Combined Ancillary Services Framework Agreement and Properties and Equipment Lessor Framework Agreement for the three years ending 31 December 2022, 2023 and 2024 is less than 0.1% and hence fall within the threshold as stipulated under Rule 14A.76 of the Hong Kong Listing Rules, they are exempt from the reporting, annual review, announcement and independent shareholders' approval requirements of the Hong Kong Listing Rules.

REASONS FOR AND BENEFITS OF ENTERING INTO 2022 DEC FRAMEWORK AGREEMENTS

In relation to 2022 Financial Services Framework Agreement

DEC Finance provides financial services to DEC Group as:

As the PRC laws do not permit companies, including affiliates, to extend intra-group loans directly without going through a financial agency, the group companies in the PRC will generally establish a finance company to provide the group with financial services to facilitate efficient allocation of their funds.

The provision of deposit services by DEC Finance as a financial agency to the Group and other members of DEC Group can ensure sufficient cash flows to fund loans and is favourable for the Group as a whole.

The provision of loans and other financial services by DEC Finance to the members of DEC Group can also increase the income of the Group. Since the Group and DEC Group have maintained cooperation for a long time and the Company and DEC Finance have sufficient internal risk control measures, the possibility of disputes or credit risks arising from the transactions between DEC Finance and members of DEC Group is low, which is in the interests of the Company and its shareholders as a whole.

In relation to Purchase and Production Services Framework Agreement, 2022 Sales and Production Services Framework Agreement, 2022 Combined Ancillary Services Framework Agreement, 2022 Properties and Equipment Lessee Framework Agreement and Properties and Equipment Lessor Framework Agreement

Given the long and close business relationship between DEC Group and the Group and the close geographical proximity of their respective operations, the Board believes that the arrangement in respect of the continuing connected transaction with DEC Group would be cost effective, can provide a wide range of necessary ancillary services for employees in their daily lives and will facilitate the business operations of the Group.

The conditions for the products and production service provided by DEC Group to the Group are not less favourable than the prices and conditions obtained by the Group from other independent third parties, and the provision of stable services is conducive to the business development of the Group.

Certain properties have been leased to members of the Group by members of DEC Group in the past as those properties, which is due to the fact that such properties are not required by DEC Group for its core operations. Therefore, the agreement would enable the Group to continue using those properties without disruption to its business operations.

The Company believes that the revision of the 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 2022 DEC Framework Agreement and the Company's daily business are conducted on normal commercial terms, 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 a 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 and the responsible departments for managing connected transactions in the Group are responsible for ensuring that the transactions under the 2022 DEC Framework Agreements will not exceed the proposed annual caps and will be carried out in accordance with the terms (not limited to the pricing policy) of the particular transactions.

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 operation 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 associates. 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, within 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 report it to the office of the Board. The office of the Board will review the same 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 from the beginning of each quarter. The finance department of the Company will summarise and categorise the same and report to the office of the Board. The office of the Board will give specific management opinions based on the implementation of the connected transactions and submit a Connected Transactions Operation Performance Report (關聯交易運行簡報) to the Board (including independent non-executive directors) for consideration.

In order to ensure the terms of the continuing connected transactions under the 2022 DEC Framework Agreement are fair and reasonable and on normal commercial terms, the Group has adopted the following internal control procedures:

As far as the Purchase and Production Services Framework Agreement is concerned, currently all the products (such as raw materials (steel plates, nonferrous metals; pipe-shaped material), imported mechanical and electrical products, product accessories) and services are purchased by open tenders or negotiated tenders. The tender office (招標辦工室) of the Company will obtain at least 2 to 3 tenders (depending on the size of the contract sum) in accordance with the Company's tender management policy (招標管理辦法) to ensure that the prices of the products or services supplied by DEC or DEC Group are not less favourable than those supplied by other party supplying similar products and services to independent third parties.

As far as the 2022 Sales and Production Services Framework Agreement is concerned, currently all products and services under the 2022 Sales and Production Services Framework Agreement are supplied at market prices within prescribed price range determined through negotiation between the parties in accordance with the Company's internal sales policy. The market prices will be determined or approved by the authorized department of the Group in relation to the particular transaction.

As far as the 2022 Combined Ancillary Services Framework Agreement is concerned, the responsible department of the Company will obtain at least 2 to 3 tenders to ensure that the prices of ancillary services provided by DEC or DEC Group are not less favourable than those provided by independent third parties.

Currently all services under the 2022 Combined Ancillary Services Framework Agreement are provided at government-prescribed price or market price. The market price determined through negotiation between the parties will be within prescribed price range in accordance with the Company's internal sales policy. The market price will be determined or approved by the authorised department of the Group in relation to the particular transaction.

DEC agreed that any member of DEC Group shall provide services to the members of the Company according to the requirements of the agreement on terms and conditions which are not less favourable than that for provision of the same or similar services by such member of DEC Group to any independent third party or better if there are comparable independent third party transactions.

DEC and the Company agreed that any member of the Company shall provide services to the members of DEC Group according to the requirements of the agreement on conditions which are no more favourable than that for provision of the same or similar services by such member of the Company to any independent third party if there are comparable independent third party transactions.

As far as the 2022 Financial Services Framework Agreement is concerned, DEC Finance takes the following measures:

- (a) DEC Finance will ensure that funds placed with it by the Group and those placed by DEC Group will be segregated and managed independently;
- (b) a report on the status of DEC Group's deposits with DEC Finance will be delivered by DEC Finance to the finance department of the Company each working day to enable the Company to monitor and ensure that the daily deposits balance (including any interest accrued therefrom) of DEC Group's deposits with DEC Finance does not exceed the upper limit;
- (c) the financial statements of DEC Finance for each month will be provided to and reviewed by the finance department of the Company prior to the fifth working day of the following month; and
- (d) DEC Finance will ensure the stability of its fund management system to secure funds, monitor credit risks and try its best to meet the payment needs of DEC Group while strictly complying with the risk monitoring indicators for financial institutions issued by the CBIRC.

As far as the 2022 Properties and Equipment Lessee Framework Agreement is concerned, the responsible department of the Company will obtain at least 2 to 3 tenders to ensure the leasing rents provided by DEC or DEC Group are not higher than those provided by independent third parties.

The market price will be determined within the prescribed price range in accordance with the Company's internal sales policy through negotiation between the parties. The market price will be determined or approved by the authorized department of the Group in relation to the particular transaction.

As far as the Properties and Equipment Lessor Framework Agreement is concerned, the tender office (招標辦工室) of the Company will obtain at least 2 to 3 tenders to ensure that the leasing rents provided to DEC or DEC Group is not more favourable than those offered by independent third parties.

The market price will be determined within the prescribed price range in accordance with the Company's internal sales policy through negotiation between the parties. The market price will be determined or approved by the authorized department of the Group in relation to the particular transaction.

INFORMATION REGARDING THE GROUP, DEC AND DEC FINANCE

The Group

Operating in energy equipment industry, the Company provides various energy, environmental protection, chemical and other products and systems packages, trade, finance, logistics and other services to global energy operators and other users.

The Company is mainly engaged in development, designing, manufacturing and sale of advanced sets of equipment for the generation of hydropower, thermal power, nuclear power, wind power, steam power and solar thermal. The Company is also engaged in such related business as providing global energy operators with construction contracting and services.

DEC

DEC is a wholly state-owned company established in the PRC with limited liability in 1984. Its registered and paid-up capital was RMB5,046.960 million. 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, total 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 55.40% of the total issued shares of the Company as at the date of this announcement.

DEC Finance

DEC Finance is a non-bank finance company established in 1988 with the approval of the PBOC. It is currently held as to 95% by the Company and thus a subsidiary of the Company. The remaining 5% is held by DEC. As at the date of this announcement, its total registered and paid-up capital was RMB2,095.001 million. The business activities of DEC Finance are regulated and supervised by the CBIRC and PBOC. Its principle businesses include the provision of financial services and financial consultancy to group entities; provision of credit verification and related advisory service; provision of agency services; assisting group entities in setting payments; provision of guarantees to group entities; provision of entrusted loans and entrusted investment among group entities; provision of bill acceptance and discounting among group entities; provision of internal account settlement and clearing among group entities; design of liquidation schemes; deposit taking for group entities; provision of loans and finance leasing among group entities; provision of intercompany borrowings; provision of short-term life and health insurance, motor vehicles insurance and corporate property insurance agency services; provision of underwriting services of corporate bonds for group entities; provision of equity investments in financial institutions; provision of buyer's credit and finance lease for group entities' products; investments in securities

(including stocks); forward settlement and sale of foreign exchange (basic). According to the audited consolidated financial statements of DEC Finance for the year ended 31 December 2020 prepared in accordance with the PRC accounting standard, its total asset value, net asset value, interest income and net profits were approximately RMB42,304 million, RMB3,334 million, RMB1,064 million and RMB318 million, respectively.

OPINIONS OF THE BOARD

The Directors (including independent non-executive Directors) consider that the 2022 DEC Framework Agreements and the continuing connected transactions contemplated thereunder will be entered into in the ordinary and usual course of business of the Group, on normal commercial terms, and are fair and reasonable (including the related proposed annual caps) and in the interests of the Company and the Shareholders as a whole.

Each of Mr. Yu Peigen, Mr. Xu Peng and Mr. Zhang Yanjun, being a Director who holds a management position with DEC, has abstained from voting on the Board resolutions approving the 2022 DEC Framework Agreements and the transactions contemplated thereunder. The remaining three independent non-executive Directors (Mr. Liu Dengqing, Mr. Huang Feng and Mr. Ma Yongqiang) have voted on and considered and approved unanimously the Board resolutions approving the 2022 DEC Framework Agreements and the transactions contemplated thereunder.

To the best of the knowledge, information and belief of the Directors after having made all reasonable enquiries, none of the independent non-executive Directors have any material interests in the 2022 DEC Framework Agreements and the transactions contemplated thereunder.

EGM

The company will convene an EGM to approve the 2022 DEC Framework Agreement. DEC and its connected persons will abstain from voting on the relevant proposals. The notice of the EGM will be sent to H-share shareholders on 13 December 2021.

SUSPENSION OF SHARE TRANSFER REGISTRATION

In order to determine the entitlement to attend and vote at the EGM, the register of members of the Company will be closed from Thursday, 23 December 2021 to Tuesday, 28 December 2021 (both dates inclusive) during which period no transfers of H Shares will be effected. All transfer documents accompanied by the relevant share certificates must be lodged with the Company's share registrar in respect of H Shares, namely Hong Kong Registrars Limited at Shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong no later than 4:30 p.m. on Wednesday, 22 December 2021. The record date and arrangements in respect of the holders of A Shares who are entitled to attend the EGM will be determined and announced separately in the PRC by the Company.

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, the 2019 Combined Ancillary Services Framework Agreement and the 2019 Financial Services Framework Agreement
“2022 Combined Ancillary Services Framework Agreement”	the conditional 2022 combined ancillary services framework agreement dated 8 December 2021 and entered into between the Company and DEC in relation to the mutual provision of ancillary services between the Group and DEC Group
“2022 DEC Framework Agreements”	the 2022 Sales and Production Services Framework Agreement, the 2022 Properties and Equipment Lessee Framework Agreement, the 2022 Properties and Equipment Lessor Framework Agreement, the 2022 Combined Ancillary Services Framework Agreement, the 2022 Purchase and Production Services Framework Agreement and the 2022 Financial Services Framework Agreement
“2022 Financial Services Framework Agreement”	the conditional 2022 financial services framework agreement dated 8 December 2021 and entered into between DEC and DEC Finance in relation to the provision of financial services by DEC Finance to DEC Group
“2022 Properties and Equipment Lessee Framework Agreement”	the conditional 2022 properties and equipment lessee framework agreement dated 8 December 2021 and entered into between the Company and DEC in relation to the lease of properties, production facilities and equipment by DEC Group to the Group
“Properties and Equipment Lessor Framework Agreement”	the conditional properties and equipment lessor framework agreement dated 8 December 2021 and entered into between the Company and DEC in relation to the lease of properties, production facilities and equipment by the Group to DEC Group

“2022 Sales and Production Services Framework Agreement”	the conditional 2022 sales and production services framework agreement dated 8 December 2021 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
“Purchase and Production Services Framework Agreement”	the conditional purchase and production services framework agreement dated 8 December 2021 and entered into between the Company and DEC in relation to the supply of products and provision of production services by DEC Group to the 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
“CBIRC”	中國銀行保險監督管理委員會(China Banking and Insurance Regulatory Commission)
“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 2022 DEC Framework Agreements 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
“EGM”	the extraordinary general meeting of the Company to be held at the conference room of the Company, No. 18 Xixin Road, High-Tech District (Western District), Chengdu City, Sichuan Province, the PRC at 9:00 a.m. on Tuesday, 28 December 2021
“Group”	the Company and its subsidiaries
“EGM”	the extraordinary general meeting of the Company to be held at the conference room of the Company, 18 Xixin Road, High-Tech District (Western District), Chengdu City, Sichuan Province, the People’s Republic of China on Tuesday, 28 December 2021 at 09:00 a.m.
“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
“Shanghai Stock Exchange”	上海證券交易所(Shanghai Stock Exchange)
“Shanghai Listing Rules”	上海證券交易所股票上市規則(the Rules Governing the Listing of Stocks on the Shanghai Stock Exchange)

“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*