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

(Stock Code: 1072)

- (1) GENERAL MANDATE TO ISSUE SHARES**
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AND**
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**Independent Financial Adviser to  
the Independent Board Committee and the Independent Shareholders**



## **GENERAL MANDATE TO ISSUE SHARES**

The Board is pleased to announce that, on 4 April 2023, the Board has resolved to submit a special resolution on a proposed General Mandate to issue Shares to the EGM for consideration and approval. Pursuant to the General Mandate (if granted), according to market conditions and the needs of the Company, the Board will separately or concurrently issue additional A Shares and/or H Shares in the share capital of the Company, the total number of such additional A Shares and/or H Shares to be issued shall not exceed each of 20% of the issued A Shares and H Shares of the Company, respectively, as at the time of approval of the relevant resolution at the EGM.

## **PROPOSED ISSUANCE OF A SHARES TO SPECIFIC TARGETS UNDER THE GENERAL MANDATE**

The Board is pleased to announce that, on 4 April 2023, the Board has approved the Issuance of A Shares to Specific Targets under the General Mandate, pursuant to which, the Company will issue a maximum of 272,878,203 new A Shares to no more than 35 Specific Investors, and the proceeds expected to be raised will be not more than RMB5,000 million.

The Issuance of A Shares to Specific Targets under the General Mandate is subject to, among others, the approval of Shareholders at the EGM by way of special resolutions.

## **PROPOSED SUBSCRIPTION OF NEW A SHARES BY DEC GROUP**

The Board is pleased to announce that, on 4 April 2023, the Board has approved the Proposed DEC Group Subscription. As part of the Issuance of A Shares to Specific Targets, the Company entered into the DEC Group Subscription Agreement with DEC Group on 4 April 2023, pursuant to which DEC Group agreed to, among others, subscribe for such number of A Shares in cash based on the final issue price of A Shares under the Issuance of A Shares to Specific Targets, for an amount of RMB500 million.

The Proposed DEC Group Subscription is subject to, among others, the approval of Shareholders at the EGM by way of special resolutions.

## **PROPOSED ACQUISITION OF ASSETS FROM DEC GROUP**

The Board is pleased to announce that, on 4 April 2023, the Board has approved the Proposed Assets Acquisition. On 4 April 2023, the Company and DEC Group entered into the DEC Group Assets Acquisition Agreement, pursuant to which DEC Group conditionally agreed to sell and the Company conditionally agreed to purchase (i) 8.14% equity interests in Dongfang Electric Machinery; (ii) 8.70% equity interests in Dongfang Turbine; (iii) 4.55% equity interests in Dongfang Boiler; and (iv) 5.63% equity interests in Dongfang Heavy Machinery for a consideration of RMB2,526.5126 million.

The Proposed Assets Acquisition is subject to, among others, the approval of Shareholders at the EGM by way of special resolutions.

## **HONG KONG LISTING RULES IMPLICATIONS**

Pursuant to Rule 19A.38 of the Hong Kong Listing Rules, the issue of the new A Shares under the Issuance of A Shares to Specific Targets by way of General Mandate requires the approval of the Shareholders by way of special resolutions at the EGM.

As at the date of this announcement, DEC Group holds approximately 55.44% of the total issued share capital of the Company and is, therefore, a connected person of the Company within the meaning of the Hong Kong Listing Rules. As such, the Proposed DEC Group Subscription and the Proposed Assets Acquisition constitute connected transactions of the Company under Chapter 14A of the Hong Kong Listing Rules and is subject to the reporting, announcement and Independent Shareholders' approval requirements under Chapter 14A of the Hong Kong Listing Rules.

As one or more of the applicable percentage ratios (as defined in Rule 14.07 of the Hong Kong Listing Rules) in respect of the Proposed Assets Acquisition exceeds 5% but are all less than 25%, the Proposed Assets Acquisition constitutes a discloseable transaction of the Company under the Hong Kong Listing Rules and is subject to the reporting and announcement requirements under Chapter 14 of the Hong Kong Listing Rules.

## **INDEPENDENT FINANCIAL ADVISER AND INDEPENDENT BOARD COMMITTEE**

The Company has appointed Gram Capital as the independent financial adviser to make recommendations to the Independent Board Committee and the Independent Shareholders as to whether (i) the terms of the DEC Group Subscription Agreement and the Proposed DEC Group Subscription contemplated thereunder; and (ii) the terms of the DEC Group Assets Acquisition Agreement and the Proposed Assets Acquisition contemplated thereunder are fair and reasonable, on normal commercial terms and in the interests of the Company and the Shareholders as a whole.

The Independent Board Committee, comprising Mr. Liu Dengqing, Mr. Huang Feng and Mr. Ma Yongqiang, being all the independent non-executive Directors, has been established to advise the Independent Shareholders as to whether (i) the terms of the DEC Group Subscription Agreement and the Proposed DEC Group Subscription contemplated thereunder; and (ii) the terms of the DEC Group Assets Acquisition Agreement and the Proposed Assets Acquisition contemplated thereunder are fair and reasonable, on normal commercial terms and in the interests of the Company and the Shareholders as a whole, after taking into account the recommendations of Gram Capital.

## **GENERAL**

A circular containing, among other things, further information in relation to (i) the general mandate to issue new Shares; (ii) the Issuance of A Shares to Specific Targets; (iii) the proposed subscription of new A Shares by DEC Group; (iv) the proposed acquisition of assets from DEC Group; and (v) the proposed consequential amendments to the Articles of Association will be despatched to the Shareholders as soon as practicable.

**The completion of the Issuance of A Shares to Specific Targets is subject to the satisfaction of certain conditions. Accordingly, the Issuance of A Shares to Specific Targets may or may not proceed. Shareholders and potential investors are advised to exercise caution when dealing in the securities of the Company.**

## **I. INTRODUCTION**

The Board is pleased to announce that, on 4 April 2023, the Board has approved the Issuance of A Shares to Specific Targets, pursuant to which, the Company will issue a maximum of 272,878,203 new A Shares to no more than 35 Specific Investors, and the proceeds expected to be raised will be no more than RMB5,000 million. The A Shares to be issued pursuant to the Issuance of A Shares to Specific Targets will be issued under the General Mandate, which is subject to the Shareholders' approval at the EGM.

The Board is also pleased to announce that, on 4 April 2023, the Board has approved the Proposed DEC Group Subscription. As part of the Issuance of A Shares to Specific Targets, the Company entered into the DEC Group Subscription Agreement with DEC Group on 4 April 2023, pursuant to which DEC Group agreed to, among others, subscribe for such number of A Shares in cash based on the final issue price of A Shares under the Issuance of A Shares to Specific Targets, for an amount of RMB500 million. The Proposed DEC Group Subscription is subject to, among others, the approval of Shareholders at the EGM by way of special resolutions.

Furthermore, the Board is pleased to announce that, on 4 April 2023, the Board has approved the Proposed Assets Acquisition. On 4 April 2023, the Company and DEC Group entered into the DEC Group Assets Acquisition Agreement, pursuant to which DEC Group conditionally agreed to sell and the Company conditionally agreed to purchase (i) 8.14% equity interests in Dongfang Electric Machinery; (ii) 8.70% equity interests in Dongfang Turbine; (iii) 4.55% equity interests in Dongfang Boiler; and (iv) 5.63% equity interests in Dongfang Heavy Machinery for a consideration of RMB2,526.5126 million. The Proposed Assets Acquisition is subject to, among others, the approval of Shareholders at the EGM by way of special resolutions.

## II. GENERAL MANDATE TO ISSUE SHARES

To ensure flexibility and discretion to the Board to issue new Shares when it becomes desirable, the Board has resolved to submit a special resolution to the EGM for consideration and approval on a proposed General Mandate to issue certain Shares. Pursuant to the General Mandate (if granted), according to market conditions and the needs of the Company, the Board will separately or concurrently issue additional A Shares and/or H Shares in the share capital of the Company, the total number of such additional A Shares and/or H Shares to be issued shall not exceed each of 20% of the issued A Shares and H Shares of the Company, respectively, as at the time of approval of the relevant resolution at the EGM.

As at the date of this announcement, the issued share capital of the Company comprised of 2,778,533,797 A Shares and 340,000,000 H Shares. Subject to the approval of the grant of the General Mandate by the Shareholders and on the basis that no further Shares are issued before the EGM, the Board will have the power to issue up to 555,706,759 A Shares and 68,000,000 H Shares.

The specific contents of the General Mandate include but are not limited to the following:

1. The granting of a general mandate to the Board of the Company (within the scope as set out in paragraph 2 below) to, subject to market conditions and the requirements of the Company, separately or concurrently issue additional shares of the issued A Shares and/or H Shares of the Company during the Relevant Period (as defined below), and to make or grant decisions which might require the exercise of such powers (including authorising the Board during the Relevant Period to make or grant decisions which might require the exercise of such powers after the end of the Relevant Period).
2. The aggregate number of the A Shares and/or H Shares conditionally or unconditionally agreed to be issued (whether pursuant to the exercise of options or otherwise) by the Board shall not exceed 20% of the respective class of Shares in issue of the Company when this resolution is approved at the EGM.
3. The Board is authorised to formulate and implement the detailed issuance plan, including but not limited to (i) the class and number of the new shares to be issued, (ii) the pricing mechanism and/or issue price (including price range), (iii) starting and closing date of the issuance, (iv) use of proceeds, (v) the making or granting of authorisations in respect of decisions which may require the exercise of such powers, and (vi) other contents that the detailed issuance plan should contain as required by the relevant laws and regulations and other regulatory documents, the relevant regulatory institutions, and the exchange where the relevant Shares are listed.

4. The Board is authorised to engage intermediary institutions in respect of the issuance of Shares, to approve and sign all acts, documents and other matters necessary or relevant to the issuance of Shares, and to consider, approve, and sign, on behalf of the Company, agreements related to the issuance of Shares, including but not limited to subscription agreements, underwriting agreements and engagement agreements of intermediaries.
5. The Board is authorised to consider and execute, on behalf of the Company, statutory documents related to the issuance of Shares for submission to the relevant regulatory authorities, to carry out relevant approval procedures as required by regulatory authorities and the places in which the Company is listed, and to complete all necessary filings, registrations and record with the relevant governmental authorities of Hong Kong and/or any other regions or jurisdictions (if applicable).
6. The Board is authorised to amend, as required by regulatory authorities within or outside China, relevant agreements and statutory documents referred to in paragraphs (4) and (5) above.
7. The Board is authorised to approve the increase in registered capital of the Company after issuance of the new Shares, make appropriate and necessary amendments to the relevant contents of total share capital and shareholding structure in the Articles of Association, carry out the relevant approval, registration and filing procedures pursuant to domestic and overseas statutory requirements, and take any other action and complete any procedures required to implement the relevant share issuance and realize the increase in the registered capital of the Company.
8. Upon obtaining of the aforesaid mandate by the Board, to delegate the authority to the authorised person(s) of the Company to jointly or individually sign, execute, amend, complete and submit all agreements, contracts and documents relating to the issuance of shares under the General Mandate unless otherwise required under the relevant laws and regulations.
9. Exercise of the General Mandate by the Board is subject to the approvals of the CSRC and/or the other relevant governmental authorities of the PRC and in accordance with the Company Law of the PRC, the Securities Law of the PRC, the Hong Kong Listing Rules or all applicable laws, regulations and rules of any other governmental or regulatory authorities.



Except that the Board may make or grant decisions under the authorisation granted thereto during the Relevant Period in relation to the issuance of A Shares and/or H Shares, which might require further promotion or implementation after the end of the Relevant Period, the General Mandate shall be effective during the Relevant Period. “Relevant Period” means the period from the passing of this resolution as a special resolution at the EGM until whichever is the earliest of:

- (i) the expiration of a 12-month period following the passing of the resolution at the EGM; or
- (ii) the revocation or variation of the authority given under this resolution by passing of a special resolution of the Company in a general meeting.

Should the Board or its authorised person(s), during the Relevant Period, sign the necessary documents, complete the necessary formalities or take relevant steps which might require to be performed or carried out upon or after the end of the Relevant Period or continued until the end of the Relevant Period, the Relevant Period will be extended accordingly.

The General Mandate has been considered and approved by the Board, and will be proposed at the EGM for the Shareholders’ consideration and approval by way of special resolution.

### **III. PROPOSED ISSUANCE OF A SHARES TO SPECIFIC TARGETS**

#### **A. Issuance of A Shares to Specific Targets under the General Mandate**

The Board is pleased to announce that, on 4 April 2023, the Board has approved the Issuance of A Shares to Specific Targets under the General Mandate, pursuant to which the Company will issue a maximum of 272,878,203 new A Shares to no more than 35 Specific Investors, at a final issue price to be determined in the manner described under “Issue price and principles of pricing” below. The Company intends to raise gross proceeds of not more than RMB5,000 million.

Details of the Issuance of A Shares to Specific Targets are set out below:

#### ***1. Type and carrying value of the Issuance of A Shares to Specific Targets***

The type of shares under the Issuance of A Shares to Specific Targets is RMB ordinary shares (A Shares) with a nominal value of RMB1.00 each, which are listed in the PRC.



## **2. *Listing place***

The shares to be issued to Specific Investors will be applied for listing and trading on the Shanghai Stock Exchange.

## **3. *Method and date of issuance***

The Issuance of A Shares to Specific Targets will be conducted entirely by way of issuance of A Shares to specific targets, and the shares will be issued to Specific Investors within 12 months from the date of approval by the CSRC in due course.

## **4. *Specific Investors***

The shares will be issued to not more than 35 Specific Investors, including the controlling shareholder of the Company, DEC Group. Among which, DEC Group intends to subscribe for an amount of RMB500 million, and the final number of shares to be subscribed by DEC Group shall be determined by a supplemental agreement to be entered into by DEC Group and the Company upon determination of the issue price. Other Specific Investors shall subscribe for the shares in cash.

Other than the DEC Group, the Specific Investors are securities investment fund management companies, securities companies, trust companies, finance companies, insurance institution investors, qualified foreign institutional investors and other legal persons, natural persons or other qualified institutional investors who meet the relevant legal and regulatory requirements. Among which, if any securities investment fund management company, securities company, qualified foreign institutional investor or RMB qualified foreign institutional investor subscribes for two or more products under its management, it shall be deemed as one single Specific Investors; where any trust company is a Specific Investors, it shall only subscribe with its own capital.

Other than the DEC Group, the final subscribers will be determined by the negotiations between the Board under the authorisation granted at the EGM and the sponsor (lead underwriter) with reference to the price bidding results, upon the Company obtaining the approval from the Shanghai Stock Exchange and decision of registration from the CSRC having been made for the Issuance of A Shares to Specific Targets in accordance with relevant PRC laws and requirements.

The Specific Investors shall subscribe for the shares to be issued under the Issuance of A Shares to Specific Investors in cash.

In case of over-subscription, the final subscribers will be selected with reference to the principle of “price priority and number priority” or “price priority and amount priority”, depending on the actual market circumstances at the time of issuance. In other words, according to the price bidding results, the priority of allocation will be given to the subscriber who offers to subscribe at a higher subscription price. If there are multiple subscribers who offer the same subscription price, depending on the actual market circumstances at the time of issuance, the priority of allocation will be given to the subscriber who offers to subscribe a larger number of shares or a greater amount.

The Board will determine the final selection method, either “price priority and number priority” or “price priority and amount priority”, depending on the actual market circumstances at the time of issuance. The Board is of the view that both selection methods are under the premise of “price priority”, which comply with the requirements of The Detailed Rules of the Shanghai Stock Exchange for the Implementation of the Business of Offering and Underwriting of Securities of Listed Companies\* (上海證券交易所上市公司證券發行與承銷業務實施細則) and are in line with market practice, and should be fair and reasonable and in the interest of the Company and the Shareholders as a whole.

## **5. *Number of new A Shares to be issued***

The number of shares to be issued under the Issuance of A Shares to Specific Targets shall not exceed 272,878,203 shares (inclusive) and the number of shares to be issued shall not exceed 10% of the total share capital of the Company prior to the Issuance of A Shares to Specific Targets. The final number of shares to be issued shall be determined by the negotiations between the Board under the authorisation granted at the EGM and the sponsor (lead underwriter) and the actual situation upon issuance, based on the maximum number of shares approved by the CSRC.

In case of any ex-rights events such as bonus issue or conversion of capital reserve into share capital, or change of the Company’s total share capital due to events such as share incentive or share buy-back during the period from the date of Board’s resolution approving the Issuance of A Shares to Specific Targets to the date of issuance, the number of shares to be issued will be adjusted accordingly.

If the Specific Investors or the total number of shares of the Issuance of A Shares to Specific Targets are changed or reduced due to changes in regulatory policies or in accordance with the requirements of the issuance approval documents, the Specific Investors or the subscription amount of the Issuance of A Shares to Specific Targets will be changed or reduced accordingly.

## **6. *Issue price and principles of pricing***

The Issuance of A Shares to Specific Targets shall be made by way of price bidding, with the pricing benchmark date (the “**Pricing Benchmark Date**”) being the first day of the issuance period, and the issue price (the “**Benchmark Price**”) shall set at no less than 80% of the average trading price of the A Shares for the 20 trading days prior to the Pricing Benchmark Date, and shall be no less than the value of the audited net assets per share of the Company attributable to the Shareholders as of the end of the most recent financial period prior to the issuance, whichever is higher. The final issue price will be determined by the negotiations between the Board under the authorisation granted at the EGM and the sponsor (lead underwriter), with reference to the price bidding results, upon the Company obtaining the approval from the Shanghai Stock Exchange and decision of registration from the CSRC having been made for the Issuance of A Shares to Specific Targets in accordance with relevant PRC laws and requirements, but will not be lower than the Benchmark Price.

DEC Group will not participate in the price bidding process of the Issuance of A Shares to Specific Targets, but will accept the price bidding results and subscribe for the A Shares at the same issue price as other investors. If there is no valid result during the bidding process of the issue price, or no quotation is received for the subscription, DEC Group will continue to subscribe for the shares of such issuance at the Benchmark Price.

DEC Group will participate in the subscription in the amount of RMB500 million in cash. The number of A Shares to be subscribed by the DEC Group shall be determined based on the final subscription amount, divided by the final issue price of A Shares under the Issuance of A Shares to Specific Targets (rounded down to the nearest whole number).

The average trading price of the A Shares for the 20 trading days prior to the Pricing Benchmark Date is the total amount of the A Shares trading for the 20 trading days prior to the Pricing Benchmark Date, divided by the total trading volume of the A Shares for the 20 trading days prior to the Pricing Benchmark Date. In the event of any ex-dividend or ex-rights events such as dividend payment, bonus issue or conversion of capital reserve into share capital during the period from the Pricing Benchmark Date to the issue date, the issue price of the Issuance of A Shares to Specific Targets will be adjusted accordingly.

The minimum issue price of new A Shares to be issued under the Issuance of A Shares to Specific Targets will be adjusted based on the following formula, in case of occurrence of any ex-rights or ex-dividend event (such as dividend payment, bonus issue, or conversion of capital reserve into share capital) during the period commencing from the Pricing Benchmark Date to the issuance date.

- (a) In the case of distribution of dividends:

$$P1 = P0 - D$$

- (b) In the case of grant of bonus share, or conversion of capital reserve into share capital:

$$P1 = P0/(1 + N)$$

In the case of both (a) and (b):

$$P1 = (P0 - D)/(1 + N)$$

where:

- (i) P0 denotes the issue price before adjustment;
- (ii) D denotes the amount of cash dividends payable per share;
- (iii) N denotes the ratio of bonus shares or conversion rate of capital reserve; and
- (iv) P1 denotes the new issue price after adjustment.

## **7. Lock-up period arrangement**

The shares subscribed by DEC Group shall not be transferred within 18 months from the date of closing of the Issuance of A Shares to Specific Targets, and the shares subscribed by other subscribers shall not be transferred within six months from the date of closing of the proposed Issuance of Shares to Specific Targets. During the lock-up period, in the event that the number of A Shares held by the Specific Investors increases due to reasons such as bonus issue and/or conversion of capital reserve into share capital after completion of the Issuance of A Shares to Specific Targets, such A Shares shall also be subject to the aforementioned lock-up arrangement. The lock-up period shall also comply with any other applicable laws and regulations. After the end of the aforementioned lock-up period, any disposal of the A Shares from the proposed Non-public Issuance of A Shares shall be conducted in accordance with the relevant PRC laws and regulations and the articles of association of the Company.

## **8. Amount and use of proceeds**

The total amount of proceeds from the Issuance of A Shares to Specific Targets shall not exceed RMB5,000 million, and the net proceeds after deducting issuing expenses are intended to be invested in the following purposes:

No.	Project name	Total project investment (RMB ten thousand)	Proposed amount of net proceeds to be applied (RMB ten thousand)	Expected time of utilisation
A.	Acquisition of equity interests in subsidiaries			
1.	Acquisition of 8.14% equity interests in Dongfang Electric Machinery from DEC Group	73,541.53	73,541.53	Within 1 month upon receipt of the proceeds
2.	Acquisition of 8.70% equity interests in Dongfang Turbine from DEC Group	113,340.78	113,340.78	Within 1 month upon receipt of the proceeds
3.	Acquisition of 4.55% equity interests in Dongfang Boiler from DEC Group	48,646.05	48,646.05	Within 1 month upon receipt of the proceeds
4.	Acquisition of 5.63% equity interests in Dongfang Heavy Machinery from DEC Group	17,122.89	17,122.89	Within 1 month upon receipt of the proceeds

No.	Project name	Total project investment (RMB ten thousand)	Proposed amount of net proceeds to be applied (RMB ten thousand)	Expected time of utilisation
<b>B.</b>	<b>Construction projects</b>			
5.	Pumped storage manufacturing manufacturing capability enhancement project of Dongfang Electric Machinery	96,806.80	45,000.00	Up to March 2026 <i>(note)</i>
6.	Gas turbine rotor processing and manufacturing capability enhancement project of Dongfang Turbine	14,280.00	8,500.00	Up to December 2023 <i>(note)</i>
7.	Digital workshop construction project of Dongfang Turbine	58,340.00	41,000.00	Up to December 2025 <i>(note)</i>
8.	Digital construction project of Dongfang Boiler	35,778.30	25,000.00	Up to December 2025 <i>(note)</i>
		<hr/>	<hr/>	
<b>C.</b>	<b>Replenishment of working capital</b>			
9.	Replenishment of working capital	127,848.74	127,848.74	Not applicable
		<hr/>	<hr/>	
	<b>Total</b>	<b>585,705.10</b>	<b>500,000.00</b>	

*Note:* The proceeds are expected to be utilised during the respective construction period of the relevant projects, the actual time of which will be based on the overall progress and actual circumstances of the relevant projects.

Among which, the transaction prices for the acquisition of 4.55%, 8.70%, 8.14% and 5.63% equity interests in Dongfang Boiler, Dongfang Turbine, Dongfang Electric Machinery and Dongfang Heavy Machinery held by DEC Group, respectively, were determined with reference to the valuation results of the asset valuation reports issued by Pan-China Assets Appraisal Co., Ltd, an independent valuer, that complied with the requirements of the applicable PRC laws and regulations.

The conditions of acquisition of the Relevant Assets are the Company obtaining the approval from the Shanghai Stock Exchange and decision of registration from the CSRC having been made for the Issuance of A Shares to Specific Targets, and the receipt of the proceeds from the Issuance of A Shares to Specific Targets

Within the scope of the proposed amount of net proceeds to be applied to the respective project, the Company will adjust the amount and decide the priority of application of proceeds to each project according to the actual progress of the projects and their respective capital needs. Before receiving the proceeds from the Issuance of A Shares to Specific Targets, the Company will first use its own funds to invest in the projects according to their respective actual progress, and upon receipt of the proceeds from the Issuance of A Shares to Specific Targets, the Company will utilise the proceeds instead in accordance with the relevant PRC laws and regulations. In case the net proceeds after deducting issuing expenses are not sufficient to meet the proposed total amount of net proceeds to be applied, such shortfall will be settled by the Company's self-financing.

Save for the Issuance of A Shares to Specific Targets, as at the date of this announcement, the Company has no concrete plans to carry out other fund-raising activities in the forthcoming twelve months.

**9. *Arrangement for distribution of accumulated profits***

The accumulated undistributed profits of the Company prior to the Issuance of A Shares to Specific Targets shall be shared between the new and existing shareholders upon completion of the Issuance of A Shares to Specific Targets.

**10. *Validity of the resolutions in respect of the Issuance of A Shares to Specific Targets***

The resolutions regarding the Issuance of A Shares to Specific Targets shall remain valid for a period of 12 months from the date of consideration and approval of such resolutions at the EGM.

As at the date of this announcement, other than the DEC Group Subscription Agreement referred to below, the Company has not entered into any agreement with any potential subscribers in respect of the Issuance of A Shares to Specific Targets. While DEC Group is a substantial shareholder of the Company and hence, a connected person within the meaning of the Hong Kong Listing Rules, the Company intends that all of the other investors with whom the new A Shares will be placed pursuant to the Issuance of A Shares to Specific Targets will not be connected persons of the Company, nor does the Company expect any of them to become substantial shareholders of the Company upon completion of the Issuance of A Shares to Specific Targets.



## **B. Conditions Precedent of the Proposed Issuance of A Shares to Specific Targets**

Completion of the Issuance of A Shares to Specific Targets will be conditional upon, among other things, (i) the approval of the Issuance of A Shares to Specific Targets by way of a special resolution of the Shareholders (excluding DEC Group, its associates and Associated Shareholders) at the EGM; and (ii) such consents, approvals and authorisations as may be required from the relevant governmental authorities in connection with the Issuance of A Shares to Specific Targets, including but not limited to the review and approval from Shanghai Stock Exchange and decision of registration from the CSRC having been made.

## **C. Proposed DEC Group Subscription**

On 4 April 2023, as part of the Issuance of A Shares to Specific Targets, the Company entered into the DEC Group Subscription Agreement with DEC Group, details of which are set out below:

### ***1. Date***

4 April 2023

### ***2. Parties***

- (a) The Company, as the issuer; and
- (b) DEC Group, as the subscriber.

### ***3. Number of new A Shares subscribed for***

DEC Group has agreed to subscribe for such number of A Shares in cash based on the final issue price of A Shares under the Issuance of A Shares to Specific Targets, for an amount of RMB500 million. The number of A Shares to be issued to DEC Group shall be determined based on the subscription amount (i.e. RMB500 million), divided by the final issue price of A Shares under the proposed Issuance of A Shares (rounded down to the nearest whole number).

**4. *Way of subscription, subscription price and total subscription amount***

The total subscription amount shall be payable by DEC Group, upon the request by the Company or sponsor (lead underwriter) of the Issuance of A Shares to Specific Targets, in cash in RMB to an account designated for the Issuance of A Shares to Specific Targets after the conditions to the subscription of new A Shares by DEC Group pursuant to the DEC Group Subscription Agreement have been fulfilled.

The subscription price shall not be lower than the Benchmark Price. The final issue price will be determined in accordance with relevant PRC laws and regulations and the requirements of the regulatory authorities, upon the Company obtaining the approval from the Shanghai Stock Exchange and decision of registration from the CSRC having been made for the Issuance of A Shares to Specific Targets, by the negotiations between the Board or its authorised person(s) under the authorisation granted at the EGM and the sponsor (lead underwriter) with reference to the price bidding results, but not lower than the Benchmark Price. DEC Group will not participate in the price bidding process of the Issuance of A Shares to Specific Targets, but will accept the price bidding results and subscribe for the A Shares at the same issue price as other investors. If the final issue price cannot be determined through the price bidding exercise or no quotation is received for the subscription, DEC shall subscribe for the relevant A Shares at the Benchmark Price (with the total subscription amount being unchanged).

In the event of any ex-dividend or ex-rights events such as dividend payment, bonus issue or conversion of capital reserve into share capital during the period from the Pricing Benchmark Date to the issue date, the issue price of the Issuance of A Shares to Specific Targets will be adjusted accordingly.

The total subscription amount of DEC Group for the Issuance of A Shares to Specific Targets shall be RMB500 million.

## **5. *Conditions precedent***

Subscription of new A Shares by DEC Group pursuant to the Proposed DEC Group Subscription is conditional upon, among other things, (i) the approval of the Issuance of A Shares to Specific Targets from the Board and from the Shareholders (excluding DEC Group, its associates and Associated Shareholders) by way of special resolutions at the EGM; (ii) approval from DEC Group in respect of the Issuance of A Shares to Specific Targets; (iii) the approval from the Shanghai Stock Exchange and decision of registration from the CSRC having been made for the Issuance of A Shares to Specific Targets; and (iv) such consents, approvals and authorisations as may be required by the applicable PRC laws and regulations and/or from the relevant governmental authorities in connection with the Issuance of A Shares to Specific Targets and the Proposed DEC Group Subscription having been obtained.

## **6. *Lock-up period***

DEC Group has undertaken to the Company that it will not dispose of any of the new A Shares subscribed by it pursuant to the Proposed DEC Group Subscription within a period of 18 months from the date of closing of issuance of such A Shares. During the lock-up period, in the event that the number of A Shares held by DEC Group increases due to reasons such as bonus issue and/or conversion of capital reserve into share capital, such A Shares shall also be subject to the aforementioned lock-up arrangement. During the lock-up period, any other applicable laws and regulations shall also be complied with. After the end of the aforementioned lock-up period, any disposal of such A Shares shall be conducted in accordance with the relevant PRC laws and regulations.

## **7. *Termination***

The DEC Group Subscription Agreement shall terminate if:

- (i) the parties to the agreement confirm that the agreement has become incapable of being performed due to any force majeure event; or
- (ii) the parties to the agreement agree to terminate the agreement; or
- (iii) there is occurrence of any circumstances which the DEC Group Subscription Agreement shall be terminated in accordance with the relevant laws and regulations.

**D. Ranking of New A Shares to be Issued Under the Issuance of A Shares to Specific Targets**

The new A Shares to be issued under the Issuance of A Shares to Specific Targets under the General Mandate (including those to be issued under the Proposed DEC Group Subscription) will, when fully paid and issued, rank pari passu in all respects with the A Shares in issue at the time of issue of such new A Shares, except that the new A Shares to be issued to (i) investors other than DEC Group and (ii) DEC Group will be subject to the lock-up period of six months and 18 months, respectively, from the closing date of issue of such new A Shares as mentioned above.

Shareholders before and after completion of the Issuance of A Shares to Specific Targets will have the same rights to the distributable profits of the Company accumulated but not declared as at the date of completion of the Issuance of A Shares to Specific Targets proportionate to their shareholding in the Company after completion of the Issuance of A Shares to Specific Targets.

**E. Application for Listing of the New A Shares to be Issued Under the Issuance of A Shares to Specific Targets**

The Company will apply to the Shanghai Stock Exchange for the listing of, and dealing in, the new A Shares to be issued under the Issuance of A Shares to Specific Targets (including those to be issued under the Proposed DEC Group Subscription) after the relevant lock-up periods have expired.

## F. Impact on the Shareholding Structure of the Company

As at the date of this announcement, the total issued share capital of the Company is 3,118,533,797 Shares, which comprises 2,778,533,797 A Shares and 340,000,000 H Shares. The shareholding structure of the Company (i) as at the date of this announcement; and (ii) immediately after completion of the Issuance of A Shares to Specific Targets (assuming that there is no change in the total issued share capital of the Company since the date of this announcement save for the issue of a maximum of 272,878,203 A Shares pursuant to the Issuance of A Shares to Specific Targets) is as follow:

Types of Shares	Type or name of Shareholders	As at the date of this announcement		Immediately after completion of the Issuance of A Shares to Specific Targets	
		Number of Shares	Approximate % of total number of Shares in issue	Number of Shares	Approximate % of total number of Shares in issue
A	DEC Group & other A Shareholders	2,778,533,797	89.10	3,051,412,000	89.97
H	DEC Group <sup>(Note)</sup>	858,800	0.03	858,800	0.03
	Public H Shareholders	<u>339,141,200</u>	<u>10.87</u>	<u>339,141,200</u>	<u>10.00</u>
<b>Total</b>		<u><u>3,118,533,797</u></u>	<u><u>100.00</u></u>	<u><u>3,391,412,000</u></u>	<u><u>100.00</u></u>

*Note:* DEC Group indirectly held the equity of 858,800 H Shares of the Company through its holding of 100% interests in Dongfang Electric International Investment Co., Limited (formerly known as DongFang Electric (Hong Kong) Limited).

As at the date of this announcement and to the best knowledge of the Directors, apart from the nominal number of 858,800 H Shares, representing 0.03% of the total number of Shares in issue, being indirectly held by DEC Group, all the other H Shares remain in the public hands. Assuming a maximum of 272,878,203 A Shares are issued under the Issuance of A Shares to Specific Targets, immediately after the completion, the total number of H Shares held by the public H Shareholders will remain unchanged, being 339,141,200 H Shares, representing 10.00% of the total issued share capital of the Company (including H Shares and A Shares) as enlarged by the Issuance of A Shares to Specific Targets. The Directors are of the view that there is an open market for the H Shares which operates properly on the basis that (i) the Company's total market capitalisation is much larger than HK\$10 billion; (ii) the number of H Shares held in public hands and the extent of their distribution would enable the market to operate properly with a lower percentage; and (iii) the Company will implement appropriate measures and mechanism to ensure continual maintenance of not lower than 10.0% public float of H Shares.

Furthermore, as at the date of this announcement and to the best knowledge of the Directors, 37.81% of A Shares are held in public hands. Theoretically if all 272,878,203 A Shares to be issued under the Issuance of A Shares to Specific Targets are to be allocated to DEC Group, which is a core connected person (as defined in the Hong Kong Listing Rules) of the Company, and assuming there is no other change to the total issued share capital of the Company, 34.43% of A Shares will remain in public hands immediately after such issuance. Therefore, immediately after completion of the Issuance of A Shares to Specific Targets, together with the 10.00% public float of H Shares, there will be more than 25% of Shares to be held in public hands. The Company will closely monitor and ensure the continual maintenance of not lower than 25% of the total number of Shares in issue be held in public hands.

**G. Reasons for and Benefits of the Issuance of A Shares to Specific Targets and the Proposed DEC Group Subscription**

Upon completion of the Issuance of A Shares to Specific Targets, the Company's total assets and net assets will increase significantly, which will strengthen the capital capability of the Group and lay a solid foundation for the Group's further expansion of its operations, and, in turn, enable it to realise breakthrough in its development and enhance its competitive strength.

As mentioned in the section headed "III. Proposed Issuance of A Shares to Specific Targets – A. Issuance of A Shares to Specific Targets under the General Mandate – 8. Amount and use of proceeds" above, certain of the proceeds raised through the Issuance of A Shares to Specific Targets is expected to be applied in the Group's construction projects for the implementation of the Group's strategy on the development of new and clean energy equipment products. The Group's investments in its construction projects are expected to strengthen the Group's research and development abilities and production capabilities in respect of the Group's energy equipment products, and thus are expected to improve the Group's ability in capturing opportunities in upgrading energy equipment products within the domestic market and to keep up with the development trend of clean energy equipment industry promoted by the PRC government.

On the other hand, the Directors consider that the Issuance of A Shares to Specific Targets offers a good opportunity for the Company to raise further capital, establish and improve the Group's diversified financing channels and to provide long-term and stable financial support for the Group's consistently high standard development, and, in turn, lay a solid foundation on the Group's sustainable development in the future.

The Directors (including the Independent Non-executive Directors) consider that the Issuance of A Shares to Specific Targets and the Proposed DEC Group Subscription are on normal commercial terms which are fair and reasonable and are in the interests of the Company and the Shareholders as a whole. Moreover, the proposed size of the Issuance of A Shares to Specific Targets (subject to the approval by the CSRC) is within the limit permitted under Rule 13.36(2)(b) (as modified by Rule 19A.38) of the Hong Kong Listing Rules. Therefore, the Directors (including the Independent Non-executive Directors) are of the view that the Issuance of A Shares to Specific Targets under the General Mandate is compliant with the applicable laws, rules and regulations, time and cost efficient and in line with the Company's actual circumstances, strategic vision and sustainable development, and as such, it is in the best interest of the Company and its Shareholders as a whole.

All the executive Directors, namely Mr. Yu Peigen, Mr. Zhang Yanjun, Mr. Liu Zhiquan, Mr. Zhang Jilie and Mr. Song Zhiyuan, have direct or indirect material interest in the Issuance of A Shares to Specific Targets, the DEC Group Subscription Agreement and the Proposed DEC Group Subscription contemplated thereunder, and therefore all the executive Directors have abstained from voting on the board resolutions in relation to the Issuance of A Shares to Specific Targets, the DEC Group Subscription Agreement and the Proposed DEC Group Subscription contemplated thereunder.

#### **H. Fund Raising Activities during the Past 12 Months**

The Company has not conducted any fund raising activity involving issue of equity securities during the 12 months immediate preceding the date of this announcement.



## **I. Implications Under the Hong Kong Listing Rules and the Shanghai Listing Rules**

Pursuant to Rule 19A.38 of the Hong Kong Listing Rules, the issue of the new A Shares under the Issuance of A Shares to Specific Targets by way of General Mandate requires the approval of the Shareholders by way of special resolutions at the EGM. Pursuant to the Articles of Association and the Shanghai Listing Rules, the issue of new A Shares under the Issuance of A Shares to Specific Targets requires the approval of the Shareholders (excluding DEC Group and its Associated Shareholders) by way of special resolutions at the EGM.

Further, as at the date of this announcement, DEC Group holds approximately 55.44% of the total issued share capital of the Company and is, therefore, a connected person of the Company within the meaning of the Hong Kong Listing Rules. As such, the Proposed DEC Group Subscription, which forms part of the Issuance of A Shares to Specific Targets, constitutes a connected transaction of the Company under Chapter 14A of the Hong Kong Listing Rules.

Hence, DEC Group, its associates and Associated Shareholders will abstain from voting on the resolutions in respect of the Issuance of A Shares to Specific Targets and the Proposed DEC Group Subscription at the EGM.

## **IV. DISCLOSEABLE AND CONNECTED TRANSACTION: PROPOSED ACQUISITION OF ASSETS FROM DEC GROUP**

The Board is pleased to announce that, on 4 April 2023, the Board has approved the Proposed Assets Acquisition. On 4 April 2023, the Company and DEC Group entered into the DEC Group Assets Acquisition Agreement, pursuant to which DEC Group conditionally agreed to sell and the Company conditionally agreed to purchase (i) 8.14% equity interests in Dongfang Electric Machinery; (ii) 8.70% equity interests in Dongfang Turbine; (iii) 4.55% equity interests in Dongfang Boiler; and (iv) 5.63% equity interests in Dongfang Heavy Machinery for a consideration of RMB2,526.5126 million.

## **A. DEC Group Assets Acquisition Agreement**

Details of the DEC Group Assets Acquisition Agreement are set out below:

### **1. Date**

4 April 2023

### **2. Parties**

Vendor: DEC Group

Purchaser: the Company

### **3. Interest to be acquired**

DEC Group conditionally agreed to sell and the Company conditionally agreed to purchase (i) 8.14% equity interests in Dongfang Electric Machinery; (ii) 8.70% equity interests in Dongfang Turbine; (iii) 4.55% equity interests in Dongfang Boiler; and (iv) 5.63% equity interests in Dongfang Heavy Machinery.

### **4. Consideration**

The consideration of the Proposed Assets Acquisition is agreed to be RMB2,526.5126 million (the “**Consideration**”).

The consideration of the Proposed Assets Acquisition shall be determined based on arm’s length negotiation with reference to the respective valuation of the Relevant Companies as at 31 December 2022 (the “**Valuation**”) conducted by Pan-China Assets Appraisal Co., Ltd. The table below sets forth the respective appraised value of the Relevant Assets as at 31 December 2022, pursuant to the Valuation Reports.

<b>Relevant Assets</b>		<b>Appraised value (RMB ten thousand)</b>
1	8.14% equity interests held by DEC Group in Dongfang Electric Machinery	73,541.53
2	8.70% equity interests held by DEC Group in Dongfang Turbine	113,340.78
3	4.55% equity interests held by DEC Group in Dongfang Boiler	48,646.05
4	5.63% equity interests held by DEC Group in Dongfang Heavy Machinery	17,122.89
<b>Total</b>		<b>252,651.26</b>

The Consideration shall be paid by utilising the proceeds from the Issuance of A Shares to Specific Targets. In case such proceeds are not sufficient to cover the Consideration, such shortfall will be settled by the Company with its own fund.

## **5. Completion**

Completion shall take place upon completion of the payment of the entire consideration (the “**Completion**”).

Upon completion of the Proposed Assets Acquisition, the Company will hold (i) 100% equity interests in Dongfang Electric Machinery; (ii) 100% equity interests in Dongfang Turbine; (iii) 99.1% equity interests in Dongfang Boiler; and (iv) 53.80% equity interests in Dongfang Heavy Machinery. As such, Dongfang Electric Machinery and Dongfang Turbine will become the wholly-owned subsidiaries of the Company, whereas Dongfang Boiler and Dongfang Heavy Machinery will remain as non-wholly owned subsidiaries of the Company.

## **6. Arrangement during the Transition Period**

From the day immediately after the valuation benchmark date (being 31 December 2022) and up to the date of the Completion (the “**Transition Period**”), all the profit generated or loss incurred from business operation of the Relevant Assets during the Transition Period shall be allocated to DEC Group.

**7. *Arrangement of the accumulated undistributed profits***

Upon the Completion, the Company will be entitled to share the accumulated undistributed profits of the Relevant Companies prior to the Completion based on the Company's respective proportion of shareholdings in the Relevant Companies, save for all the profit generated or loss incurred from business operation of the Relevant Assets during the Transition Period which shall be allocated to DEC Group.

**8. *Termination***

The DEC Group Assets Acquisition Agreement shall terminate if:

- (i) the parties to the agreement confirm that the agreement has become incapable of being performed due to any force majeure event; or
- (ii) the parties to the agreement agree to terminate the agreement; or
- (iii) there is occurrence of any circumstances which the DEC Group Assets Acquisition Agreement shall be terminated in accordance with the relevant laws and regulations.

**9. *Conditions precedent***

The DEC Group Assets Acquisition Agreement is subject to, among other things, (i) the approval of the Proposed Assets Acquisition by way of a special resolution of the Shareholders (excluding DEC Group, its associates and Associated Shareholders) at the EGM; (ii) the DEC Group Subscription Agreement has taken effect; and (iii) the receipt of proceeds from the Issuance of A Shares to Specific Targets by the Company. In case the DEC Group Subscription Agreement being rescinded or terminated, the DEC Group Assets Acquisition Agreement will also be automatically and concurrently rescinded or terminated.

## B. Compensation Agreement

On 4 April 2023, the Company and DEC Group entered into the Compensation Agreement, pursuant to which, DEC Group undertakes to provide performance guarantees and related compensation in respect of the Proposed Assets Acquisition.

The principal terms of the Compensation Agreement are as follows:

**Date:** 4 April 2023

**Parties:** (1) the Company; and  
(2) DEC Group.

**Performance Compensation Assets:** According to the Valuation Reports, the appraised values of (i) certain investment properties of Dongfang Electric Machinery and Dongfang Turbine (the “**Performance Compensation Asset 1**”) and (ii) certain intangible assets involving patent rights, software copyrights and non-patent technologies of Dongfang Electric Machinery, Dongfang Turbine, Dongfang Boiler and Dongfang Heavy Machinery (the “**Performance Compensation Asset 2**”, together with the Performance Compensation Asset 1, the “**Performance Compensation Assets**”), were determined based on the income approach with reference to the respective future estimated net income attributable to the Performance Compensation Asset 1 and the future estimated revenue share attributable to the Performance Compensation Asset 2 for three consecutive financial years commencing from the year in which the completion of the Proposed Assets Acquisition takes place (inclusive of such year of completion).

**Performance Compensation Period:** The Performance Compensation Period shall be three consecutive financial years commencing from the year in which the completion of the Proposed Assets Acquisition takes place (inclusive of such year of completion).

If the Proposed Assets Acquisition is completed on or before 31 December 2023, the Performance Compensation Period shall be the years of 2023, 2024 and 2025. If the Proposed Acquisition is not completed on or before 31 December 2023, the Performance Compensation Period shall be the years of 2024, 2025 and 2026.

**Compensation  
arrangements:**

*Compensation for performance guarantees*

DEC Group undertakes that the future actual income attributable to the Performance Compensation Assets shall not be lower than the respective future estimated net income attributable to the Performance Compensation Asset 1 and the future estimated revenue share attributable to the Performance Compensation Asset 2 as set out in the Valuation Reports. In particular, the future actual income of the first financial year, or the sum of that in the first and second financial years, or the sum of that in the first, second and third financial years, of the Performance Compensation Period shall not be lower than the guaranteed amount, being the estimated net income/revenue share, or the sum of which, in the corresponding period, further details of which are set out below:

- (i) With respect to the Performance Compensation Asset 1 of Dongfang Electric Machinery, the future actual net income attributable thereto shall not be lower than:
  - (a) if the Proposed Assets Acquisition is completed on or before 31 December 2023, RMB4,500 for 2023, RMB8,900 in aggregate for 2023 and 2024, and RMB13,400 in aggregate for 2023, 2024 and 2025; and
  - (b) if the Proposed Assets Acquisition is not completed on or before 31 December 2023, RMB4,400 for 2024, RMB8,900 in aggregate for 2024 and 2025, and RMB13,500 in aggregate for 2024, 2025 and 2026; and

- (ii) With respect to the Performance Compensation Asset 1 of Dongfang Turbine, the future actual net income attributable thereto shall not be lower than:
- (a) if the Proposed Assets Acquisition is completed on or before 31 December 2023, RMB617,600 for 2023, RMB1,459,600 in aggregate for 2023 and 2024, and RMB2,347,600 in aggregate for 2023, 2024 and 2025; and
  - (b) if the Proposed Assets Acquisition is not completed on or before 31 December 2023, RMB842,000 for 2024, RMB1,730,000 in aggregate for 2024 and 2025, and RMB2,665,200 in aggregate for 2024, 2025 and 2026; and

*Note:* The net income for calculating the guaranteed net income amount refers to the expected gross income being the sum of the total rental income and deposit income attributable to the Performance Compensation Asset 1 of Dongfang Electric and Dongfang Turbine, respectively after deduction of the expected operating expenses (including property tax, maintenance fees, management fees and housing insurance premiums) during the corresponding years.

- (iii) With respect to the Performance Compensation Asset 2 of Dongfang Electric Machinery, the future actual revenue share attributable thereto shall not be lower than:
- (a) if the Proposed Assets Acquisition is completed on or before 31 December 2023, RMB120,141,600 for 2023, RMB216,127,600 in aggregate for 2023 and 2024, and RMB293,031,700 in aggregate for 2023, 2024 and 2025; and
  - (b) if the Proposed Assets Acquisition is not completed on or before 31 December 2023, RMB95,986,000 for 2024, RMB172,890,100 in aggregate for 2024 and 2025, and RMB230,090,100 in aggregate for 2024, 2025 and 2026; and



- (iv) With respect to the Performance Compensation Asset 2 of Dongfang Turbine, the future actual revenue share attributable thereto shall not be lower than:
  - (a) if the Proposed Assets Acquisition is completed on or before 31 December 2023, RMB132,786,300 for 2023, RMB235,973,100 in aggregate for 2023 and 2024, and RMB313,557,100 in aggregate for 2023, 2024 and 2025; and
  - (b) if the Proposed Assets Acquisition is not completed on or before 31 December 2023, RMB103,186,800 for 2024, RMB180,770,800 in aggregate for 2024 and 2025, and RMB239,310,600 in aggregate for 2024, 2025 and 2026; and
- (v) With respect to the Performance Compensation Asset 2 of Dongfang Boiler, the future actual revenue share attributable thereto shall not be lower than:
  - (a) if the Proposed Assets Acquisition is completed on or before 31 December 2023, RMB135,951,500 for 2023, RMB238,482,900 in aggregate for 2023 and 2024, and RMB314,673,300 in aggregate for 2023, 2024 and 2025; and
  - (b) if the Proposed Assets Acquisition is not completed on or before 31 December 2023, RMB102,531,400 for 2024, RMB178,721,800 in aggregate for 2024 and 2025, and RMB235,213,900 in aggregate for 2024, 2025 and 2026; and

(vi) With respect to the Performance Compensation Asset 2 of Dongfang Heavy Machinery, the future actual revenue share attributable thereto shall not be lower than:

- (a) if the Proposed Assets Acquisition is completed on or before 31 December 2023, RMB19,205,000 for 2023, RMB33,965,000 in aggregate for 2023 and 2024, and RMB46,115,000 in aggregate for 2023, 2024 and 2025; and
- (b) if the Proposed Assets Acquisition is not completed on or before 31 December 2023, RMB14,760,000 for 2024, RMB26,910,000 in aggregate for 2024 and 2025, and RMB35,820,000 in aggregate for 2024, 2025 and 2026.

*Note:* The revenue share for calculating the guaranteed revenue share amount refers to the expected revenue to be derived from the Performance Compensation Asset 2 of Dongfang Electric Machinery, Dongfang Turbine, Dongfang Boiler and Dongfang Heavy Machinery multiplied by the corresponding decay rate, respectively, during the corresponding years.

At the end of each financial year during the Performance Compensation Period, the Company shall select and engage a qualified accounting firm to conduct audit on each of the Performance Compensation Asset 1 of Dongfang Electric Machinery and Dongfang Turbine and Performance Compensation Asset 2 of Dongfang Electric Machinery, Dongfang Turbine, Dongfang Boiler and Dongfang Heavy Machinery, respectively and issue a specific audit opinion. If the respective audited actual net income attributable to the relevant Performance Compensation Asset 1 and the audited actual revenue share attributable to the relevant Performance Compensation Asset 2 is lower than the corresponding guaranteed amount as set out above for the financial year, DEC Group shall compensate the Company for an amount in cash calculated in accordance with the formula below.

The amount for performance compensation in relation to Performance Compensation Asset 1 shall be determined in accordance with the below formula:

*Compensation amount for Performance Compensation Asset 1 of Dongfang Electric Machinery*

$$\begin{array}{l}
 \text{Compensation amount of Performance Compensation Asset 1 of Dongfang Electric Machinery for the financial year} \\
 = \frac{\begin{array}{l} \text{(Accumulated guaranteed net income amount attributable to Performance Compensation Asset 1 of Dongfang Electric Machinery as at the end of the current period} \\ \text{Total guaranteed net income amount attributable to Performance Compensation Asset 1 of Dongfang Electric Machinery during the Performance Compensation Period} \end{array} - \begin{array}{l} \text{Accumulated actual net income amount attributable to Performance Compensation Asset 1 of Dongfang Electric Machinery as at the end of the current period)} \\ \end{array}}{\times \begin{array}{l} \text{Consideration for Performance Compensation Asset 1 of Dongfang Electric Machinery} \end{array}} - \begin{array}{l} \text{Accumulated compensated amount of Performance Compensation Asset 1 of Dongfang Electric Machinery} \end{array}
 \end{array}$$

*Compensation amount for Performance Compensation Asset 1 of Dongfang Turbine*

$$\begin{array}{l}
 \text{Compensation amount of Performance Compensation Asset 1 of Dongfang Turbine for the financial year} \\
 = \frac{\begin{array}{l} \text{(Accumulated guaranteed net income amount attributable to Performance Compensation Asset 1 of Dongfang Turbine as at the end of the current period} \\ \text{Total guaranteed net income amount attributable to Performance Compensation Asset 1 of Dongfang Turbine during the Performance Compensation Period} \end{array} - \begin{array}{l} \text{Accumulated actual net income amount attributable to Performance Compensation Asset 1 of Dongfang Turbine as at the end of the current period)} \\ \end{array}}{\times \begin{array}{l} \text{Consideration for Performance Compensation Asset 1 of Dongfang Turbine} \end{array}} - \begin{array}{l} \text{Accumulated compensated amount of Performance Compensation Asset 1 of Dongfang Turbine} \end{array}
 \end{array}$$

*Compensation amount for Performance Compensation  
Asset 2 of Dongfang Electric Machinery*

$$\begin{array}{l}
 \text{Compensation amount} \\
 \text{of Performance} \\
 \text{Compensation Asset 2} \\
 \text{of Dongfang Electric} \\
 \text{Machinery for the} \\
 \text{financial year}
 \end{array}
 =
 \frac{
 \begin{array}{l}
 \text{(Accumulated guaranteed} \\
 \text{revenue share amount} \\
 \text{attributable to Performance} \\
 \text{Compensation Asset 2} \\
 \text{of Dongfang Electric} \\
 \text{Machinery as at the end of} \\
 \text{the current period}
 \end{array}
 -
 \frac{
 \begin{array}{l}
 \text{Accumulated actual} \\
 \text{revenue share} \\
 \text{amount attributable} \\
 \text{to Performance} \\
 \text{Compensation Asset 2} \\
 \text{of Dongfang Electric} \\
 \text{Machinery as at the end of} \\
 \text{the current period)}
 \end{array}
 }{
 \begin{array}{l}
 \text{Total guaranteed} \\
 \text{revenue share amount attributable to Performance} \\
 \text{Compensation Asset 2 of Dongfang Electric Machinery} \\
 \text{during the Performance Compensation Period}
 \end{array}
 }
 \times
 \begin{array}{l}
 \text{Consideration} \\
 \text{for Performance} \\
 \text{Compensation} \\
 \text{Asset 2 of} \\
 \text{Dongfang} \\
 \text{Electric} \\
 \text{Machinery}
 \end{array}
 -
 \begin{array}{l}
 \text{Accumulated} \\
 \text{compensated} \\
 \text{amount of} \\
 \text{Performance} \\
 \text{Compensation} \\
 \text{Asset 2 of} \\
 \text{Dongfang} \\
 \text{Electric} \\
 \text{Machinery}
 \end{array}$$

*Compensation amount for Performance Compensation  
Asset 2 of Dongfang Turbine*

$$\begin{array}{l}
 \text{Compensation amount} \\
 \text{of Performance} \\
 \text{Compensation Asset 2} \\
 \text{of Dongfang Turbine} \\
 \text{for the financial year}
 \end{array}
 =
 \frac{
 \begin{array}{l}
 \text{(Accumulated guaranteed} \\
 \text{revenue share amount} \\
 \text{attributable to Performance} \\
 \text{Compensation Asset 2 of} \\
 \text{Dongfang Turbine as at the} \\
 \text{end of the current period}
 \end{array}
 -
 \frac{
 \begin{array}{l}
 \text{Accumulated actual} \\
 \text{revenue share} \\
 \text{amount attributable} \\
 \text{to Performance} \\
 \text{Compensation Asset 2} \\
 \text{of Dongfang Turbine as} \\
 \text{at the end of the current} \\
 \text{period)}
 \end{array}
 }{
 \begin{array}{l}
 \text{Total guaranteed} \\
 \text{revenue share amount attributable to Performance} \\
 \text{Compensation Asset 2 of Dongfang Turbine during the} \\
 \text{Performance Compensation Period}
 \end{array}
 }
 \times
 \begin{array}{l}
 \text{Consideration} \\
 \text{for Performance} \\
 \text{Compensation} \\
 \text{Asset 2 of} \\
 \text{Dongfang} \\
 \text{Turbine}
 \end{array}
 -
 \begin{array}{l}
 \text{Accumulated} \\
 \text{compensated} \\
 \text{amount of} \\
 \text{Performance} \\
 \text{Compensation} \\
 \text{Asset 2 of} \\
 \text{Dongfang} \\
 \text{Turbine}
 \end{array}$$

*Compensation amount for Performance Compensation  
Asset 2 of Dongfang Boiler*

$$\begin{array}{rclcl}
 \text{Compensation amount} & & \text{Accumulated actual} & & \\
 \text{of Performance} & & \text{revenue share} & & \\
 \text{Compensation Asset 2} & & \text{amount attributable} & & \\
 \text{of Dongfang Boiler for} & & \text{to Performance} & & \\
 \text{the financial year} & = & \text{to Performance} & \times & \text{Accumulated} \\
 & & \text{Compensation Asset 2 of} & & \text{compensated} \\
 & & \text{Dongfang Boiler as at the} & & \text{amount of} \\
 & & \text{end of the current period)} & & \text{Performance} \\
 & & \text{Total guaranteed} & & \text{Compensation} \\
 & & \text{revenue share amount attributable to Performance} & & \text{Asset 2 of} \\
 & & \text{Compensation Asset 2 of Dongfang Boiler during the} & & \text{Dongfang} \\
 & & \text{Performance Compensation Period} & & \text{Boiler}
 \end{array}$$

*Compensation amount for Performance Compensation  
Asset 2 of Dongfang Heavy Machinery*

$$\begin{array}{rclcl}
 \text{Compensation amount} & & \text{Accumulated actual} & & \\
 \text{of Performance} & & \text{revenue share} & & \\
 \text{Compensation Asset} & & \text{amount attributable} & & \\
 \text{2 of Dongfang Heavy} & & \text{to Performance} & & \\
 \text{Machinery for the} & & \text{to Performance} & & \\
 \text{financial year} & = & \text{Compensation Asset} & \times & \text{Accumulated} \\
 & & \text{2 of Dongfang Heavy} & & \text{compensated} \\
 & & \text{Machinery as at the end of} & & \text{amount of} \\
 & & \text{the current period)} & & \text{Performance} \\
 & & \text{Total guaranteed} & & \text{Compensation} \\
 & & \text{revenue share amount attributable to Performance} & & \text{Asset 2 of} \\
 & & \text{Compensation Asset 2 of Dongfang Heavy Machinery} & & \text{Dongfang} \\
 & & \text{during the Performance Compensation Period} & & \text{Heavy} \\
 & & & & \text{Machinery}
 \end{array}$$

When calculating the compensation amount to be paid by DEC Group during the Performance Compensation Period on an annual basis, the value shall be taken as 0 if the compensation amount of the current period calculated based on the above formulas is less than 0, i.e. the compensation amount paid previously shall not be reversed.

The Company will publish further announcement(s) to inform the Shareholders whether the guaranteed net income amount and the guaranteed revenue share amount have been met and comply with the disclosure requirements under 14A.63 of the Hong Kong Listing Rules if the actual performance fails to meet the guaranteed performance.

*Additional compensation for impairment*

Upon the expiry of the Performance Compensation Period, the Company shall select and engage a qualified accounting firm to carry out impairment test on the Performance Compensation Assets and issue a corresponding impairment test report.

If the amount of impairment of the Performance Compensation Assets as at the end of the Performance Compensation Period is larger than the compensated amount of Performance Compensation Assets during the Performance Compensation Period, DEC Group shall make additional compensation to the Company through settlement in cash with reference to the below formulas:

*Compensation amount for impairment for Performance Compensation Asset 1 of Dongfang Electric Machinery*

$$\begin{array}{l} \text{The amount of} \\ \text{compensation of} \\ \text{the Performance} \\ \text{Compensation Asset} \\ \text{1 of Dongfang} \\ \text{Electric Machinery} \\ \text{for impairment as} \\ \text{at the end of current} \\ \text{period} \end{array} = \begin{array}{l} \text{Amount of} \\ \text{impairment of} \\ \text{the Performance} \\ \text{Compensation Asset} \\ \text{1 of Dongfang} \\ \text{Electric Machinery as} \\ \text{at the end of current} \\ \text{period} \end{array} - \begin{array}{l} \text{Total compensation} \\ \text{amount of} \\ \text{Performance} \\ \text{Compensation} \\ \text{Asset 1 of} \\ \text{Dongfang Electric} \\ \text{Machinery during} \\ \text{the Performance} \\ \text{Compensation Period} \end{array}$$

*Compensation amount for impairment for Performance  
Compensation Asset 1 of Dongfang Turbine*

$$\begin{array}{lcl}
 \begin{array}{l} \text{The amount of} \\ \text{compensation of} \\ \text{the Performance} \\ \text{Compensation Asset} \\ \text{1 of Dongfang} \\ \text{Turbine for} \\ \text{impairment as at the} \\ \text{end of current period} \end{array} & = & \begin{array}{l} \text{Amount of} \\ \text{impairment of} \\ \text{the Performance} \\ \text{Compensation Asset} \\ \text{1 of Dongfang} \\ \text{Turbine as at the end} \\ \text{of current period} \end{array} - \begin{array}{l} \text{Total compensation} \\ \text{amount of} \\ \text{Performance} \\ \text{Compensation Asset} \\ \text{1 of Dongfang} \\ \text{Turbine during} \\ \text{the Performance} \\ \text{Compensation Period} \end{array}
 \end{array}$$

*Compensation amount for impairment for Performance  
Compensation Asset 2 of Dongfang Electric Machinery*

$$\begin{array}{lcl}
 \begin{array}{l} \text{The amount of} \\ \text{compensation of} \\ \text{the Performance} \\ \text{Compensation Asset} \\ \text{2 of Dongfang} \\ \text{Electric Machinery} \\ \text{for impairment as} \\ \text{at the end of current} \\ \text{period} \end{array} & = & \begin{array}{l} \text{Amount of} \\ \text{impairment of} \\ \text{the Performance} \\ \text{Compensation Asset} \\ \text{2 of Dongfang} \\ \text{Electric Machinery as} \\ \text{at the end of current} \\ \text{period} \end{array} - \begin{array}{l} \text{Total compensation} \\ \text{amount of} \\ \text{Performance} \\ \text{Compensation} \\ \text{Asset 2 of} \\ \text{Dongfang Electric} \\ \text{Machinery during} \\ \text{the Performance} \\ \text{Compensation Period} \end{array}
 \end{array}$$

*Compensation amount for impairment for Performance  
Compensation Asset 2 of Dongfang Turbine*

$$\begin{array}{lcl}
 \begin{array}{l} \text{The amount of} \\ \text{compensation of} \\ \text{the Performance} \\ \text{Compensation Asset} \\ \text{2 of Dongfang} \\ \text{Turbine for} \\ \text{impairment as at the} \\ \text{end of current period} \end{array} & = & \begin{array}{l} \text{Amount of} \\ \text{impairment of} \\ \text{the Performance} \\ \text{Compensation Asset} \\ \text{2 of Dongfang} \\ \text{Turbine as at the end} \\ \text{of current period} \end{array} - \begin{array}{l} \text{Total compensation} \\ \text{amount of} \\ \text{Performance} \\ \text{Compensation Asset} \\ \text{2 of Dongfang} \\ \text{Turbine during} \\ \text{the Performance} \\ \text{Compensation Period} \end{array}
 \end{array}$$



*Compensation amount for impairment for Performance  
Compensation Asset 2 of Dongfang Boiler*

The amount of compensation of the Performance Compensation Asset 2 of Dongfang Boiler for impairment as at the end of current period	=	Amount of impairment of the Performance Compensation Asset 2 of Dongfang Boiler as at the end of current period	–	Total compensation amount of Performance Compensation Asset 2 of Dongfang Boiler during the Performance Compensation Period
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*Compensation amount for impairment for Performance  
Compensation Asset 2 of Dongfang Heavy Machinery*

The amount of compensation of the Performance Compensation Asset 2 of Dongfang Heavy Machinery for impairment as at the end of current period	=	Amount of impairment of the Performance Compensation Asset 2 of Dongfang Heavy Machinery as at the end of current period	–	Total compensation amount of Performance Compensation Asset 2 of Dongfang Heavy Machinery during the Performance Compensation Period
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**Maximum  
amount of  
compensation:**

The parties agree that the maximum amount of corresponding compensation to be made by DEC Group to the Company under the Compensation Agreement shall not exceed the consideration for the each of the respective Performance Compensation Assets under the Proposed Assets Acquisition.

**Effectiveness  
of the  
Compensation  
Agreement:**

The effectiveness of the Compensation Agreement is conditional upon the fulfilment of the following conditions:

- (i) the Compensation Agreement having been duly executed by both parties; and
- (ii) the DEC Group Assets Acquisition Agreement having become effective.

As at the date of this announcement, the condition set out in paragraph (i) above has been fulfilled.

The Compensation Agreement shall be automatically and concurrently rescinded or terminated if the DEC Group Assets Acquisition Agreement is rescinded or terminated for any reason.

On the basis that (i) pursuant to Rule 14.61 of the Hong Kong Listing Rules, the calculation of the guaranteed net income amount of Performance Compensation Asset 1 based on the rental income under the existing tenancy agreements is exempt from being regarded as profit forecast, as the Performance Compensation Asset 1, which comprises investment properties, falls within the meaning of property interest as defined in Rule 5.01(3) of the Hong Kong Listing Rules; and (ii) the Directors are of the view that the calculation of the guaranteed revenue share amount of Performance Compensation Asset 2 does not constitute a profit forecast under Rule 14.61 of the Hong Kong Listing Rules as it is a forecast of solely revenue rather than profit, based on royalty rate method for the revenue to be derived from Performance Compensation Asset 2, the Company is not required to comply with Rules 14.62 and 14A.68(7) of the Hong Kong Listing Rules for the appraised values of the Performance Compensation Assets.

### **C. Basis of Determination of the Consideration and the Valuation**

#### ***Basis of determination of the Consideration and the Valuation***

The consideration of the Proposed Assets Acquisition is agreed to be RMB2,526.5126 million, which is determined based on arm's length negotiation with reference to the respective valuation of the Relevant Companies as at 31 December 2022. Pursuant to the Valuation Reports, the Valuation were concluded by adopting asset-based approach. As confirmed by the Valuer, the Valuation Reports were prepared in accordance with the applicable requirements and standards, including but not limited to Asset Evaluation Standards – Basic Standards\* 《資產評估準則－基本準則》 issued by the Ministry of Finance of the PRC.

The principal assumptions upon which the Valuation was based are set out below:

- (1) Transaction assumption: Assuming that all assets to be appraised are under transactions (which means that the Relevant Assets are assumed to be the subject of a transaction as at the base day of the valuation), the valuer evaluate them according to simulated markets such as the transaction conditions of the assets to be appraised.

- (2) Open market assumption: It is an assumption about the conditions of the market to be entered into and the impact received under such market conditions. The open market refers to the fully developed and improved market conditions, which is a competitive market with willing buyers and sellers. In this market, buyers and sellers enjoy the same position and have opportunities and time to obtain sufficient market information. Both buyers and sellers conduct transactions on conditions that are willing, rational, non-obligatory, or unrestricted.
- (3) Continuous use assumption: It is an assumption about the conditions of the market to be entered into and the asset status under such market conditions. First, the appraised assets are under use and second, the assets under use are assumed to be utilized continuously. Under the conditions of the continuous use assumption, the conversion of the use of assets or the optimal utilization conditions is not taken into consideration. Therefore, the use scope of the valuation is restricted.
- (4) The enterprise continuity assumption: It is an assumption of valuation made regarding the overall assets of the enterprise as the valuation object. That is, as the business entity, the Relevant Companies will continue to operate according to business goals under the external environment. The operators of the Relevant Companies are responsible for and capable of assuming responsibilities. In addition, with legitimate operations, the Relevant Companies can obtain appropriate profit to sustain continuing operations.

Pursuant to the Valuation Reports, asset-based approach was adopted to conduct the Valuation, due to the following reasons:

- (a) Despite both income approach and asset-based approach are applicable for the valuation of Dongfang Electric Machinery, Dongfang Turbine and Dongfang Boiler, given that the valuation results under income approach may be affected by the future profitability, asset quality, operating capability, and operation risks of these companies, the Valuer adopted the results under asset-based approach when concluding the valuation of these three companies; and

- (b) despite both market approach and asset-based approach are applicable for the valuation of Dongfang Heavy Machinery, given that Dongfang Heavy Machinery is principally engaged in the manufacturing of complete sets of nuclear power equipment, the development and prospects of entities with the nuclear power industry are greatly affected by the fiscal policies relating to the nuclear power industry, which is currently uncertain and the prevailing market condition may not truly reflect the value of the valuation target. As such, the Valuer adopted the results under asset-based approach when concluding the valuation of Dongfang Heavy Machinery.

Having considered (i) the aforesaid rationale of the Valuer in selecting asset-based approach over, where appropriate, income approach or market approach; (ii) that the Valuation Reports were prepared by the Valuer in accordance with the applicable requirements and standards; and (iii) that the Valuer had considered the generally accepted business enterprise valuation approaches before rejecting the use of, where appropriate, market approach or income approach, the Directors (including the independent non-executive Directors) are of the view that the adoption of asset-based approach for the Valuation is a fair and reasonable, and did not consider other approaches to assess the Valuation.

Pursuant to the Valuation Reports, by using the asset-based approach for the Valuation, the Valuer assessed the appraisal value of each accounting items in the balance sheets of the Relevant Companies. In addition to asset-based approach, revenue sharing method under income approach and market approach were also adopted in certain accounting items of the balance sheets of the Relevant Companies (such as certain long-term investments and patents of Relevant Companies).

The Directors have reviewed and enquired the Valuer's qualifications and experience in relation to the performance of the Valuation. The Directors believe, upon making reasonable enquiries, that the Valuer is a professional valuation company experienced in performing valuation. Based on the information provided by the Valuer (i.e. company brochure and previous experience) and after making reasonable enquires, the Directors are of the view that the Valuer possesses the necessary competence and independence in preparing the Valuation Reports.

In light of the above, the Company believes that the Valuation is an appropriate reference for determining the Consideration, and the Board is of the view that the Consideration is fair and reasonable and is in the interest of the Company and its Shareholders as a whole.

## **D. Information of the Relevant Companies**

### **1. Dongfang Turbine**

Dongfang Turbine is a company established under the laws of PRC with limited liability. Dongfang Turbine is mainly engaged in the research and development, design, manufacture and full life cycle services of coal-fired generation steam turbines, nuclear generation steam turbines, gas turbines, energy-saving and environmental-friendly generation industrial steam turbines, nuclear control rod drive mechanisms, and other turbine equipment, as well as other businesses such as power station renovation, complete sets of power station equipment, installation, maintenance and overhaul. In addition, it has the qualification and ability of general contracting of power projects, which is capable of providing users with small and medium-sized thermal power, waste power generation, biomass power generation, wind power generation, photovoltaic power generation and combined heat and power generation EPC general contracting as well as power generation system solutions such as power generation equipment intelligent diagnosis, comprehensive energy service and management.

As at the date of this announcement, Dongfang Turbine was owned as to approximately 91.30% by the Company and 8.70% by DEC Group.

Set out below is the audited financial information of Dongfang Turbine prepared in accordance with PRC accounting standards:

	<b>As at 31 December 2020</b>	<b>As at 31 December 2021</b>	<b>As at 31 December 2022</b>
	<i>(RMB'000)</i>		
Total asset	24,412,266.5	25,519,923.7	27,964,693.2
Net asset	<u>6,212,275.8</u>	<u>6,681,088.7</u>	<u>7,638,941.6</u>

	For the year ended 31 December 2020	For the year ended 31 December 2021 (RMB'000)	For the year ended 31 December 2022
Net profit/(loss) before taxation	309,973.6	492,460.7	785,902.4
Net profit/(loss) after taxation	<u>313,639.8</u>	<u>537,677.0</u>	<u>818,074.1</u>

The appraised value of 8.70% equity interests held by DEC Group in Dongfang Turbine as at 31 December 2022 set out in the Valuation Report on Dongfang Turbine was approximately RMB1,133.41 million.

## **2. Dongfang Boiler**

Dongfang Boiler is a company established under the laws of PRC with limited liability. It is mainly engaged in the design of thermal power generation equipment, nuclear power plant equipment, power plant auxiliary equipment, chemical vessels, coal gasification and other equipment, as well as the provision of energy saving and environmental protection, power plant renovation, hydrogen energy production, storage and transportation, solar photothermal power generation and other engineering services; has environmental engineering design, power engineering construction EPC and other qualifications and capabilities, can provide users with energy saving and environmental protection, hydrogen energy production, storage, transportation and utilisation, solar photothermal power generation EPC turnkey, waste gas treatment and waste heat utilisation technology integration, industrial waste gas ultra-low emissions, water treatment technology and zero waste water discharge, solid waste and hazardous waste treatment, medium and high temperature heat storage and energy supply technology and other system solutions.

As at the date of this announcement, Dongfang Boiler was owned as to approximately 95.35% by the Company, 4.55% by DEC Group and 0.09% by individual shareholders. To the best of the Directors' knowledge, information and belief having made all reasonable enquiries, the aforesaid individual shareholders are independent third parties.

Set out below is the audited financial information of Dongfang Boiler prepared in accordance with PRC accounting standards:

	<b>As at 31 December 2020</b>	<b>As at 31 December 2021</b>	<b>As at 31 December 2022</b>
	<i>(RMB'000)</i>		
Total asset	20,629,091.0	21,529,405.8	24,289,993.7
Net asset	<u>6,775,322.0</u>	<u>7,327,839.4</u>	<u>7,921,433.3</u>
	<b>For the year ended 31 December 2020</b>	<b>For the year ended 31 December 2021</b>	<b>For the year ended 31 December 2022</b>
	<i>(RMB'000)</i>		
Net profit/(loss) before taxation	311,449.8	744,163.3	863,431.1
Net profit/(loss) after taxation	<u>281,561.4</u>	<u>649,465.4</u>	<u>748,883.3</u>

The appraised value of 4.55% equity interests held by DEC Group in Dongfang Boiler as at 31 December 2022 set out in the Valuation Report on Dongfang Boiler was approximately RMB486.46 million.

### **3. Dongfang Electric Machinery**

Dongfang Electric Machinery is a company established under the laws of PRC with limited liability. Its principal business includes R&D, design, and manufacturing and service of hydraulic turbine generator sets, thermal generators (including coal-fired, gas-fired, nuclear energy), wind generators, AC (DC) motors, condensers, complete sets of energy-saving and environmental protection equipment, pumps, etc. as well as power station renovation, complete set, installation, maintenance, overhaul for power station equipment and other businesses. In addition, it has multiple qualifications and capabilities such as general contracting of power projects, general contracting of municipal public works construction, general contracting of environmental protection projects, general contracting of mechanical and electrical engineering construction, which is capable of providing users with small and medium-sized thermal power, waste power generation, biomass power generation, wind power generation, photovoltaic power generation and combined heat and power generation EPC general contracting, intelligent diagnosis of power generation equipment, solid waste



circular economy industrial park, water environment treatment project, comprehensive energy service and management and other systems solution.

As at the date of this announcement, Dongfang Electric Machinery was owned as to approximately 91.86% by the Company and 8.14% by DEC Group.

Set out below is the audited financial information of Dongfang Electric Machinery prepared in accordance with PRC accounting standards:

	<b>As at 31 December 2020</b>	<b>As at 31 December 2021</b>	<b>As at 31 December 2022</b>
	<i>(RMB'000)</i>		
Total asset	17,880,547.3	19,461,430.2	21,193,355.3
Net asset	<u>5,915,208.6</u>	<u>6,142,631.7</u>	<u>6,604,402.2</u>
	<b>For the year ended 31 December 2020</b>	<b>For the year ended 31 December 2021</b>	<b>For the year ended 31 December 2022</b>
	<i>(RMB'000)</i>		
Net profit/(loss) before taxation	403,278.4	453,936.6	708,626.5
Net profit/(loss) after taxation	<u>396,493.7</u>	<u>420,527.1</u>	<u>659,296.2</u>

The appraised value of 8.14% equity interests held by DEC Group in Dongfang Electric Machinery as at 31 December 2022 set out in the Valuation Report on Dongfang Electric Machinery was approximately RMB735.42 million.

#### **4. Dongfang Heavy Machinery**

Dongfang Heavy Machinery is a company established under the laws of PRC with limited liability. Its principal business includes 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, Dongfang Heavy Machinery was owned as to approximately 48.17% by the Company, 25.48% by Guangdong Energy Group Co., Ltd.,\* 13.34% by Dongfang Boiler, 5.63% by DEC Group, 3.25% by Guangzhou Nansha Gonghua Investment Co., Ltd.,\* 2.95% by Guangzhou Guangzhong Group Co., Ltd.,\* and 1.18% by China Second Heavy Machinery Corporation\*. To the best of the Directors' knowledge, information and belief having made all reasonable enquiries, each of Guangdong Energy Group Co., Ltd., Guangzhou Nansha Gonghua Investment Co., Ltd., Guangzhou Guangzhong Group Co., Ltd., and China Second Heavy Machinery Corporation are independent third parties.

Set out below is the audited financial information of Dongfang Heavy Machinery prepared in accordance with PRC accounting standards:

	<b>As at 31 December 2020</b>	<b>As at 31 December 2021</b>	<b>As at 31 December 2022</b>
		<i>(RMB'000)</i>	
Total asset	3,599,698.0	3,430,514.1	3,963,649.6
Net asset	<u>1,637,391.3</u>	<u>1,654,879.6</u>	<u>1,664,941.5</u>
	<b>For the year ended 31 December 2020</b>	<b>For the year ended 31 December 2021</b>	<b>For the year ended 31 December 2022</b>
		<i>(RMB'000)</i>	
Net profit/(loss) before taxation	(227,865.2)	19,092.0	23,340.3
Net profit/(loss) after taxation	<u>(203,241.9)</u>	<u>17,488.3</u>	<u>18,806.1</u>

The appraised value of 5.63% equity interests held by DEC Group in Dongfang Heavy Machinery as at 31 December 2022 set out in the Valuation Report on Dongfang Heavy Machinery was approximately RMB171.23 million.

## **E. Information of the Parties to the DEC Group Assets Acquisition Agreement**

### ***Information of the Company***

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

### ***Information of DEC Group***

DEC Group is a wholly state-owned company established in the PRC with limited liability in 1984. Its total registered and paid-up capital was RMB5,046.9602 million. As at the date of this announcement, DEC Group directly and indirectly held approximately 55.44% of the total issued share capital of the Company, and is the controlling shareholder of the Company. DEC Group is principally 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 technology consultation; manufacturing and sales of complete equipment; sales of machinery and electronic ancillary equipment; general contracting and subcontracting of related projects; rental of properties. According to the audited consolidated financial statements of DEC Group for the year ended 31 December 2022 prepared in accordance with the PRC accounting standard, its total asset value, net asset value, principle operating revenue and profits were approximately RMB105,962.79 million, RMB38,494.70 million, RMB49,264.39 million and RMB2,862.22 million, respectively.

## **F. Reasons for and Benefits of the Proposed Assets Acquisition**

Upon completion of the Proposed Assets Acquisition, Dongfang Turbine and Dongfang Electric Machinery will become the wholly-owned subsidiaries of the Company, and the Company will directly hold 99.91% and 53.80% equity interests in Dongfang Boiler and Dongfang Heavy Machinery, respectively. As such, considering the ongoing steady business development and financial performance of the Relevant Companies, the Proposed Assets Acquisition is expected to enhance the Company's capability to integrate resources with the Company's further increase of its equity interest in the Relevant Companies which will then contribute further to the net profit attributable to shareholders of the Company. In addition, upon completion of the Proposed Assets Acquisition, the minority equity interest in the Relevant Companies directly held by the DEC Group prior to the completion of the Proposed Assets Acquisition will be further consolidated and become directly held by the Company, thus allowing the Company to improve its management of the Relevant Companies in terms of the general operation and decision-making efficiency. Based on the aforementioned reasons, the Proposed Assets Acquisition is expected to render the Relevant Companies to play a better role in the Company's overall strategy, which are considered to be favourable to both the Company and its Shareholders in the long run. The Directors considered that the Proposed Assets Acquisition aligns with the Group's overall strategy and shall be implemented by using part of the proceeds from the Issuance of A Shares to Specific Targets on the basis that (i) the Issuance of A Shares to Specific Targets will strengthen the capital capability of the Group and resolve the capital shortage of the Company required for the investment in the Group's construction projects for the implementation of the Group's strategic business plan on one hand and (ii) the Proposed Assets Acquisition is expected to increase the net profit attributable to the shareholders of the Company and strengthen the Company's control of the Relevant Companies on the other hand, which in turn support the Company's sustainable growth and strategic business development in the long term.

Based on the above, the Directors (including the Independent Non-executive Directors) are of the view that (i) the terms of the DEC Group Assets Acquisition Agreement, the Compensation Agreement and the Proposed Assets Acquisition contemplated thereunder, including the Consideration, are fair and reasonable and on normal commercial terms, and (ii) whilst the Proposed Assets Acquisition is not in the ordinary and usual course of business of the Company, it is in the interests of the Company and its Shareholders as a whole.

All the executive Directors, namely Mr. Yu Peigen, Mr. Zhang Yanjun, Mr. Liu Zhiquan, Mr. Zhang Jilie and Mr. Song Zhiyuan, have direct or indirect material interest in DEC Group Assets Acquisition Agreement and the Proposed Assets Acquisition contemplated thereunder, and therefore all the executive Directors have abstained from voting on the board resolutions in relation to the DEC Group Assets Acquisition Agreement and the Proposed Assets Acquisition contemplated thereunder.

**G. Implications under the Hong Kong Listing Rules**

As one or more of the applicable percentage ratios (as defined in Rule 14.07 of the Hong Kong Listing Rules) in respect of the Proposed Assets Acquisition exceeds 5% but are all less than 25%, the Proposed Assets Acquisition constitutes a discloseable transaction for the Company under the Hong Kong Listing Rules and is subject to the reporting and announcement requirements under Chapter 14 of the Hong Kong Listing Rules.

As at the date of this announcement, DEC Group holds approximately 55.44% of the total issued share capital of the Company and is, therefore, a connected person of the Company within the meaning of the Hong Kong Listing Rules. As such, the Proposed Assets Acquisition also constitutes connected transaction of the Company under Chapter 14A of the Hong Kong Listing Rules and is subject to the reporting, announcement and Independent Shareholders' approval requirements under Chapter 14A of the Hong Kong Listing Rules.

Hence, DEC Group, its associates and Associated Shareholders will abstain from voting on the resolutions in respect of the Proposed Assets Acquisition at the EGM.

## **V. PROPOSED CONSEQUENTIAL AMENDMENTS TO THE ARTICLES OF ASSOCIATION**

The existing registered capital of the Company is set out in the Articles of Association. Upon issue of Shares pursuant to the General Mandate, including the completion of the Issuance of A Shares to Specific Targets and the Proposed DEC Group Subscription, the number of Shares in issue, the registered capital and the capital structure of the Company will change. Under the Company Law of the PRC and the Articles of Association, any increase in the registered capital and any material changes to the Articles of Association are subject to the approval of the Shareholders.

The Board will seek the Shareholders' authorisation at the EGM to authorise the Board or its authorised representative(s) to make necessary consequential amendments to the Articles of Association to the registered capital and capital structure of the Company subsequent to completion of the issue of Shares under the General Mandate (including the completion of the Issuance of A Shares to Specific Targets under the General Mandate) and deal with the relevant registration and filing procedures with the relevant authorities and other matters in relation to the implementation of the Shareholders' and the Board's resolutions during their validity period relating to each of the proposals.

## **VI. INDEPENDENT FINANCIAL ADVISER AND INDEPENDENT BOARD COMMITTEE**

The Company has appointed Gram Capital as the independent financial adviser to make recommendations to the Independent Board Committee and the Independent Shareholders as to whether (i) the terms of the DEC Group Subscription Agreement and the Proposed DEC Group Subscription contemplated thereunder; and (ii) the terms of the DEC Group Assets Acquisition Agreement and the Proposed Assets Acquisition contemplated thereunder are fair and reasonable, on normal commercial terms and in the interests of the Company and the Shareholders as a whole.

The Independent Board Committee, comprising Mr. Liu Dengqing, Mr. Huang Feng and Mr. Ma Yongqiang, being all the independent non-executive Directors, has been established to advise the Independent Shareholders as to whether (i) the terms of the DEC Group Subscription Agreement and the Proposed DEC Group Subscription contemplated thereunder; and (ii) the terms of the DEC Group Assets Acquisition Agreement and the Proposed Assets Acquisition contemplated thereunder are fair and reasonable, on normal commercial terms and in the interests of the Company and the Shareholders as a whole, after taking into account the recommendations of Gram Capital.

## VII. GENERAL

It was proposed that, among others, (i) the General Mandate to issue Shares; (ii) the Issuance of A Shares to Specific Targets under the General Mandate; (iii) the DEC Group Subscription Agreement and the Proposed DEC Group Subscription contemplated thereunder; (iv) the DEC Group Assets Acquisition Agreement and the Proposed Assets Acquisition contemplated thereunder; and (v) the proposed consequential amendments to the Articles of Association shall be considered and, if thought fit, approved at the EGM.

As at the date of this announcement, DEC Group holds approximately 55.44% of the total issued share capital of the Company and is, therefore, a connected person of the Company within the meaning of the Hong Kong Listing Rules. Hence, the Proposed DEC Group Subscription, which forms part of the Issuance of A Shares to Specific Targets under the General Mandate, and the Proposed Assets Acquisition contemplated under the DEC Group Assets Acquisition Agreement constitute connected transactions of the Company under Chapter 14A of the Hong Kong Listing Rules. Hence, DEC Group, its associates and Associated Shareholders will abstain from voting on the resolutions in respect of the Issuance of A Shares to Specific Targets under the General Mandate, the Proposed DEC Group Subscription, and the Proposed Assets Acquisition at the EGM.

A circular containing, inter alia, further information in relation to (i) the General Mandate; (ii) the Issuance of A Shares to Specific Targets; (iii) the proposed subscription of new A Shares by DEC Group; (iv) the proposed acquisition of assets from DEC Group; and (v) the proposed consequential amendments to the Articles of Association will be despatched to the Shareholders as soon as practicable.

**Please note that the Issuance of A Shares to Specific Targets shall be subject to satisfaction of a number of conditions which are more particularly set out above. There is no assurance that the Issuance of A Shares to Specific Targets will proceed. Investors are advised to exercise caution when dealing in the H Shares or other securities of the Company. The Company will make timely disclosure on any matters in relation to further details of the Issuance of A Shares to Specific Targets as and when appropriate.**



## VIII. DEFINITIONS

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

“A Share(s)”	the domestic ordinary shares of the Company with a nominal value of RMB1.00 each, which are subscribed for and/or credited as fully paid up in RMB by the PRC nationals and/or the PRC corporate entities and listed and traded on the Shanghai Stock Exchange
“A Shareholder(s)”	holder(s) of A Share(s)
“Articles of Association”	the current articles of association of the Company
“associate(s)”	has the meaning ascribed to it under the Hong Kong Listing Rules
“Associated Shareholders”	in relation to DEC Group, Shareholders who are considered to be in association with it under the Shanghai Listing Rules
“Benchmark Price”	has the meaning ascribed thereto in the section headed “III. Proposed Issuance of A Shares to Specific Targets – A. Issuance of A Shares to Specific Targets under the General Mandate – 6. Issue price and principles of pricing” in this announcement
“Board”	the board of Directors
“China” or “PRC”	the People’s Republic of China which for the purposes of this announcement excludes Hong Kong, the Macao Special Administrative Region and Taiwan
“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 and A Shares are listed on the Main Board of the Stock Exchange and the Shanghai Stock Exchange, respectively

“Compensation Agreement”	the profit forecast compensation agreement dated 4 April 2023 entered into between the Company and DEC Group in relation to the performance guarantees and related compensation provided by DEC Group in respect of the Performance Compensation Assets
“connected person”	has the meaning ascribed thereto under the Hong Kong Listing Rules
“CSRC”	the China Securities Regulatory Commission
“DEC Group”	Dongfang Electric Corporation (中國東方電氣集團有限公司), a limited liability company (wholly state-owned) established in the PRC and is the controlling shareholder of the Company
“DEC Group Assets Acquisition Agreement”	the conditional assets acquisition agreement dated 4 April 2023 and entered into between the Company and DEC Group in relation to the Proposed Assets Acquisition
“DEC Group Subscription Agreement”	the conditional share subscription agreement dated 4 April 2023 and entered into between the Company and DEC Group in relation to the Proposed DEC Group Subscription
“Director(s)”	the director(s) of the Company
“Dongfang Boiler”	Dongfang Boiler Co., Ltd. (東方電氣集團東方鍋爐股份有限公司), one of the subsidiaries of the Company
“Dongfang Electric Machinery”	Dongfang Electric Machinery Co., Ltd. (東方電氣集團東方電機有限公司), one of the subsidiaries of the Company
“Dongfang Heavy Machinery”	Dongfang (Guangzhou) Heavy Machinery Co., Ltd. (東方電氣(廣州)重型機器有限公司), one of the subsidiaries of the Company
“Dongfang Turbine”	Dongfang Turbine Co., Ltd. (東方電氣集團東方汽輪機有限公司), one of the subsidiaries of the Company

“EGM”	the 2023 third 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 on Thursday, 20 April 2023 at 09:00 a.m.
“General Mandate”	the unconditional general mandate to issue additional A Shares and/or H Shares to be granted to the Board at the EGM, details of which are set out in the section headed “II. General Mandate to issue Shares” in this announcement
“Group”	the Company and its subsidiaries
“H Share(s)”	foreign-invested 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
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Hong Kong Listing Rules”	the Rules Governing the Listing of Securities on the Hong Kong Stock Exchange
“Hong Kong Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Independent Board Committee”	an independent committee of the Board comprising Mr. Liu Dengqing, Mr. Huang Feng and Mr. Ma Yongqiang who are independent non-executive Directors
“Independent Financial Adviser” or “Gram Capital”	Gram Capital Limited, a licensed corporation to carry out Type 6 (advising on corporate finance) regulated activity under the SFO, being the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders in respect of the Proposed DEC Group Subscription and the Proposed Assets Acquisition
“Independent Shareholders”	Shareholders other than DEC Group, its associates, and the Associated Shareholders

“Issuance of A Shares to Specific Targets”	the proposed issuance of A Shares to Specific Targets by the Company of not more than 272,878,203 A Shares to not more than 35 Specific Investors, details of which are set out in the section headed “III. Proposed Issuance of A Shares to Specific Targets” in this announcement
“Performance Compensation Assets”	(i) certain investment properties of Dongfang Electric Machinery and Dongfang Turbine and (ii) certain intangible assets of Dongfang Electric Machinery, Dongfang Turbine, Dongfang Boiler and Dongfang Heavy Machinery for which DEC Group undertakes to provide performance guarantees and related compensation under the Compensation Agreement
“Performance Compensation Period”	three financial years commencing from the year in which completion of the Proposed Assets Acquisition takes place, being (i) 2023, 2024 and 2025 if the Proposed Assets Acquisition to be completed on or before 31 December 2023; and (ii) 2024, 2025 and 2026 if the Proposed Assets Acquisition to be completed after 31 December 2023
“Pricing Benchmark Date”	has the meaning ascribed thereto in the section headed “III. Proposed Issuance of A Shares to Specific Targets – A. Issuance of A Shares to Specific Targets under the General Mandate – 6. Issue price and principles of pricing” in this announcement
“Proposed Assets Acquisition”	the proposed acquisition of the Relevant Assets from DEC Group pursuant to the terms of the DEC Group Assets Acquisition Agreement
“Proposed DEC Group Subscription”	the proposed subscription of new A Shares by DEC Group as part of the Issuance of A Shares to Specific Targets and pursuant to the terms of the DEC Group Subscription Agreement
“Relevant Assets”	has the meaning ascribed thereto in the section headed “IV. Discloseable and connected transaction: Proposed acquisition of assets from DEC Group” in this announcement

“Relevant Companies”	collectively, Dongfang Boiler, Dongfang Electric Machinery, Dongfang Heavy Machinery and Dongfang Turbine
“RMB”	Renminbi, the lawful currency of the PRC
“SFO”	Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
“Share(s)”	the ordinary shares of the Company, including A Shares and H Shares
“Shanghai Listing Rules”	上海證券交易所股票上市規則(the Listing Rules of the Shanghai Stock Exchange)
“Shanghai Stock Exchange”	上海證券交易所(Shanghai Stock Exchange)
“Shareholder(s)”	holder(s) of the Shares
“Specific Investor(s)” or “Specific Target(s)”	the subscriber(s) of the Issuance of A Shares to Specific Targets
“Valuation Report(s)”	the valuation reports in respect of each of the Relevant Companies issued by Pan-China Assets Appraisal Co., Ltd, and each a Valuation Report
“Valuation Report on Dongfang Boiler”	the report on the valuation of Dongfang Boiler dated 30 March 2023 conducted by Pan-China Assets Appraisal Co., Ltd
“Valuation Report on Dongfang Electric Machinery”	the report on the valuation of Dongfang Electric Machinery dated 30 March 2023 conducted by Pan-China Assets Appraisal Co., Ltd
“Valuation Report on Dongfang Heavy Machinery”	the report on the valuation of Dongfang Heavy Machinery dated 30 March 2023 conducted by Pan-China Assets Appraisal Co., Ltd
“Valuation Report on Dongfang Turbine”	the report on the valuation of Dongfang Turbine dated 30 March 2023 conducted by Pan-China Assets Appraisal Co., Ltd

“Valuer”

Pan-China Assets Appraisal Co., Ltd (北京天健興業資產評估有限公司), a qualified asset appraisal agency in the PRC

“%”

per cent

By order of the Board of Directors  
**Dongfang Electric Corporation Limited**  
**Yu Peigen**  
*Chairman*

Chengdu, Sichuan Province, the PRC  
4 April 2023

*As at the date of this notice, the executive Directors of the Company are Mr. Yu Peigen, Mr. Zhang Yanjun, Mr. Liu Zhiquan, Mr. Zhang Jilie and Mr. Song Zhiyuan; and the independent non-executive Directors of the Company are Mr. Liu Dengqing, Mr. Huang Feng and Mr. Ma Yongqiang.*