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

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

(Stock Code: 1072)

- (1) REPURCHASE AND CANCELLATION OF CERTAIN RESTRICTED SHARES;**
- (2) CONTINUING CONNECTED TRANSACTIONS-
RENEWAL OF DEC FRAMEWORK AGREEMENTS AND
ENTERING INTO NEW FINANCE LEASE FRAMEWORK AGREEMENT;**
- (3) NOTICE OF THE 2024 THIRD EXTRAORDINARY GENERAL MEETING; AND**
- (4) NOTICE OF THE 2024 SECOND H SHARES CLASS MEETING**

**Independent Financial Adviser to
the Independent Board Committee and the Independent Shareholders**



A letter from the Board is set out on pages 1 to 47 of this circular.

A letter from the Independent Board Committee is set out on pages 48 to 49 of this circular.

A letter from SFCap, the independent financial adviser, containing its advice to the Independent Board Committee and the Independent Shareholders is set out on pages 50 to 79 of this circular.

The EGM and H Shares Class Meeting of the Company will 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 Friday, 27 December 2024 at 9:00 a.m., notices of which are set out on pages EGM-1 to EGM-4 and pages HCM-1 to HCM-3 of this circular.

The proxy form and reply slip for use in connection with the EGM and the H Shares Class Meeting are enclosed herewith. The proxy form and reply slip are also published on the website of The Stock Exchange of Hong Kong Limited (www.hkexnews.hk) and the Company's website (<http://dfem.wsfq.hk/>).

Any Shareholder entitled to attend and vote at the EGM and the H Shares Class Meeting is entitled to appoint one or more proxies to attend and vote on his/her/its behalf. A proxy needs not be a Shareholder of the Company. If you intend to appoint a proxy to attend the EGM and the H Shares Class Meeting and vote on your behalf, you are requested to complete the accompanying proxy form in accordance with the instructions printed thereon and return it by hand, by post or by facsimile to the Company's H share registrar, Computershare Hong Kong Investor Services Limited at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong (for H Shareholders only) as soon as possible and in any event not later than 24 hours before the time appointed for the holding of the EGM (i.e. before 9:00 a.m. on Thursday, 26 December 2024). Completion and return of the proxy form will not preclude you from attending and voting at the EGM and the H Shares Class Meeting or any adjournment thereof should you so wish.

12 December 2024

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DEFINITIONS

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

“2022 Combined Ancillary Services Framework Agreement”	the combined ancillary services framework agreement dated 8 December 2021 entered into by the Company and DEC
“2022 DEC Framework Agreements”	the 2022 Purchase and Production Services Framework Agreement, the 2022 Sales and Production Services Framework Agreement, the 2022 Properties and Equipment Lease Lessor Framework Agreement, the 2022 Properties and Equipment Lease Lessee Framework Agreement, the 2022 Combined Ancillary Services Framework Agreement and the 2022 Financial Services Framework Agreement
“2022 Finance Lease Framework Agreement”	the Finance Lease Framework Agreement dated 30 September 2022 entered into by the Company and Honghua Group
“2022 Financial Services Framework Agreement”	the financial services framework agreement dated 8 December 2021 entered into by DEC Finance and DEC
“2022 Properties and Equipment Lease Lessee Framework Agreement”	the properties and equipment lease lessee framework agreement dated 8 December 2021 entered into by the Company and DEC
“2022 Properties and Equipment Lease Lessor Framework Agreement”	the properties and equipment lease lessor framework agreement dated 8 December 2021 entered into by the Company and DEC
“2022 Purchase and Production Services Framework Agreement”	the purchase and production services framework agreement dated 8 December 2021 entered into by the Company and DEC
“2022 Sales and Production Services Framework Agreement”	the sales and production services framework agreement dated 8 December 2021 entered into by the Company and DEC
“2025 Combined Ancillary Services Framework Agreement”	the conditional combined ancillary services framework agreement approved by the Board on 30 October 2024 and to be entered into between the Company and DEC in relation to the provision of ancillary services by DEC Group to the Group

DEFINITIONS

“2025 DEC Framework Agreements”	the 2025 Purchase and Production Services Framework Agreement, the 2025 Financial Services Framework Agreement, the 2025 Sales and Production Services Framework Agreement, the 2025 Properties and Equipment Lease Lessee Framework Agreement, the 2025 Properties and Equipment Lease Lessor Framework Agreement and the 2025 Combined Ancillary Services Framework Agreement
“2025 Financial Services Framework Agreement”	the conditional financial services framework agreement approved by the Board on 30 October 2024 and to be entered into between DEC and DEC Finance in relation to the provision of financial services by DEC Finance to DEC Group
“2025 Properties and Equipment Lease Lessee Framework Agreement”	the conditional properties and equipment lease lessee framework agreement approved by the Board on 30 October 2024 and to be entered into between the Company and DEC in relation to the lease of properties, production facilities and equipment by DEC Group to the Group
“2025 Properties and Equipment Lease Lessor Framework Agreement”	the conditional properties and equipment lease lessor framework agreement approved by the Board on 30 October 2024 to be entered into between the Company and DEC in relation to the lease of properties, production facilities and equipment by the Group to DEC Group
“2025 Purchase and Production Services Framework Agreement”	the conditional purchase and production services framework agreement approved by the Board on 30 October 2024 and to be entered into between the Company and DEC in relation to the supply of products and provision of production services by DEC Group to the Group
“2025 Sales and Production Services Framework Agreement”	the conditional sales and production services framework agreement approved by the Board on 30 October 2024 and to be entered into between the Company and DEC in relation to the supply of products and provision of production services by the Group to DEC Group
“A Shares”	the domestic shares of the Company with a nominal value of RMB1.00 each, which are listed on the Shanghai Stock Exchange and traded in RMB

DEFINITIONS

“associate(s)”	has the meaning ascribed thereto under the Hong Kong Listing Rules
“Board”	the board of Directors of the Company
“Company”	東方電氣股份有限公司(Dongfang Electric Corporation Limited), a joint stock limited company incorporated in the PRC with limited liability whose H Shares are listed on the Main Board of the Stock Exchange and A Shares are listed on the Shanghai Stock Exchange
“connected person(s)”	has the meaning ascribed thereto under the Hong Kong Listing Rules
“controlling shareholder”	has the meaning ascribed thereto under the Hong Kong Listing Rules
“DEC”	中國東方電氣集團有限公司(Dongfang Electric Corporation), a wholly state-owned company established in the PRC with limited liability and the controlling shareholder of the Company
“DEC Finance”	東方電氣集團財務有限公司(Dongfang Electric Finance Co., Ltd.), a non-bank finance company with limited liability established under the PRC law and a subsidiary of the Company
“DEC Group”	DEC and its associates (excluding members of the Group)
“Director(s)”	director(s) of the Company
“EGM”	the 2024 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 Friday, 27 December 2024 at 9:00 a.m., the notice of which is contained in this circular

DEFINITIONS

“Group”	the Company and its subsidiaries
“H Share(s)”	overseas listed foreign shares of the Company with a nominal value of RMB1.00 each, which are listed on the Main Board of the Stock Exchange and traded in Hong Kong dollars
“Hong Kong”	The Hong Kong Special Administrative Region of the PRC
“Hong Kong Listing Rules”	Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited
“Honghua Financial Leasing”	Honghua Financial Leasing (Shanghai) Co., Ltd., a company incorporated in the PRC, and is an indirect wholly-owned subsidiary of DEC
“Honghua Group”	Honghua Group Limited, a company incorporated in the Cayman Islands with limited liability, the shares of which are listed on the Main Board of the Stock Exchange (Stock Code: 196). DEC directly and indirectly holds 58.52% of the issued shares of Honghua Group
“Independent Board Committee”	an independent committee of the Board comprising Mr. Huang Feng, Mr. Zeng Daorong and Ms. Chen Yu who are independent non-executive Directors
“Independent Financial Adviser” or “SFCap”	Sunny Fortune Capital Limited, a corporation licensed under the SFO and permitted to carry out Type 1 (dealing in securities), Type 4 (advising on securities) and Type 6 (advising on corporate finance) regulated activities under the SFO, being the independent financial adviser appointed by the Company for the purpose of advising the Independent Board Committee and the Independent Shareholders in respect of the 2025 Sales and Production Services Framework Agreement and the 2025 Financial Services Framework Agreement in relation to loan services to be provided by DEC Finance to DEC Group pursuant thereto, and the transactions contemplated thereunder (including the proposed annual caps)

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“Independent Shareholders”	the Shareholders who are not required to abstain from voting at the extraordinary general meeting of the Company or any adjourned meeting thereof for the relevant resolution in respect of the transactions contemplated under the 2025 DEC Framework Agreements and its proposed annual caps and the transactions contemplated under the New Finance Lease Framework Agreement and its proposed annual caps
“Latest Practicable Date”	9 December 2024, being the latest practicable date prior to the printing of this circular for ascertaining certain information contained herein
“New Finance Lease Framework Agreement”	the finance lease framework agreement approved by the Board on 30 October 2024 and to be entered into by the Company and Honghua Financial Leasing
“NFRA”	National Financial Regulatory Administration (國家金融監督管理總局)
“PBOC”	中國人民銀行(The People’s Bank of China)
“PRC”	the People’s Republic of China which, for the purpose of this circular, excludes Hong Kong, the Macau Special Administrative Region and Taiwan
“RMB”	Renminbi, the lawful currency of the PRC
“Shanghai Listing Rules”	上海證券交易所股票上市規則(the Rules Governing the Listing of Stocks on the Shanghai Stock Exchange)
“Shanghai Stock Exchange”	上海證券交易所(Shanghai Stock Exchange)
“Share(s)”	the shares of the Company, including A Shares and H Shares
“Shareholder(s)”	holder(s) of Shares
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“%”	per cent

DEFINITIONS

“A Shares Class Meeting”	the 2024 second A shares class meeting of the Company to be convened on Friday, 27 December 2024 (or any adjournment thereof)
“Administrative Measures”	the Administrative Measures on Share Incentives of Listed Companies (《上市公司股權激勵管理辦法》)
“Trial Measures”	the Trial Measures on Implementation of Share Incentive Schemes by State-Owned Listed Companies (Domestic) (Guo Zi Fa Fen Pei [2006] No. 175) (《國有控股上市公司(境內)實施股權激勵試行辦法》(國資發分配[2006]175號))
“Notice”	the Notice on Issues concerning Regulating the Implementation of the Share Incentive Schemes by State-Owned Listed Companies (Guo Zi Fa Fen Pei [2008] No. 171) (《關於規範國有控股上市公司實施股權激勵制度有關問題的通知》(國資發分配[2008]171號))
“H Shares Class Meeting”	the 2024 second H shares class meeting of the Company to be convened on Friday, 27 December 2024 (or any adjournment thereof)
“Incentive Scheme” or “Scheme”	Restricted A Share Incentive Scheme for 2019 of the Company
“Participant(s)”	the Directors, senior management personnel, middle management personnel and Frontline leaders of the Company (including its subsidiaries and branches) to be granted the Restricted Shares under the Scheme
“Repurchase and Cancellation of Certain Restricted Shares” or “Repurchase and Cancellation”	the Board proposes to repurchase and cancel all the Restricted Shares that have been granted to 1 Participant yet still locked, i.e., totalling 17,334 A Shares, in accordance with the provisions of the Scheme and relevant laws and regulations
“Restricted Shares”	the number of A Shares of the Company granted to the Participants according to the conditions and price stipulated under the Scheme which are subject to the lock-up period and can only be unlocked and transferred after being satisfactory with the unlock conditions stipulated under the Scheme
“Company Law”	the Company Law of the PRC
“Supervisor(s)”	supervisor(s) of the Company
“Supervisory Committee”	supervisory committee of the Company

LETTER FROM THE BOARD



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

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

(Stock Code: 1072)

Directors:

Mr. Yu Peigen (*Chairman*)
Mr. Zhang Yanjun
Mr. Song Zhiyuan
Mr. Sun Guojun

Registered office:

No. 18 Xixin Road
High-Tech District (Western District)
Chengdu City
Sichuan Province, the PRC

Independent Non-executive Directors:

Mr. Huang Feng
Mr. Zeng Daorong
Ms. Chen Yu

Principal place of business in Hong Kong:

5/F, Manulife Place
348 Kwun Tong Road
Kowloon, Hong Kong

12 December 2024

To the Shareholders

Dear Sir or Madam,

**(1) REPURCHASE AND CANCELLATION OF
CERTAIN RESTRICTED SHARES;
(2) CONTINUING CONNECTED TRANSACTIONS –
RENEWAL OF DEC FRAMEWORK AGREEMENTS AND
ENTERING INTO NEW FINANCE LEASE FRAMEWORK AGREEMENT;
(3) NOTICE OF THE 2024 THIRD EXTRAORDINARY GENERAL MEETING;
AND
(4) NOTICE OF THE 2024 SECOND H SHARES CLASS MEETING**

I. INTRODUCTION

The purpose of this circular is to provide you with information regarding (i) Repurchase and Cancellation of Certain Restricted Shares; (ii) renewal of DEC Framework Agreements and entering into the New Finance Lease Framework Agreement; (iii) notice of the EGM; and (vi) notice of the H Shares Class Meeting.

LETTER FROM THE BOARD

II. REPURCHASE AND CANCELLATION OF CERTAIN RESTRICTED SHARES

References are made to the announcements of the Company dated 30 October 2024 and 18 November 2024 respectively in relation to the Repurchase and Cancellation of Certain Restricted Shares.

1. Reasons for the Repurchase and the Number of Shares to be Repurchased

Pursuant to the Restricted A Share Incentive Scheme for 2019 (Amended Draft) (the “**Incentive Scheme (Amended Draft)**”), Incentive Scheme and the requirements of relevant laws and regulations, one Participant under the Reserved Grant has been transferred from the Company due to organizational arrangements and is no longer qualified as Participant, and the Board has considered and decided to repurchase and cancel all the Restricted Shares (17,334 A shares in total) that have been granted to the aforesaid Participant yet still locked up.

2. Repurchase Price

In accordance with the provisions of the Incentive Scheme (Amended Draft), “When a Participant is transferred from the Company and ceases to take office in the Company due to organizational arrangements and a Participant is dismissed by the Company due to reasons other than incompetence to the position, disqualification in performance appraisal, negligence, violation of laws, non-compliance, etc., the Restricted Shares held by such Participant that are still locked up shall be repurchased by the Company at the Grant Price plus the interests as calculated at the benchmark interest rate for deposits of the same period published by the People’s Bank of China when conducting the repurchase and cancellation”. The repurchase price of Restricted Shares under the Reserved Grant for one Participant who was transferred from the Company due to organizational arrangement was RMB5.32 per share plus the sum of interest on bank deposits for the same period.

LETTER FROM THE BOARD

3. Total Amount and Source of Funds for the Repurchase

The amount of the repurchase price payable by the Company for the Repurchase and Cancellation is approximately RMB98,000, all of which are from the Company's self-owned funds.

4. Changes in Capital Structure upon the Repurchase and Cancellation

Upon completion of the Repurchase and Cancellation, the total number of Shares of the Company will be changed from 3,117,499,457 Shares to 3,117,482,123 Shares.

The changes in the capital structure of the Company are as follows:

Class of Shares	Before the Change		The Change (+/-)	After the Change	
	Number of Shares	Proportion		Number of Shares	Proportion
Shares subject to selling restrictions	754,195,398	24.19%	-17,334	754,178,064	24.19%
Shares not subject to selling restrictions	<u>2,363,304,059</u>	<u>75.81%</u>	<u>0</u>	<u>2,363,304,059</u>	<u>75.81%</u>
Total Shares	<u>3,117,499,457</u>	<u>100%</u>	<u>-17,334</u>	<u>3,117,482,123</u>	<u>100%</u>

Upon completion of the Repurchase and Cancellation, there will be no changes in the controlling shareholder or de facto controller of the Company, and the shareholding structure of the Company will remain eligible for listing. Meanwhile, the Incentive Scheme will continue to be implemented pursuant to the requirements of the regulations.

5. Effects of the Repurchase and Cancellation on the Company

The Repurchase and Cancellation will not have material effects on the Company's financial position and operating results, nor will it affect the due diligence of the management team of the Company, who will continue to perform their duties earnestly and create value for Shareholders.

6. Opinion of Independent Directors

Pursuant to the Incentive Scheme (Amended Draft) and the requirements of relevant laws and regulations, one Participant under the Reserved Grant is no longer qualified as the Participant due to the organizational arrangement of being transferred from the Company. The Board has considered and decided to repurchase and cancel the Restricted Shares totalling 17,334 A Shares that have been granted to the aforesaid one Participant yet still locked up.

LETTER FROM THE BOARD

The Repurchase and Cancellation of Certain Restricted Shares are in accordance with relevant requirements of the Administrative Measures and the Incentive Scheme (Amended Draft), and the procedures are legal and compliant. The Repurchase and Cancellation of Certain Restricted Shares will affect neither the continuing implementation of the Incentive Scheme (Amended Draft) nor the going concern status of the Company, nor will it prejudice the interests of the Company and the Shareholders.

7. Opinions of the Supervisory Committee

The Supervisory Committee is of the view that the Repurchase and Cancellation of Certain Restricted Shares of one Participant involved in are in accordance with the Administrative Measures and other laws and regulations as well as the relevant requirements of the Incentive Scheme (Amended Draft), and in line with the interests of all Shareholders and Participants of the Company. The review procedures of the Board for the Repurchase and Cancellation of the Restricted Shares are in accordance with the relevant regulations and are legal and effective. The funds for the share repurchase of the Company are its own funds, which will not have a substantial impact on the financial position and operating results of the Company, will not affect the diligence of management team and core staff of the Company, and will not prejudice the interests of the Company and its Shareholders as a whole. In summary, the Supervisory Committee agreed to the Repurchase and Cancellation of Certain Restricted Shares.

8. Summary of the Legal Opinion

Beijing King & Wood Mallesons (Chengdu) Law Office is of the opinion that the Company has obtained the necessary approvals and authorization for the unlocking and the Repurchase and Cancellation at the current stage in accordance with relevant requirements of the Administrative Measures and the Incentive Scheme (Amended Draft); the unlocking fulfilled the conditions for the unlocking as stipulated in the Incentive Scheme (Amended Draft); the reason, quantity and price of the Repurchase and Cancellation of the Company comply with relevant requirements of the Administrative Measures and the Incentive Scheme (Amended Draft); the Company is still subject to perform information disclosure in accordance with the law regarding the unlocking and the Repurchase and Cancellation; the unlocking is subject to the application to the securities registration and settlement institution for the unlocking; the Repurchase and Cancellation is still subject to the consideration and approval at the general meeting of the Company and the reduction of registered capital and the registration of the cancellation of shares in accordance with the provisions of the Company Law and other laws and regulations.

LETTER FROM THE BOARD

9. Review Opinions of the PRC Independent Financial Adviser

Shanghai Realize Investment Consulting Co., Ltd., the PRC independent financial adviser of the Company, is of the opinion that necessary approvals and authorization for the Repurchase and Cancellation of the Restricted Shares have been obtained, and relevant provisions of the Administrative Measures, the Trial Measures, the Notice, the Guidelines on the Implementation of Equity Incentives by Listed Companies Controlled by Central Enterprises (Guo Zi Kao Fen[2020] No. 178) (《中央企業控股上市公司實施股權激勵工作指引》(國資考分[2020]178號)) as well as the Incentive Scheme (Amended Draft) have been complied with; the Company is still subject to perform information disclosure within the prescribed period and handle relevant subsequent formalities with the Shanghai Stock Exchange and China Securities Depository & Clearing Corp. Ltd., Shanghai Branch for the Repurchase and Cancellation pursuant to relevant requirements of the Administrative Measures and the Incentive Scheme (Amended Draft).

III. CONTINUING CONNECTED TRANSACTIONS

A. Overview

References are made to the announcement of the Company dated 8 December 2021, in relation to, among other things, the entering into of the 2022 DEC Framework Agreements by the Company and DEC Finance with DEC, respectively, and the announcement dated 30 September 2022 in relation to the entering into of the 2022 Finance Lease Framework Agreement between the Company and Honghua Group. The framework agreements will expire on 31 December 2024. The Group is expected to continue the transactions such as purchases, sales of products, lease of properties, provision of deposits, loans and finance lease with DEC Group.

As disclosed in the announcement of the Company dated 30 October 2024, the Board has approved the entering into of the 2025 Purchase and Production Services Framework Agreement, the 2025 Sales and Production Services Framework Agreement, the 2025 Combined Ancillary Services Framework Agreement, the 2025 Properties and Equipment Lease Lessee Framework Agreement and the 2025 Properties and Equipment Lease Lessor Framework Agreement between the Company and DEC, the entering into of the 2025 Financial Services Framework Agreement between DEC Finance and DEC, and the entering into of the New Finance Lease Framework Agreement between the Company and Honghua Financial Leasing. Subject to the consideration and approval of the framework agreements by the independent shareholders at the EGM, the Company and DEC Finance will respectively enter into the 2025 DEC Framework Agreements with DEC, and the Company will enter into the New Finance Lease Framework Agreement with Honghua Financial Leasing.

LETTER FROM THE BOARD

1. 2025 Purchase and Production Services Framework Agreement

The principal terms of the 2025 Purchase and Production Services Framework Agreement are summarized as follows:

Parties:

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

Subject matter:

Products and materials to be supplied to the Group

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

Production services to be provided to the Group

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

The Company is entitled (but not obliged) to request the relevant members of DEC Group to provide products and production services to the Group according to the terms and conditions of the 2025 Purchase and Production Services Framework Agreement.

The Company and DEC mutually agree that the fees and payment terms of the products and production services provided by DEC Group to the Group shall be based on the principle of fairness and reasonableness and on normal commercial terms.

LETTER FROM THE BOARD

Subject to compliance with the terms and conditions of the 2025 Purchase and Production Services Framework Agreement, the Group may further enter into specific contracts with DEC Group in respect of the supply of various products or use of production services to agree on the specific terms of the transactions of specific products and services to be purchased (including, but not limited to, the manner of purchase and payment, etc.).

Term:

From 1 January 2025 to 31 December 2027

Historical amount

Pursuant to the 2022 Purchase and Production Services Framework Agreement, the caps for each of the three years ending 31 December 2024 are RMB1,800,000,000.

The historical transaction amounts for the two years ended 31 December 2023 and the six months ended 30 June 2024 are as follows:

	For the year ended 31 December 2022 (RMB'000) (Audited)	For the year ended 31 December 2023 (RMB'000) (Audited)	For the six months ended 30 June 2024 (RMB'000) (Unaudited)
Total amount paid by the Group to DEC Group	<u>570,265.7</u>	<u>728,019.4</u>	<u>314,266.4</u>

Proposed annual caps and basis of determination:

The proposed annual caps for the products, materials and production services to be provided by DEC Group to the Group under the 2025 Purchase and Production Services Framework Agreement for each of the three years ending 31 December 2027 are RMB1,800,000,000.

The lower utilisation rate of the previous annual caps under the 2022 Purchase and Production Services Framework Agreement was mainly due to the COVID-19 epidemic, slowing down the business growth and affecting the business activities of

LETTER FROM THE BOARD

various enterprises to a certain extent. With the dissipation of the impact associated with the COVID-19 epidemic and under the national goal of promoting carbon peaking and carbon neutrality, the newly installed renewable energy capacity of the Company has rapidly developed, with the installed power generation capacity of new energy such as wind power and solar power consecutively exceeding 100 million kilowatts from 2020 to 2023. As at September 2024, the total orders on hand of the Group amounted to approximately RMB135.6 billion, of which the orders on hand for wind power business amounted to RMB15.3 billion, representing a year-on-year increase of over 80%. Moreover, (i) based on the orders on hand and development growth rate of Dongfang Electric Wind Power Co., Ltd., a subsidiary of the Company, it is expected that the purchase of raw materials such as epoxy resin for wind power production will be RMB980 million; (ii) based on previous amounts, members of the Company (Dongfang Electric Machinery, Dongfang Boiler, etc.) are expected to purchase other auxiliary materials, ancillary parts and production equipment, etc., amounting to approximately RMB200 million; and (iii) based on previous amounts, members of the Company are expected to purchase processing and testing services, etc., amounting to approximately RMB23 million.

According to the “Digital Economy Development Plan” issued by the State Council of China in 2022, it is required to strengthen the construction of digital infrastructure, accelerate the digital transformation of infrastructure in energy and other fields, and that by 2025, the digital economy will move towards a comprehensive expansion period. In order to improve production and operation efficiency, enhance energy conservation and environmental protection, the Company plans to accelerate the digital and intelligent transformation of various businesses in 2025. Therefore, the demand for servers, storage devices, software applications, intelligent manufacturing equipment, digital technology services, information technology consulting and other products, as well as installation and services, will correspondingly increase substantially. Based on the volume of demand for products and services by each of the Company’s subsidiaries and with reference to the current market value of such products and services, it is estimated that the amount of products and services to be ordered will be approximately RMB450 million per annum. In 2024, DEC has established companies related to the digital industry, and may provide services such as cybersecurity and IT application projects, intelligent manufacturing projects, scientific research projects, industrial internet and digital consulting in the future.

LETTER FROM THE BOARD

In determining the proposed annual caps for 2025, 2026 and 2027, in addition to taking into account the orders on hand, projected orders, cost of materials for each of the Group's businesses, as well as the software and hardware equipment and consulting and other services required for the advancement of digital and intelligent transformation, the Board has considered the following factors: (a) the historical transaction amounts; (b) according to the development needs of the Company's wind power industry, the estimated demand of raw materials such as resin; (c) the expected increase of its procurement of digital information technology products and services, raw materials, accessories and testing services; and (d) a 10% buffer reserved to cover any unanticipated growth over the next three years. The Directors consider that the annual caps for the three years ending 31 December 2027 maintained at RMB1,800,000,000 are reasonable.

Basis of fee determination:

The fees of each transaction under the 2025 Purchase and Production Services Framework Agreement will be determined on the following basis:

- (a) market price: i.e. the price offered by the party supplying products or providing production services to an independent third party in respect of the supply or provision of the same or similar products or production services in the ordinary course of business or the price obtained by the party purchasing products or receiving production services by way of open tender or negotiated tender, provided that independent third parties shall participate in the open tender or negotiated tender or the procedures of the open tender or negotiated tender shall comply with the requirements of applicable laws and regulations of the PRC government with reference to the Tender and Bidding Laws of the People's Republic of China (《中華人民共和國招標投標法》); or
- (b) agreed price: the cost incurred by the relevant member of DEC Group for the production or supply of such products or materials or provision of such services (as the case may be) plus a service charge of not more than 15% of such cost, which is the maximum profit margin for similar products or services and is determined with reference to the market practice adopted by other industry players.
- (c) The fees and payment terms of products and production services provided shall be based on the principle of fairness and reasonableness and on normal commercial terms; and
- (d) The pricing will be no more favorable than the terms of contracts with independent third parties.

LETTER FROM THE BOARD

HONG KONG LISTING RULES IMPLICATIONS

As at the Latest Practicable Date, DEC is a controlling shareholder of the Company, holding approximately 55.82% of the total issued shares of the Company, therefore DEC is a connected person of the Company as defined under the Hong Kong Listing Rules. As such, the 2025 Purchase and Production Services Framework Agreement and the transactions contemplated thereunder will constitute continuing connected transactions of the Company under Chapter 14A of the Hong Kong Listing Rules.

As the highest applicable percentage ratio calculated in accordance with the Hong Kong Listing Rules in respect of the transactions contemplated under the 2025 Purchase and Production Services Framework Agreement exceeds 0.1% but is less than 5%, the related transactions are subject to the reporting, annual review and announcement requirements and are exempt from the independent shareholders' approval requirement as prescribed under Chapter 14A of the Hong Kong Listing Rules.

2. *2025 Sales and Production Services Framework Agreement*

The principal terms of the 2025 Sales and Production Services Framework Agreement are summarised as follows:

Parties:

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

Subject matter:

Products and materials to be supplied by the Group

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

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Production services to be provided by the Group

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

While DEC Group has agreed to purchase products and use production services, the Company is entitled (but not obliged) to provide and procure the members of the Group to provide products and production services to DEC Group according to the terms and conditions of the 2025 Sales and Production Services Framework Agreement.

Subject to compliance with the terms and conditions of the 2025 Sales and Production Services Framework Agreement, the Group may further enter into specific contracts with DEC Group in respect of the supply of each of the products or the use of the production services in order to agree on the specific terms of the transactions (including, but not limited to, the manner of purchase and payment, etc.).

Term:

From 1 January 2025 to 31 December 2027

Historical amount

Pursuant to the 2022 Sales and Production Services Framework Agreement, the caps for each of the three years ending 31 December 2024 are RMB1,800,000,000.

The historical transaction amounts for the two years ended 31 December 2023 and the six months ended 30 June 2024 are as follows:

	For the year ended 31 December 2022 (RMB'000) (Audited)	For the year ended 31 December 2023 (RMB'000) (Audited)	For the six months ended 30 June 2024 (RMB'000) (Unaudited)
Total amount paid by DEC Group to the Group	<u>325,203.2</u>	<u>1,212,488.9</u>	<u>541,182.3^(Note)</u>

Note: As of the end of October 2024, the Company has expected that the amount paid by DEC Group for purchases from the Group would be approximately RMB830 million.

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Proposed annual caps and basis of determination:

The proposed annual caps for the products, materials and production services to be provided by the Group to DEC Group under the 2025 Sales and Production Services Framework Agreement for each of the three years ending 31 December 2027 are RMB2,500,000,000.

In 2021, the National Development and Reform Commission (NDRC) of China issued the “14th Five-Year Plan Renewable Energy Development Plan” (《“十四五”可再生能源發展規劃》), which instructed enterprises to accelerate the development of renewable energy, promote the energy revolution and build a clean and low-carbon society. The proportion of non-fossil energy consumption will reach about 25% by 2030, and the proportion of non-fossil energy consumption will be 17.9% in 2023. In terms of actual operational conditions, as of September 2024, the comprehensive index of non-fossil energy power generation was 147.8, representing an increase of 47.8% over the 2020 base period and a year-on-year increase of 11.1%; among them, the comprehensive index of new energy power generation was 221.1, representing an increase of 121.1% over the 2020 base period and a year-on-year increase of 31.6%.

In 2023, the State-owned Assets Supervision and Administration Commission of the State Council of China issued the “Notice on Standardizing the Trade Management of Central Enterprises and Strictly Prohibiting All Types of False Trade” (Guo Zi Fa Cai Ping Gui 2023 No. 74), which put forward the “Ten Prohibitions” requirements for trade among connected enterprises. In order to comply with relevant compliance regulations, the Company has temporarily suspended the trading of thermal coal, resulting in a significant decrease in the business of thermal coal products.

With reference to the past business conditions and business development plans of the Group and DEC Group, as well as, the demand for materials purchased by DEC Group from the Group, such as steel plates and steel materials have increased by over 600 times in 2023 as compared to 2022.

In determining the proposed annual caps for 2025, 2026 and 2027, the Board has considered the following factors: (a) the historical transaction amounts; (b) the growth of demand for renewable energy equipment due to relevant national energy policies. DEC is one of China’s major energy equipment suppliers and also one of the largest energy equipment manufacturing enterprise group in the world. Against this background, the transaction amount under the 2025 Sales and Production Services Framework Agreement between the Group and DEC Group is expected to further increase in the future. According to the year-on-year growth rate of the comprehensive index of new power generation index in 2024, it is estimated that there will be an

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increase of about 30% based on the highest procurement in the past two years; (c) the estimated sale and purchase unit prices of products and materials; (d) the estimated additional sales of power generation equipment of RMB800 million with the commencement of the finance leasing business of DEC; (e) in terms of engineering business, the estimated demand for contracting services for solar power generation projects by DEC Group; (f) the continuing growth of demand for materials, such as steel plates and steel materials by DEC Group; and (g) taking out the impact of the temporary suspension of trading of thermal coal business.

Basis of fee determination:

For determining the fees of the products, materials and services to be supplied by the Group, the price of each transaction contemplated under the agreement will be determined on the following bases:

- (a) market price: i.e. the price offered by the party supplying products or providing production services to an independent third party in respect of the supply or provision of the same or similar products or production services in the ordinary course of business or the price obtained by the party purchasing products or receiving production services by way of open tender or negotiated tender, provided that independent third parties shall participate in the open tender or negotiated tender or the procedures of the open tender or negotiated tender shall comply with the requirements of applicable laws and regulations of the PRC government with reference to the Tender and Bidding Laws of the People's Republic of China (《中華人民共和國招標投標法》); or
- (b) agreed price: the cost incurred by the relevant member of the Group for the production or supply of such products or materials or provision of such services (as the case may be) plus a service charge of not more than 15% of such cost. The service charge of not more than 15% is determined with reference to the market practice adopted by other industry players. The finance department of the Company regularly reviews service charges adopted by other participants within the power equipment manufacturing industry to ensure that any service charge applied is in line with market trends and shall not be more favourable than the terms and conditions offered by the Group to any independent third parties for the supply or provision of the same or similar products and production services.
- (c) The Company and DEC mutually agree that the fees and payment terms of the products and production services provided by the Group to DEC Group shall be based on the principle of fairness and on normal commercial terms; and

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- (d) The pricing will be no less favorable than the terms of contracts with independent third parties.

HONG KONG LISTING RULES IMPLICATIONS

As at the Latest Practicable Date, DEC is a controlling shareholder of the Company, holding approximately 55.82% of the total issued shares of the Company, therefore DEC is a connected person of the Company as defined under the Hong Kong Listing Rules. As such, the 2025 Sales and Production Services Framework Agreement and the transactions contemplated thereunder will constitute continuing connected transactions of the Company under Chapter 14A of the Hong Kong Listing Rules.

As the highest applicable percentage ratio calculated in respect of the transactions contemplated under the 2025 Sales and Production Services Framework Agreement exceeds 5%, the related transactions (including the related proposed annual caps) are subject to the reporting, annual review, announcement and independent shareholders' approval requirements under Chapter 14A of the Hong Kong Listing Rules.

3. *2025 Combined Ancillary Services Framework Agreement*

The principal terms of the 2025 Combined Ancillary Services Framework Agreement are summarised as follows:

Parties:

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

Subject matter:

Ancillary services to be provided to the Group

Pursuant to the agreement, DEC will, and will procure other members of DEC Group to, provide the following ancillary services to the Group: employee management services, management services for retired employees, training services, accounting services (including financial accounting, fund accounting, etc.), property entrustment and operation services, legal services, press and publicity services, combined management services and other ancillary services.

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

Subject to compliance with the terms and conditions of the 2025 Combined Ancillary Services Framework Agreement, the Group and DEC Group shall respectively enter into specific contracts in respect of the use of each of the services in order to agree on the specific terms of the transactions (including, but not limited to, the form of manner of purchase and payment, etc.). The form and content of such specific contracts must be acceptable to the Company and DEC Group and must be based on and in compliance with the principles, terms and conditions of the 2025 Combined Ancillary Services Framework Agreement and the relevant laws (including, but not limited to, the requirements of the Hong Kong Listing Rules).

Term:

From 1 January 2025 to 31 December 2027

Historical amount

Pursuant to the 2022 Combined Ancillary Services Framework Agreement, the caps for the ancillary services to be provided by DEC Group to the Group for the three years ending 31 December 2024 are RMB6,000,000, RMB70,000,000 and RMB130,000,000, respectively.

The historical transaction amounts for the two years ended 31 December 2023 and the six months ended 30 June 2024 are as follows:

	For the year ended 31 December 2022 (RMB'000) (Audited)	For the year ended 31 December 2023 (RMB'000) (Audited)	For the six months ended 30 June 2024 (RMB'000) (Unaudited)
Total service fees paid by the Group to DEC Group	<u>4,814.9</u>	<u>40,905.7</u>	<u>1,728.8</u>

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Proposed annual cap and basis of determination:

The proposed annual caps for the ancillary services to be provided by DEC Group to the Group under the 2025 Combined Ancillary Services Framework Agreement for each of the three years ending 31 December 2027 are RMB130,000,000.

DEC provides supporting services to the Group through its established shared service center. The shared service center was established in 2023, and some of its business operations were not yet mature at early stage, so the actual amount incurred was significantly different from the expected annual cap. Nevertheless, the actual amount incurred in 2023 increased by over 700% compared to 2022 (RMB4.815 million in 2022 and RMB40.905 million in 2023). The smaller amount in the first half of 2024 is due to a majority of service fee settlements will occur in the fourth quarter. As calculated in accordance with the service agreements already entered into as of 30 September 2024, it is estimated that the related transaction amounts for the whole year of 2024 will increase by approximately 64% (approximately RMB67.04 million) year on year.

In determining the proposed annual caps for the ancillary services to be provided to the Group for 2025, 2026 and 2027, the Board has considered the following factors: (a) the historical transaction amounts; (b) the projected demand for the ancillary services to be provided by DEC Group so as to meet the daily business operation needs and the market level and inflation of fees charged for those services in 2025, 2026 and 2027; (c) the gradual maturity of the shared service center, which may provide stable and effective services. Since 2025, the shared service center will be fully operational, and the scope of service targets will be increased by another 50% from covering certain members of the Group; and (d) the amount of property management fees that will increase with reference to the Group's relevant business development plans and expected services (including the Company's new office and scientific research building in Tianfu New Area, Chengdu, which will be put into use in 2025). The Group expects to receive (i) training and accounting; (ii) property management; (iii) legal; and (iv) information technology, press and publicity and other services from DEC Group in the amount of approximately RMB50 million, RMB40 million, RMB15 million and RMB25 million respectively, for 2025, 2026 and 2027.

In the actual utilisation of the services, the Group will compare the prices and conditions offered by independent third party service providers in the market for similar transactions, and the Group has the right to choose to utilise the services of an independent third party service provider if the prices and conditions offered by such independent third party service provider are more favourable to the Group.

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Basis of fee determination:

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

- (a) market price: i.e. (i) the price offered by the party providing the services to an independent third party in respect of provision of the same or similar services in the relevant markets; (ii) the price offered by any independent third party to other independent third parties in respect of provision of the same or similar services in the relevant markets; or (iii) the price determined with reference to the industry standards or practice in respect of provision of the same or similar services in the relevant markets; or
- (b) agreed price: the cost incurred for the provision of the service plus a service charge of not more than 15% of such cost applies. The service charge of not more than 15% is determined with reference to the market practice adopted by other industry players. The Company regularly reviews the rates of service charged by other independent third parties providing similar services and determines the prices by negotiation with reference to the prevailing market conditions.
- (c) The Company and DEC mutually agree that the fees and payment terms of the products and production services provided by DEC Group to the Group shall be based on the principle of fairness and reasonableness and on normal commercial terms.
- (d) The pricing will be no more favourable than the terms of contracts with independent third parties.

HONG KONG LISTING RULES IMPLICATIONS

As at the Latest Practicable Date, DEC is a controlling shareholder of the Company, holding approximately 55.82% of the total issued shares of the Company, therefore DEC is a connected person of the Company as defined under the Hong Kong Listing Rules. As such, the 2025 Combined Ancillary Services Framework Agreement and the transactions contemplated thereunder will constitute continuing connected transactions of the Company under Chapter 14A of the Hong Kong Listing Rules.

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As the highest applicable percentage ratio calculated in respect of the transactions contemplated under the 2025 Combined Ancillary Services Framework Agreement exceeds 0.1% but is less than 5%, the related transactions are subject to the reporting, annual review and announcement requirements and are exempt from the independent shareholders' approval requirement as prescribed under Chapter 14A of the Hong Kong Listing Rules.

4. *2025 Financial Services Framework Agreement*

The principal terms of the 2025 Financial Services Framework Agreement are summarised as follows:

Parties:

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

Subject matter:

Pursuant to the 2025 Financial Services Framework Agreement, DEC Finance will provide the following financial services to DEC Group: deposit services, loans services, other services (including discounted bills and acceptance, non-financing letter of guarantee and other investment and financial services approved by the NFRA).

DEC Finance and DEC (or members of DEC) shall separately enter into further specific contracts in relation to the use of relevant financial services to provide for specific transaction terms (including but not limited to repayment period and detailed rules on deposit and withdrawal services). Such specific contracts shall be based on and in line with the principles, terms and conditions under the 2025 Financial Services Framework Agreement and relevant laws and regulations (including but not limited to the Hong Kong Listing Rules).

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

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Term:

From 1 January 2025 to 31 December 2027

(a) Deposits services:

Historical amount

Pursuant to the 2022 Financial Services Framework Agreement, the annual caps for the maximum daily balance of deposits (including accrued interest) that DEC Group maintained with DEC Finance for each of the three years ended/ending 31 December 2022, 2023 and 2024 are RMB10,000,000,000.

The historical transaction amounts for the two years ended 31 December 2023 and the six months ended 30 June 2024 are as follows:

	For the year ended 31 December 2022 (RMB'000) (Audited)	For the year ended 31 December 2023 (RMB'000) (Audited)	For the six months ended 30 June 2024 (RMB'000) (Unaudited)
Maximum daily balance of deposits and accrued interest maintained with DEC Finance by DEC Group	8,008,019.9	6,610,231.0	3,543,816.2

Proposed annual cap and basis of determination:

The annual caps of RMB10,000,000,000 for each of the three years ending 31 December 2027, in respect of the maximum daily balance of deposits (including accrued interest) that DEC Group maintained with DEC Finance, are proposed.

In determining the annual caps for the deposits services, the Board has considered the following factors:

- (a) the utilisation rate of annual caps was approximately 73.1% according to the average of historical amounts for 2022 and 2023;

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(b) the treasury management arrangement of the Company and the cash flow requirements and financial needs in respect of the business development plans of the Group.

1. In 2024, DEC Group newly revised the Treasury Management Regulations. In terms of centralized management of funds, DEC Group implements the centralized management of funds, completes the unified scheduling, management and operation of funds of the entire group (including the Group and members of DEC Group), improves the efficiency of the use of funds, and regularly collects the funds of each unit. It requires that the funds of each unit (including members of DEC Group) outside the limits of other banks must be collected to DEC Finance, which will strengthen the management of funds collection in the future. DEC Finance issued the Notice on Further Strengthening the Centralized Management of Funds, which adjusted the deposit limit of the accounts of the relevant enterprises that have been included in the centralized management of funds, in which the deposit proportion of DEC Group in the external banks decreased significantly, and the remaining funds shall be deposited in DEC Finance, and the deposits placed in DEC Finance will increase;
2. The operating business segments of DEC Group gradually increased, which will not be limited to traditional industries in the future. According to the national policy guidance, the newly-established solar power segment and emerging materials segment gradually developed, the increase in related business segments lead to an increase in the number of related enterprises, the future of new enterprises still need to conduct funds collection in DEC Finance, and the growing number of customers of DEC Finance led to an increase in the absorption of deposits;
3. Operating cash of related enterprises increased. The average growth rate of sales revenue of DEC Group in the last three years was over 20%. With increased efforts in exploring the market in the future, corporate sales are expected to be better, with more new contracts signed, and receipts are expected to continue to increase.

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(c) DEC Group was not obliged to use the deposits service provided by DEC Finance; and

(d) interest rates offered by other banks in the PRC for comparable deposits.

Basis of fee determination:

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

The interest rates paid by DEC Finance on deposits placed by DEC Group will be no more favorable than the interest rates paid by major PRC commercial banks to other independent third parties on comparable deposits of the same tenors.

(b) Loan services:

Historical amount

Pursuant to the 2022 Financial Services Framework Agreement, the annual caps for the amount of loans to be provided by DEC Finance to DEC Group for each of the three years ended/ending 31 December 2022, 2023 and 2024 are RMB1,800,000,000.

The historical transaction amounts for the two years ended 31 December 2023 and the six months ended 30 June 2024 are as follows:

	For the year ended 31 December 2022 (RMB'000) (Audited)	For the year ended 31 December 2023 (RMB'000) (Audited)	For the six months ended 30 June 2024 (RMB'000) (Unaudited)
Maximum daily balance of loans and accrued interest	<u>642,561.8</u>	<u>1,349,782.4</u>	<u>1,782,008.9</u>

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Proposed annual cap and basis of determination:

The proposed annual caps for the amount of loans to be provided by DEC Finance to DEC Group under the 2025 Financial Services Framework Agreement for each of the three years ending 31 December 2027 are RMB5,000,000,000.

In determining the proposed annual caps for the loan services for each of the years ending 31 December 2025, 2026 and 2027, the Board has considered the following factors: (a) the historical amounts are close to the annual caps; (b) the demand for loans services arising from the operation and development of members of DEC Group. The Company expects that there will be approximately RMB1.6 billion of loans from 2024 to be carried over to next year, and the loan applications which are expected to be approved would increase the loan amount by 20% (approximately RMB 320 million) on the existing business as at the Latest Practicable Date. In addition, it is estimated that the increase in loan demand generated from digitization, new materials and other businesses of the members of DEC Group, as well as from the continued growth in the future offshore engineering business and investment in the construction of offshore wind power platforms of the Honghua Group and the possibility of taking over due loans from other commercial banks placed by members of DEC Group, may amount to a total of approximately RMB3 billion; (c) interest rates offered by other commercial banks in the PRC to DEC Group for comparable loans; and (d) the Group's cash on hand and the amount of accounts receivable.

Basis of fee determination:

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

The interest rates charged by DEC Finance on loans to DEC Group will be no less favorable than the interest rates charged by major PRC commercial banks on comparable loans.

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(c) **Other services:**

DEC Finance will provide other services (including discounted bills and acceptance, non-financing letters of guarantee and other investment and financial services approved by the NFRA) to DEC Group. Such services are conducted on normal commercial terms and in the interests of the Group.

Historical Amount

The historical transaction amounts for the two years ended 31 December 2023 and the six months ended 30 June 2024 (including discounting service interest and other handling fee services), all of which are below the de minimis threshold as stipulated under Rule 14A.76(1) of the Hong Kong Listing Rules.

Proposed annual cap and basis of determination:

The caps for provision of other services to DEC Group under the 2025 Financial Services Framework Agreement for each of the three years ending 31 December 2027 are RMB300,000,000 (including the par value of discounted bills, non-financial letters of guarantee and acceptance services provided, and interest and handling fees received).

The other services under the 2025 Financial Services Framework Agreement covered newly commenced business: non-financial letter of guarantee, bill discounting and acceptance.

In determining the annual caps for other services, the Board has considered the following factors: (a) In the past, DEC Group demand for bill discounting and acceptance and non-financial letters of guarantee is very small. Hence, no annual cap had been set for other services under the 2022 Financial Services Framework Agreement. The actual discounting and letter of guarantee interest and handling fees paid by DEC Group for the discounting services for the two years ended 31 December 2023 and the six months ended 30 June 2024 were RMB2,295,200, RMB2,172,000 and RMB1,341,500, respectively, with a trend to continue increasing, but it is not suitable as a benchmark for reference; (b) the total operating income of DEC Group in 2022 and 2023 amounted to RMB59.332 billion and RMB66.507 billion, respectively, indicating overall stable business expansion; and there was a gradual change in the settlement method for the procurement of materials and services of certain members of DEC Group from bank acceptance bills to six-month commercial acceptance bills, thus potentially leading to significant increase in demand for the issuance of letter of guarantee and discounting services. As DEC Light Energy's future

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scale gradually expands and its annual sales revenue gradually increases, regarding the business of issuing letters of guarantee by DEC Finance to a member of DEC Group, Smart Light Energy Co., Ltd. (“**DEC Light Energy**”), DEC Finance will consider issuing letters of guarantee at 10% of its sales contract amounts to control risks. It is expected that the annual scale of letter of guarantee business for the member of DEC Group will be approximately RMB150 million; according to the existing discount business of DEC Feiyuan (Shandong) Electronic Materials Co., Ltd. (“**DEC Feiyuan**”), a member of DEC Group, with DEC Finance, it is expected that the monthly scale of discount business in the future will be RMB20 million. Calculated based on a 6-month payment period, the discount balance may reach RMB120 million; and (c) a buffer of approximately 10% reserved to cope with any unanticipated growth of the transaction amount as mentioned above within the term of the 2025 Financial Services Framework Agreement, including the growth that may be caused by the release of the “Notice on Fully Implementing the Use of Letter of Guarantee (Insurance) as a Substitute for Quality Assurance Deposits in Cash among Central Enterprises (Draft for Comments)” by the State-owned Assets Supervision and Administration Commission of the State Council in September 2024, which requires central enterprises to make good use of credit tools and fully implement the use of letter of guarantee as a substitute for quality assurance deposits in cash.

Basis of fee determination:

DEC Finance provides discounting of bills, issuance of non-financial letter of guarantee services etc., and will charge settlement fee. The fees charged by DEC Finance will be in accordance with those charged by China’s major commercial banks.

The handling fees charged by DEC Finance for other services provided to DEC Group will be no less favorable than the fees charged by major commercial banks in China for comparable services.

HONG KONG LISTING RULES IMPLICATIONS

As at the Latest Practicable Date, DEC is a controlling shareholder of the Company, holding approximately 55.82% of the total issued shares of the Company, therefore DEC is a connected person of the Company as defined under the Hong Kong Listing Rules. As such, 2025 Financial Framework Agreements and the transactions contemplated thereunder will constitute continuing connected transactions of the Company under Chapter 14A of the Hong Kong Listing Rules.

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As the deposit services under the 2025 Financial Services Framework Agreement are conducted on normal commercial terms and are in the interest of the Group, and the Group has not pledged any assets to DEC in respect of such deposit services, the deposit services contemplated under the 2025 Financial Services Framework Agreement are exempted from the reporting, announcement and independent shareholders' approval requirements under Chapter 14A of the Hong Kong Listing Rules pursuant to Rule 14A.90 of the Hong Kong Listing Rules.

As the highest applicable percentage ratio calculated in accordance with the Hong Kong Listing Rules in respect of the loan services transactions contemplated under the 2025 Financial Services Framework Agreement is more than 5%, such transactions (including the proposed annual caps) are subject to the reporting, annual review, announcement and independent shareholders' approval requirements under Chapter 14A of the Hong Kong Listing Rules.

As the highest applicable percentage ratio calculated for the transactions regarding the provision of discounting, acceptance and non-financing letter of guarantee services and other financial services contemplated under the 2025 Financial Services Framework Agreement in accordance with the Hong Kong Listing Rules exceeds 0.1% but is less than 5%, such transactions are subject to the reporting, annual review and announcement requirements, but are exempt from the independent shareholders' approval requirement under Chapter 14A of the Hong Kong Listing Rules.

5. 2025 Properties and Equipment Lease Lessee Framework Agreement

The principal terms of the 2025 Properties and Equipment Lease Lessee Framework Agreement are summarised as follows:

Parties:

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

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Transaction matter:

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

Subject to the terms and conditions of the 2025 Properties and Equipment Lease Lessee Framework Agreement, DEC Group shall enter into concrete contracts with the Group in respect of the leasing of each of the leased properties for stipulating the specific terms of the leases (including but not limited to the rentals), the concrete contracts of which shall be in a form and substance acceptable to the Company and DEC Group and must be based on and in compliance with the principles, terms and conditions of the 2025 Properties and Equipment Lease Lessee Framework Agreement and the relevant laws and regulations (including but not limited to the requirements of the Hong Kong Listing Rules).

Term:

From 1 January 2025 to 31 December 2027

Historical Amount

The proposed annual cap for the three years ending 31 December 2024 is RMB500,000,000 according to the 2022 Properties and Equipment Lease Lessee Framework Agreement.

The historical transaction amounts for the two years ended 31 December 2023 and the six months ended 30 June 2024 are as follows:

	For the year ended 31 December 2022 (RMB'000) (Audited)	For the year ended 31 December 2023 (RMB'000) (Audited)	For the six months ended 30 June 2024 (RMB'000) (Unaudited)
Total rents paid by the Group to DEC Group	<u>103,264.6</u>	<u>101,196.4</u>	<u>11,697.9</u>

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The total value of the Group's right-of-use asset in respect of rental properties under the 2022 Properties and Equipment Lease Lessee Framework Agreement is approximately RMB109 million.

Proposed annual caps and basis of determination:

The Group implements the Accounting Standards for Business Enterprises No. 21 – Leases (2018 Amendments). At the commencement date of the lease, the Company, as the lessee, shall, in the Company's consolidated balance sheet, recognize a right-of-use asset representing its right to use the underlying leased assets during the lease term and a lease liability representing its current obligation to make lease payments, except for simplified short-term lease and low-value asset lease. The right-of-use asset shall be initially measured at cost. The lease liability shall be initially measured according to the present value of the lease payment that has not yet been paid at the commencement date of the lease. In accordance with the China Accounting Standards for Business Enterprises and in the Company's consolidated income statement, the Company shall recognize (i) depreciation charges over the life of the right-of-use asset, and (ii) interest expenses from the lease liability amortized over the lease term.

The proposed annual cap for each of the three years ending 31 December 2027 is RMB500,000,000.

The Board determined the proposed annual caps after considering: (a) the historical transaction amount; (b) the expected increase in number of properties (including office premises and factories for manufacturing) and equipment (including air compressors, drilling and milling machines, vacuum controlled atmosphere nitriding furnaces, and intelligent boring and milling equipment for turbine equipment partitions) within the term of the agreement to be leased by the Group from DEC Group will be determined by the demands. Requirements such as pumped storage manufacturing capacity enhancement project, gas turbine rotor processing and manufacturing capability enhancement project and digital workshop construction project of subsidiaries in the future, with the total investment in the projects estimated to be over RMB1 billion, and it is proposed to resolve part of the equipment demand through leasing of the equipment. Based on the estimated value of the leased equipment of RMB1 billion, taking into account the average depreciable life of the equipment, yield; it is estimated that the rental is approximately RMB200 million per annum. As the leased equipment is planned to be rented on a short-term basis, no balance of right of use assets is involved in accordance with accounting standards; (c) the total value of the relevant right-of-use assets to be leased from Honghua Group for the construction of offshore wind power platforms in the future is approximately RMB150 million; (d) recent developments in the property market and its prevailing market prices; (e) the amounts of right-of-use assets expected to be recorded in the three years ending 31 December 2027 which are calculated based on fixed rents and estimates of the monthly rents of new right-of-use assets; and (f) a 10% buffer reserved to cope with inflation and increases in property market rentals.

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Basis of rent determination:

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

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

HONG KONG LISTING RULES IMPLICATIONS

As at the Latest Practicable Date, DEC is a controlling shareholder of the Company, holding approximately 55.82% of the total issued shares of the Company, therefore DEC is a connected person of the Company as defined under the Hong Kong Listing Rules. As such, the 2025 Properties and Equipment Lease Lessee Services Framework Agreement and the transactions contemplated thereunder will constitute continuing connected transactions of the Company under Chapter 14A of the Hong Kong Listing Rules.

As the highest applicable percentage ratio calculated for the transactions contemplated under the 2025 Properties and Equipment Lease Lessee Services Framework Agreement in accordance with the Hong Kong Listing Rules exceeds 0.1% but is less than 5%, such transactions are subject to the reporting, annual review and announcement requirements, but are exempt from the independent shareholders' approval requirement under Chapter 14A of the Hong Kong Listing Rules.

LETTER FROM THE BOARD

6. 2025 Properties and Equipment Lease Lessor Framework Agreement

The principal terms of the 2025 Properties and Equipment Lease Lessor Framework Agreement are summarised as follows:

Parties:

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

Transaction matter:

Pursuant to the agreement, the Group will lease real estate properties (such as office premises), factories, warehouse, land (including those being legally occupied), equipment (such as hot and cold island facilities and tooling for use in the solar energy engineering technology) and wheels, intangible assets (e.g. software and information systems) relating to the business of DEC Group to DEC Group and ensure that DEC Group has uninterrupted and legally exclusive right to use them within the lease term.

Subject to the terms and conditions of the 2025 Properties and Equipment Lease Lessor Framework Agreement, DEC Group shall enter into concrete contracts with the Group in respect of the leasing of each of the leased properties for stipulating the specific terms of the leases (including but not limited to the rents), the concrete contracts of which shall be in a form and substance acceptable to the Company and DEC Group and must be based on and in compliance with the principles, terms and conditions of the 2025 Properties and Equipment Lease Lessor Framework Agreement and the relevant laws (including but not limited to the requirements of the Hong Kong Listing Rules).

Term:

From 1 January 2025 to 31 December 2027

LETTER FROM THE BOARD

Historical Amount

The annual caps for the three years ended 31 December 2024 under the 2022 Properties and Equipment Lease Lessor Framework Agreement are RMB2,000,000, RMB18,000,000 and RMB18,000,000, respectively. On 15 November 2023, the Board approved the “Proposal on revising the FY2023 and FY2024 daily continuous connected transactions annual caps”. The Company entered into the Supplemental Properties and Equipment Lease Lessor Framework Agreement with DEC to revise the respective annual caps for 2023 and 2024 under the 2022 Properties and Equipment Lease Lessor Framework Agreement. Please refer to the announcement of the Company dated 15 November 2023.

The historical transaction amounts for the two years ended 31 December 2023 and the six months ended 30 June 2024 are as follows:

	For the year ended 31 December 2022 (RMB'000) (Audited)	For the year ended 31 December 2023 (RMB'000) (Audited)	For the six months ended 30 June 2024 (RMB'000) (Unaudited)
Total rents paid by DEC Group to the Group	<u>0</u>	<u>472.5</u>	<u>462.5</u>

Proposed annual caps and basis of determination:

The proposed annual caps are set at RMB10,000,000 for each of the three years ending 31 December 2027.

The Board has considered, when determining the proposed annual caps, (a) the historical transaction amount; and (b) the expected insignificant number of properties (including offices and production plants) and equipment that DEC Group may need to lease from the Group. The caps were determined based on (i) the current properties and vehicles leased by the Group to members of DEC Group (with an annual rental of approximately RMB0.6 million); (ii) the Company’s newly built office and scientific research building in Tianfu New Area, Chengdu, which will be put into use in 2025. According to the leasable area of that new building and the rent of similar properties, the relevant rental income is estimated to be approximately RMB9 million per year; and (iii) the expected maximum demand that is expected to arise after inflation.

LETTER FROM THE BOARD

Basis of rent determination:

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

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

HONG KONG LISTING RULES IMPLICATIONS

As at the Latest Practicable Date, DEC is a controlling shareholder of the Company, holding approximately 55.82% of the total issued shares of the Company, therefore DEC is a connected person of the Company as defined under the Hong Kong Listing Rules. As such, the 2025 Properties and Equipment Lease Lessor Services Framework Agreement and the transactions contemplated thereunder will constitute continuing connected transactions of the Company under Chapter 14A of the Hong Kong Listing Rules.

As the 2025 Properties and Equipment Lease Lessor Framework Agreement is less than 0.1%, the related transactions will be conducted on normal commercial terms and hence fall within the de minimis threshold as stipulated under Rule 14A.76 of the Hong Kong Listing Rules and are therefore exempt from the reporting, annual review, announcement and independent shareholders' approval requirements of the Hong Kong Listing Rules.

7. *New Finance Lease Framework Agreement*

The principal terms of New Finance Lease Framework Agreement are summarized as follows:

Parties:

- (a) The Company (as lessee, on behalf of itself, its affiliates and its associates); and
- (b) Honghua Financial Leasing (as lessor, on behalf of its subsidiaries).

LETTER FROM THE BOARD

Transaction Matter:

- (i) Direct leasing: the lessor will purchase the leased property from a supplier based on the instructions and selection from the lessee, and then lease the leased property to the lessee for an agreed period of time and receive periodic rents. The principal amount represents the purchase price of the leased property from the supplier, which is arrived at after negotiation between the lessee and the supplier on normal commercial terms and by reference to the market value of such leased property;
- (ii) Sale and leaseback: the lessor will purchase the leased property from the Group and lease it back to the Group for an agreed period of time at periodic rents. The basis of determining the value of the leased property is in accordance with market practice and the principal amount of the lease will not exceed the net carrying amount or appraised value of the leased property.

The leased items under the New Finance Lease Framework Agreement include production equipment.

Subject to the conditions and terms of the New Finance Lease Framework Agreement, the Group may enter into concrete contracts for specific finance lease services with Honghua Financial Leasing for agreeing on specific transaction terms. The Company has the right to choose to use the finance lease services provided by independent third parties for the Group on the most favorable transaction terms and conditions and is not under any obligation to use the leasing services under the finance leases provided by Honghua Financial Leasing.

Term:

From 1 January 2025 to 31 December 2027.

Historical Amount

Honghua Group provided finance lease services to the Group under the 2022 Finance Lease Framework Agreement, the annual caps were set at RMB50,000,000, RMB150,000,000 and RMB150,000,000 for the three years ending 31 December 2024.

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The actual amounts of historical transactions for the two years ended 31 December 2023 and the six months ended 30 June 2024 are as follows:

	For the year ended 31 December 2022 (RMB'000) (Audited)	For the year ended 31 December 2023 (RMB'000) (Audited)	For the six months ended 30 June 2024 (RMB'000) (Unaudited)
Finance lease services	<u>0</u>	<u>0</u>	<u>0</u>

The Company entered into the 2022 Finance Lease Framework Agreement with Honghua Group on 22 September 2022. Due to the planning of internal business adjustments by Honghua Group starting in 2023, Honghua Group transferred its equity in Honghua Financial Leasing to DEC Investment Management Co., Ltd. (“**DEC Investment**”), a wholly-owned subsidiary of DEC, relevant businesses and personnel were also adjusted, and the equity transfer procedures were completed in April 2024. During the period for business adjustment of Honghua Group, the related financial leasing business was not carried out as scheduled, resulting in a historical transaction amount of 0.

Proposed annual caps and basis of determination:

For the purpose of the Hong Kong Listing Rules, a direct leasing is regarded as an acquisition of a right-of-use asset, while a sale and leaseback constitutes a sale of an asset and an acquisition of a right-of-use asset. The annual caps for the finance lease services under the New Finance Lease Framework Agreement for each of the three years ended 31 December 2027 are RMB500,000,000. The Group implements the Accounting Standards for Business Enterprises No. 21 – Leases (2018 Amendments). At the commencement date of the lease, the Company, as the lessee, shall, in the Company’s consolidated balance sheet, recognize a right-of-use asset representing its right to use the underlying leased assets during the lease term and a lease liability representing its current obligation to make lease payments, except for simplified short-term lease and low-value asset lease.

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The right-of-use asset shall be initially measured at cost. The lease liability shall be initially measured according to the present value of the lease payment that has not yet been paid at the commencement date of the lease. In accordance with the China Accounting Standards for Business Enterprises and in the Company's consolidated income statement, the Company shall recognize (i) depreciation charges over the life of the right-of-use asset, and (ii) interest expenses from the lease liability amortized over the lease term.

The Company's total operating revenue for the three years from 2021 to 2023 amounted to RMB47,819 million, RMB55,364 million and RMB60,677 million, respectively, indicating continuous and stable growth in business, with financing needs expected to increase. In order to broaden the financing channels, raise lower cost funds and enhance the liquidity of the Group, the Company entered into the 2022 Finance Lease Framework Agreement on 22 September 2022 with Honghua Group. The Company has taken into account (a) the capital demand from replacement of equipment (including welding automated production line, spraying production line, numerically-controlled lathe, robot, etc.) of the subsidiaries (Dongfang Turbine, Dongfang Boiler and Dongfang Electric Machinery) of approximately RMB300 million per annum; (b) the future new production project for silver powder by Dongfang Institute of the subsidiaries and other projects, with an estimated amount for the silver powder production line of about RMB50 million per annum; and (c) the total investment amount of the investment projects (including the 50MW wind power project in Qing County, Cangzhou, and the 48.5MW wind power project in Zhaojue) will be approximately RMB500 million. The Group may need to acquire new wind turbines, towers and other equipment at lower interest rates through financing leases to minimise the Group's costs in the course of the development projects. The Directors have set the annual caps for the new generation of direct leases and sale and leaseback under the New Finance Lease Framework Agreement for the three years ending 31 December 2027 at RMB310 million and RMB190 million, respectively.

The annual caps of the New Finance Lease Framework Agreement are determined based on the following factors:

1. the prevalent market financing conditions (including interest rates) and the potential adjustments to the lending rates by the PBOC in the future;
2. the Group's current financing needs and future development prospects;
3. the nature, value and expected useful life of the equipment leased to the Group;
4. the historical transaction amounts; and

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5. In April 2024, seven departments including the Ministry of Industry and Information Technology of China published the “Implementation Plan for Promoting Equipment Renewal in the Industrial Sector”, proposing to intensify equipment renewal in the industrial sector. According to the implementation plan, it is estimated that by 2027, the scale of equipment investment will increase by more than 25% compared to 2023.

As of the Latest Practicable Date, Honghua Financial Leasing has not provided finance lease services to the Group.

Basis of price determination:

The consideration for the lease consists of the purchase price (in the case of direct leasing) or the value (in the case of sale-and-leaseback) of the leased equipment, interests on the lease as agreed between the parties and handling charges (if any). The consideration for the lease will be determined by the Lessee and Lessor after negotiations on an arm’s length basis, with reference to the market price of similar finance leased assets.

- In the case of sale-and-leaseback services, the Lessor purchases a leased asset from the Group and leases it back for an agreed period and receives rentals regularly. The basis for determining the value of the leased asset is in accordance with market practice and the principal amount of the lease will not exceed the net book value or the appraised value of the leased asset;
- In the case of direct finance leasing services, the Lessor will purchase the leased asset from the supplier in accordance with the instructions and selection by the Lessee and will then lease the leased asset to the Lessee for an agreed period and receive rentals regularly. The principal amount shall be the price at which the leased asset is purchased from the supplier and shall be arrived at after negotiation between the Lessee and the supplier on normal commercial terms with reference to the market price of such leased asset.

In determining the lease interests to be paid to Honghua Financial Leasing, the Company will take into account, among others, (i) market conditions and the benchmark interest rate for term loans published by the PBOC from time to time; (ii) terms and conditions offered by the lessor are no less favorable than those offered by the counterparts in the finance leasing industry or by other third party financial institutions; and (iii) the credit assessment of lessor, the term of finance lease agreement, principal amount, regulatory policy orientation, industry development strategy and the business model and credit enhancement measures of the lessor.

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In determining the handling fees to be paid to Honghua Financial Leasing, the Company will take into account, among others, (i) the applicable rates (if any) for the such services published by the PBOC from time to time, or rates charged by other major financial institutions for finance & leasing over the same or similar types of assets; and (ii) the terms and conditions offered by the Group are no less favourable to those offered by lessors of similar qualifications.

HONG KONG LISTING RULES IMPLICATIONS

As at the Latest Practicable Date, DEC is a controlling shareholder of the Company, holding approximately 55.82% of the total issued shares of the Company. Honghua Financial Leasing is an indirect wholly-owned subsidiary of DEC and thus is an associate of DEC under the Hong Kong Listing Rules, and is therefore a connected person of the Company. As such, the New Finance Lease Framework Agreement and the transactions contemplated thereunder will constitute continuing connected transactions of the Company under Chapter 14A of the Hong Kong Listing Rules.

As the highest applicable percentage ratio calculated for the transactions contemplated under the New Finance Lease Framework Agreement in accordance with the Hong Kong Listing Rules exceeds 0.1% but is less than 5%, such transactions are subject to the reporting, annual review and announcement requirements, but are exempt from relevant circulars and the independent shareholders' approval requirement under Chapter 14A of the Hong Kong Listing Rules.

B. Reasons for and Benefits of Entering Into the 2025 DEC Framework Agreements and New Finance Lease Framework Agreement

1. In respect of the 2025 Financial Services Framework Agreement

DEC Finance provides financial services to DEC Group

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

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

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

2. *In respect of the (a) 2025 Purchase and Production Services Framework Agreement, (b) 2025 Sales and Production Services Framework Agreement, (c) 2025 Combined Ancillary Services Framework Agreement, (d) 2025 Properties and Equipment Lease Lessee Framework Agreement, and (e) 2025 Properties and Equipment Lease Lessor Framework Agreement*

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

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

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

The Company believes that the new annual cap is in line with the daily operation needs of DEC Group. Maintaining a stable supply of products and services is very important for DEC's operations. The 2025 DEC Framework Agreements and the Company's daily business are conducted on normal commercial terms, which are fair and reasonable, and will increase the stable income of the Group and improve the financial performance of the Group and in the interests of the Company and its shareholders as a whole.

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3. *In respect of the New Finance Lease Framework Agreement*

The transactions under the New Finance Lease Framework Agreement are beneficial to the Company as they will enable the Company to (1) broaden the financing channels of the Company to raise lower-cost funds; (2) streamline cash flow management; and (3) facilitate the sound conduct of the business development and operations of the Group.

The Directors consider that the New Finance Lease Framework Agreement and the transactions contemplated thereunder are conducted in the ordinary and usual course of business of the Company on normal commercial terms and are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

C. *Internal Management and Control Measures*

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

The office of the Board and the responsible departments for managing connected transactions in the Group are responsible for ensuring that the transactions under the 2025 DEC Framework Agreements and the New Finance Lease Framework Agreement will not exceed the proposed annual caps and will be carried out in accordance with the terms (not limited to the pricing policy) of the particular transactions.

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

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

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

In order to ensure the terms of the continuing connected transactions under the 2025 DEC Framework Agreements and the New Finance Lease Framework Agreement are fair and reasonable and on normal commercial terms, the Group has adopted the following internal management and control procedures.

Before entering into any separate leasing agreements with any lessor, the Company will select lessors in accordance with the measures for management of purchases of the Company and negotiate with the lessors on an arm's length basis in respect of the interests (including handling fees) of the finance leasing services, and ensure that such interests (1) are not higher than the interests (including the handling fees and other fees) provided by independent third parties to the lessee; or (2) are charged with references to the market interest rates for similar finance leasing services. If the Company becomes aware that the interests charged by the lessor are higher than those charged by any other independent third party on similar terms and conditions, the Company shall have the right to negotiate with the lessor on an arm's length basis such that the interests charged under the Finance Lease Framework Agreement are not higher than those charged by any other independent third party for finance leasing services in the market.

As far as the 2025 Purchase and Production Services Framework Agreement is concerned, currently all the products (such as raw materials (steel plates, nonferrous metals; pipe-shaped material), imported mechanical and electrical products, product accessories) and services are purchased by open tenders or negotiated tenders. The tender office (招標辦工室) of the Company will obtain at least 2 to 3 tenders (depending on the size of the contract sum) in accordance with the Company's tender management policy (招標管理辦法) to ensure that the prices of the products or services supplied by DEC or DEC Group are not less favourable than those supplied by other party supplying similar products and services to independent third parties.

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The finance department of the Company regularly reviews service charges adopted by other participants within the power equipment manufacturing industry to ensure that any service charge applied is in line with market trends. The market price is derived upon negotiation with relevant members of DEC Group, while the service charge applied shall not be less favourable than those offered by independent third parties.

As far as the 2025 Sales and Production Services Framework Agreement is concerned, currently all products and services under the Sales and Production Services Framework Agreement are supplied at market prices within prescribed price range determined through negotiation between the parties in accordance with the Company's internal sales policy. The market prices will be determined or approved by the authorized department of the Group in relation to the particular transaction.

As far as the 2025 Combined Ancillary Services Framework Agreement is concerned, the responsible department of the Company will obtain at least 2 to 3 tenders to ensure that the prices of ancillary services provided by DEC or DEC Group are not less favourable than those provided by independent third parties.

Currently all services under the 2025 Combined Ancillary Services Framework Agreement are provided at market price. The market price determined through negotiation between the parties will be within prescribed price range in accordance with the Company's internal sales policy. The market price will be determined or approved by the authorised department of the Group in relation to the particular transaction.

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

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

As far as the 2025 Financial Services Framework Agreement is concerned, DEC Finance takes the following measures:

- (a) DEC Finance will ensure that funds placed with it by the Group and those placed by DEC Group will be segregated and managed independently;

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- (b) a report on the status of DEC Group's deposits with DEC Finance will be delivered by DEC Finance to the finance department of the Company each working day to enable the Company to monitor and ensure that the daily deposits balance (including any interest accrued therefrom) of DEC Group's deposits with DEC Finance does not exceed the upper limit;
- (c) the financial statements of DEC Finance for each month will be provided to and reviewed by the finance department of the Company prior to the fifth working day of the following month;
- (d) DEC Finance will ensure the stability of its fund management system to secure funds, monitor credit risks and try its best to meet the payment needs of DEC Group while strictly complying with the risk monitoring indicators for financial institutions issued by the NFRA; and
- (e) DEC Finance has formulated management systems for credit rating, comprehensive credit granting and credit management, etc., and examines loan applications in strict accordance with the provisions of the relevant systems. Prior to the granting of loans, the account manager of DEC Finance will review the business background of the borrower, including but not limited to:
 - (1) the borrower's business scope, investment plan, etc;
 - (2) the financial position of the borrower's accounts receivable, accounts payable, etc;
 - (3) the borrower's total working capital requirements and existing financing liabilities;
 - (4) the specific purpose of the loan;
 - (5) the repayment sources, including cash flow generated from operations, etc;
 - (6) the ownership and value of the pledge or the guarantor's qualification and ability to guarantee, etc. for secured loans.

DEC Finance will regularly conduct post-credit summaries and evaluations of the credit transactions. After a loan is granted, the credit department of DEC Finance will regularly monitor the operation and financial situation of the borrower and the repayment situation on a regular basis, and if necessary, it will take appropriate measures such as requesting the borrower to repay the loan in advance or downward adjustment of the loan's risk classification in accordance with the relevant loan contract for control, so as to control and minimise the risk of the loan effectively.

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As far as the 2025 Properties and Equipment Lease Lessee Framework Agreement is concerned, the responsible department of the Company will obtain at least 2 to 3 tenders to ensure the leasing rents provided by DEC or DEC Group are not higher than those provided by independent third parties.

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

As far as the 2025 Properties and Equipment Lease Lessor Framework Agreement is concerned, the tender office (招標辦工室) of the Company will obtain at least 2 to 3 tenders to ensure that the leasing rents provided to DEC or DEC Group is not more favourable than those offered by independent third parties.

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

D. Implications Under Shanghai Listing Rules

As the total annual cap of the 2025 DEC Framework Agreements and the New Finance Lease Framework Agreement are more than RMB30 million and has reached more than 5% of the Company's audited net assets as of 31 December 2023, according to the Shanghai Listing Rules, the 2025 DEC Framework Agreements and the New Finance Lease Framework Agreement must be approved by Independent Shareholders at the Company's general meeting of shareholders.

E. General Information

The Group

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

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

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DEC

DEC is a wholly state-owned company established in the PRC with limited liability in 1984. Its registered and paid-up capital was RMB5,046.960 million. DEC is principally engaged in investment management and import and export business. According to the audited consolidated financial statements of DEC for the year ended 31 December 2023 prepared in accordance with the PRC accounting standard, its total asset value, net asset value, total operating income and net profits were approximately RMB138,895 million, RMB47,601 million, RMB66,507 million and RMB3,265 million, respectively. DEC is a controlling shareholder of the Company, holding approximately 55.82% of the total issued shares of the Company as at the Latest Practicable Date.

DEC Finance

DEC Finance is a non-bank finance company established in 1988 with the approval of the PBOC. It is currently held as to 95% by the Company and thus a subsidiary of the Company. The remaining 5% is held by DEC. As at the Latest Practicable Date, its total registered and paid-up capital was RMB2,095.001 million. The business activities of DEC Finance are regulated and supervised by the NFRA and PBOC. Its principle businesses include the provision of financial services and financial consultancy to group entities; provision of credit verification and related advisory service; provision of agency services; assisting group entities in setting payments; provision of guarantees to group entities; provision of entrusted loans and entrusted investment among group entities; provision of bill acceptance and discounting among group entities; provision of internal account settlement and clearing among group entities; design of liquidation schemes; deposit taking for group entities; provision of loans and finance leasing among group entities; provision of intercompany borrowings; provision of short-term life and health insurance, motor vehicles insurance and corporate property insurance agency services; provision of underwriting services of corporate bonds for group entities; provision of equity investments in financial institutions; provision of buyer's credit and finance lease for group entities' products; investments in securities (including stocks); forward settlement and sale of foreign exchange (basic). According to the consolidated financial statements of DEC Finance for the year ended 31 December 2023 prepared in accordance with the PRC accounting standard, its total asset value, interest income and net profits were approximately RMB41,092.870 million, RMB1,162.797 million, and RMB271.569 million, respectively.

Honghua Financial Leasing

Honghua Financial Leasing is an indirect wholly-owned subsidiary of DEC, and the principal business of which includes financial leasing (direct lease, sale and leaseback), operating lease, factoring, consulting services, etc.

LETTER FROM THE BOARD

F. Opinions of the Board

Based on the above and given that (i) the 2025 Purchase and Production Services Framework Agreement, the 2025 Combined Ancillary Services Framework Agreement, the 2025 Properties and Equipment Lease Lessee Framework Agreement, and the New Finance Lease Framework Agreement were entered into between the Company and DEC (or Honghua Financial Leasing in the case of the New Finance Lease Framework Agreement) in the normal and ordinary course of business; and (ii) the Group will gain a cost advantage from such transactions, the Directors consider that the 2025 Purchase and Production Services Framework Agreement, the 2025 Combined Ancillary Services Framework Agreement, and the 2025 Properties and Equipment Lease Lessee Framework Agreement are entered into on general commercial terms in the normal and ordinary course of business, are fair and reasonable, and in the interest of the Company and its Shareholders as a whole.

Based on the above and given that (i) the 2025 Sales and Production Services Framework Agreement, the 2025 Financial Services Framework Agreement, and the 2025 Properties and Equipment Lease Lessee Framework Agreement were entered into between the Company (or DEC Finance in the case of the 2025 Financial Services Framework Agreement) and DEC in the normal and ordinary course of business; and (ii) the Group will obtain revenue from such transactions. The Group has had a long-standing cooperative relationship with DEC Group and there have been no major trading disputes. DEC Finance is regulated and supervised by NFRA and PBOC and act as a financial agency to other members of DEC Group, so the credit risk is relatively low; the Directors (including independent non-executive Directors whose opinions are set out in the letter of the Independent Board Committee contained in this circular and have been arrived after considering the advice of the independent financial advisor regarding the 2025 Sales and Production Services Framework Agreement and the loan services under the 2025 Financial Services Framework Agreement) consider that the 2025 Purchase and Production Services Framework Agreement, the 2025 Financial Services Framework Agreement, and the 2025 Properties and Equipment Lease Lessee Framework Agreement are entered into on general commercial terms in the normal and ordinary course of business, are fair and reasonable, and in the interest of the Company and its Shareholders as a whole.

LETTER FROM THE BOARD

Each of Mr. Yu Peigen, Mr. Zhang Yanjun, Mr. Song Zhiyuan and Mr. Sun Guojun, being the Company's Directors, hold a management position with DEC, has abstained from voting on the Board resolutions approving the 2025 DEC Framework Agreements and the New Finance Lease Framework Agreement and the transactions contemplated thereunder. Save as disclosed above, none of the Directors has a material interest in the aforementioned transactions or is required to abstain from voting on the relevant resolutions in relation to the above matters.

G. Independent Board Committee and Independent Financial Adviser

The Independent Board Committee comprising Mr. Huang Feng, Mr. Zeng Daorong and Ms. Chen Yu, being all independent non-executive Directors, has been established to advise the Independent Shareholders in respect of the 2025 Sales and Production Services Framework Agreement and the 2025 Financial Services Framework Agreement in relation to loan services to be provided by DEC Finance to DEC Group pursuant thereto, and the transactions contemplated thereunder (including the proposed annual caps). SFCap has been appointed as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders as to whether the terms of the 2025 Sales and Production Services Framework Agreement and the 2025 Financial Services Framework Agreement in relation to loan services to be provided by DEC Finance to DEC Group pursuant thereto, are on normal commercial terms or better in the ordinary and usual course of business of the Company and are in the interests of the Company and the Shareholders as a whole.

IV. EGM AND THE H SHARES CLASS MEETING

The EGM and the H Shares Class Meeting will 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 Friday, 27 December 2024 at 9:00 a.m. to consider and, if thought fit, approve the matters as set out in the notice convening the EGM set out in pages EGM-1 to EGM-4 and the notice convening the H Shares Class Meeting set out in pages HCM-1 to HCM-3 of this circular.

As at the Latest Practicable Date, DEC holds approximately 55.82% 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 2025 DEC Framework Agreements and the New Finance Lease Framework Agreement and the transactions contemplated thereunder will constitute continuing connected transactions of the Company under Chapter 14A of the Hong Kong Listing Rules. Hence, DEC and its associates will abstain from voting on the resolutions in respect of the 2025 DEC Framework Agreements and the New Finance Lease Framework Agreement at the EGM.

It is a requirement of the Hong Kong Listing Rules that the voting at the EGM and the H Shares Class Meeting must be taken by poll.

LETTER FROM THE BOARD

The form of proxy for use at the EGM and the H Shares Class Meeting is enclosed with this circular. Holders of A Shares may use the forms of proxy published by the Company on the website of the Shanghai Stock Exchange instead of the form of proxy for use at the EGM. Whether or not you intend to be present at such meetings, you are requested to complete the forms of proxy in accordance with the instructions printed thereon and return the same to Computershare Hong Kong Investor Services Limited at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong (with respect to the holders of H Shares) or the Company's registered office at No. 18 Xixin Road, High-Tech District (Western District), Chengdu City, Sichuan Province, the PRC (postal code: 611731) (with respect to the holders of A Shares), no later than 24 hours before the time fixed for holding the EGM and the H Shares Class Meeting or any adjournment thereof.

Completion and delivery of the form of proxy will not prevent you from attending and voting at the relevant meeting or any adjournment thereof if you so wish.

V. CLOSURE OF REGISTER OF HOLDERS OF H SHARES

The register of holders of H Shares of the Company will be closed from Wednesday, 25 December 2024 to Friday, 27 December 2024, both days inclusive, during which period no transfer of H Shares will be effected. In order to qualify for attending the EGM and the H Shares Class Meeting, all transfer documents of H Shares accompanied by the relevant share certificates must be lodged with Computershare Hong Kong Investor Services Limited at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong not later than 4:30 p.m. on Tuesday, 24 December 2024.

VI. RESPONSIBILITY STATEMENT

This circular, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the Hong Kong Listing Rules for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief the information contained in this circular is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this circular misleading.

LETTER FROM THE BOARD

VII. RECOMMENDATIONS

The Board considers that each of the resolutions to be proposed at the EGM and the H Shares Class Meeting is in the interests of the Company and its Shareholders as a whole. Accordingly, the Board recommends that the Shareholders vote in favour of the resolutions to be proposed at the EGM and the H Shares Class Meeting.

Your attention is drawn to the letter from the Independent Board Committee set out on pages 48 to 49 of this circular and the letter from SFCap set out on pages 50 to 79 of this circular, which contains, among other matters, its advice and recommendation to the Independent Board Committee and the Independent Shareholders in connection with (i) the 2025 Sales and Production Services Framework Agreement and the transactions contemplated thereunder (including the proposed annual caps); and (ii) the 2025 Financial Services Framework Agreement in relation to loan services to be provided by DEC Finance to DEC Group pursuant thereto, and the transactions contemplated thereunder (including the proposed annual caps), and the principal factors considered by it in arriving at its advice and recommendation.

The Independent Board Committee, having taken into account the advice of the Independent Financial Adviser, is of the view that (i) the 2025 Sales and Production Services Framework Agreement and the loan services contemplated under the 2025 Financial Services Framework Agreement, and the continuing connected transactions contemplated thereunder (including the annual caps) are in the usual and ordinary course of business of the Group and are conducted on an arm's length basis and on normal commercial terms; and (ii) the terms of the 2025 Sales and Production Services Framework Agreement and the loan services contemplated under the 2025 Financial Services Framework Agreement are fair and reasonable and in the interests of the Company and its Shareholders as a whole. As such, the Independent Board Committee recommends that the Independent Shareholders vote in favour of the resolutions to be proposed at the EGM to approve the 2025 Sales and Production Services Framework Agreement and the 2025 Financial Services Framework Agreement.

VIII. FURTHER INFORMATION

Your attention is also drawn to the additional information set out in the letter from the Independent Board Committee, the letter from SFCap and the information set out in the appendix to this circular.

Yours faithfully,
By Order of the Board
Dongfang Electric Corporation Limited
Yu Peigen
Chairman



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

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

(Stock Code: 1072)

To the Independent Shareholders

12 December 2024

Dear Sir and Madam,

**CONTINUING CONNECTED TRANSACTIONS:
2025 SALES AND PRODUCTION SERVICES FRAMEWORK AGREEMENT
AND 2025 FINANCIAL SERVICES FRAMEWORK AGREEMENT AND
THE PROPOSED ANNUAL CAPS IN RESPECT THEREOF**

We refer to the circular to the Shareholders dated 12 December 2024 (the “**Circular**”), of which this letter forms part. Terms defined in the Circular shall have the same meanings when used herein unless the context otherwise requires.

We have been appointed to form the Independent Board Committee and to advise you in respect of (i) the 2025 Sales and Production Services Framework Agreement and the transactions contemplated thereunder (including the proposed annual caps); and (ii) the 2025 Financial Services Framework Agreement in relation to loan services to be provided by DEC Finance to DEC Group pursuant thereto, and the transactions contemplated thereunder (including the proposed annual caps). SFCap has been appointed by the Company to act as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders in this regard. The text of the letter of advice from the Independent Financial Adviser containing their recommendation and the principal factors they have taken into account in arriving at their recommendation are set out on pages 50 to 79 of the Circular.

LETTER FROM THE INDEPENDENT BOARD COMMITTEE

Having considered the terms and conditions of the 2025 Sales and Production Services Framework Agreement, and the 2025 Financial Services Framework Agreement, and the advice of the Independent Financial Adviser in relation thereto, we are of the opinion that the 2025 Sales and Production Services Framework Agreement and the loan services contemplated under the 2025 Financial Services Framework Agreement, and the continuing connected transactions contemplated thereunder (including the annual caps) (i) are conducted in the usual and ordinary course of business of the Group on normal commercial terms; and (ii) are fair and reasonable, and are in the interests of the Company and the Shareholders as a whole.

We therefore recommend you to vote in favour of the resolutions proposed at the EGM to approve (i) the 2025 Sales and Production Services Framework Agreement and the transactions contemplated thereunder (including the proposed annual caps); and (ii) the 2025 Financial Services Framework Agreement in relation to loan services to be provided by DEC Finance to DEC Group pursuant thereto, and the transactions contemplated thereunder (including the proposed annual caps).

Yours faithfully,
For and on behalf of
Independent Board Committee
Huang Feng Zeng Daorong Chen Yu
Independent non-executive Directors

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Set out below is the full text of the letter of advice from Sunny Fortune Capital Limited, the independent financial adviser to the Independent Board Committee and the Independent Shareholders in respect to Non-exempt New Continuing Connected Transactions Agreements and the relevant New Caps for the purpose of inclusion in this circular.



12 December 2024

To the Independent Board Committee and Independent Shareholders,

Dear Sirs and Madams,

**CONTINUING CONNECTED TRANSACTIONS-
RENEWAL OF SALES AND PRODUCTION SERVICES FRAMEWORK AGREEMENT
AND
LOAN CCT PURSUANT TO FINANCIAL SERVICES FRAMEWORK AGREEMENT**

INTRODUCTION

We refer to our engagement as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in respect of (i) the sales of products and materials and provision of production services by DEC to DEC Group (the “**Sales and Production Services CCT**”) pursuant to the 2025 Sales and Production Services Framework Agreement; and (ii) the provision of loan services under financial services by DEC Finance to DEC Group (the “**Loan CCT**”) pursuant to 2025 Financial Services Framework Agreement, details of which are set out in the letter from the Board (the “**Board Letter**”) contained in the circular dated 12 December 2024 issued by the Company to the Shareholders (the “**Circular**”), of which this letter forms part. Terms used in this letter shall have the same meanings as defined in the Circular unless the context requires otherwise.

On 30 October 2024, the board announces that it has approved the Company entered into, among other things, the 2025 Sales and Production Services Framework Agreement with DEC in respect of the Sales and Production Services CCT and the 2025 Financial Services Framework Agreement with DEC Finance in respect of, among other things, the Loan CCT, for the year ending 31 December 2027.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

With reference to the Board Letter, the Sales and Production Services CCT and the Loan CCT constitutes a continuing connected transaction for the Company under the Hong Kong Listing Rules. Both the Sales and Production Services CCT and the Loan CCT are subject to the reporting, announcement and independent shareholders' approval requirements as prescribed under the Hong Kong Listing Rules.

The Independent Board Committee comprising Mr. Huang Feng, Mr. Zeng Daorong and Ms. Chen Yu (all being independent non-executive Directors) has been established to advise the Independent Shareholders on (i) whether the terms of the Sales and Production Services Framework Agreement and the Loan CCT are on normal commercial terms and fair and reasonable so far as the Independent Shareholders; (ii) whether the Sales and Production Services CCT and the Loan CCT are in the interests of the Company and the Shareholders as a whole and are conducted in the ordinary and usual course of business of the Group; and (iii) how the Independent Shareholders should vote in respect of the resolution(s) to approve each of the 2025 Sales and Production Services Framework Agreement and the Loan CCT thereunder at the EGM. We, Sunny Fortune Capital Limited (“**SFCap**”), have been appointed as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in this respect

INDEPENDENCE

As at the Latest Practicable Date, we were independent from and not connected with the Company, DEC and their respective shareholders, directors or chief executives, or any of their respective associates, and were not aware of any relationships or interests between SFCap and the Company during the past two years immediately preceding the Latest Practicable Date, or any other parties that could be reasonably regarded as hindrance to our independence to act as the Independent Financial Adviser, and accordingly, to give independent advice to the Independent Board Committee and independent shareholders regarding (i) the 2025 Sales and Production Services Framework Agreement and (ii) the provision of loan services under financial services by DEC Finance to DEC Group pursuant to 2025 Financial Services Framework Agreement. Apart from normal professional fees payable by the Company to us in connection with this appointment, no arrangement exists whereby we will receive any fees or benefits from the Company, DEC and their respective shareholders, directors or chief executives, or any of their respective associates.

BASIS OF OUR OPINION

In formulating our opinion to the Independent Board Committee and the Independent Shareholders, we have relied on the statements, information, opinions and representations contained or referred to in the Circular and the information and representations as provided to us by the Directors. We have assumed that all information and representations that have been provided by the Directors, for which they are solely and wholly responsible, are true and accurate at the time when they were made and continue to be so as at the Latest Practicable Date. We have also assumed that all statements of belief, opinion, expectation and intention made by the Directors in the Circular were reasonably made after due enquiry and careful consideration. We have no reason to suspect that any material facts or information have been withheld or

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

to doubt the truth, accuracy and completeness of the information and facts contained in the Circular, or the reasonableness of the opinions expressed by the Company, its advisers and/or the Directors, which have been provided to us. Our opinion is based on the Directors' representation and confirmation that there are no undisclosed private agreements/arrangements or implied understanding with anyone concerning the 2025 Sales and Production Services Framework Agreement and the Loan CCT under the 2025 Financial Services Framework Agreement. We consider that we have taken sufficient and necessary steps on which to form a reasonable basis and an informed view for our opinion in compliance with Rule 13.80 of the Hong Kong Listing Rules.

The Circular, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the Hong Kong Listing Rules for the purpose of giving information with regards to the Company. The Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief, the information contained in the Circular is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement in the Circular or the Circular misleading. We, as the Independent Financial Adviser, take no responsibility for the contents of any part of the Circular, save and except for this letter of advice.

We consider that we have been provided with sufficient information to reach an informed view and to provide a reasonable basis for our opinion. We have not, however, conducted any independent in-depth investigation into the business and affairs of the Company, DEC, DEC Finance or their respective subsidiaries or associates, nor have we considered the taxation implication on the Group as a result of the Sales and Production Services CCT and Loan CCT. Our opinion is necessarily based on the financial, economic, market and other conditions in effect and the information made available to us as at the Latest Practicable Date. Shareholders should note that subsequent developments (including any material change in market and economic conditions) may affect and/or change our opinion and we have no obligation to update this opinion to take into account events occurring after the Latest Practicable Date or to update, revise or reaffirm our opinion. In addition, nothing contained in this letter should be construed as a recommendation to hold, sell or buy any Shares or any other securities of the Company.

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

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

PRINCIPAL FACTORS AND REASONS CONSIDERED

In arriving at our opinion in respect of the Sales and Production Services CCT and the Loan CCT, we have taken into consideration the following principal factors and reasons:

1. Background information

Business overview of the Group

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

Set out below a summary of the recent consolidated financial information of the Group for the six months ended 30 June 2024 and two years ended 31 December 2023 as extracted from the interim report of the Company for the six months ended 30 June 2024 (the “**2024 Interim report**”) and annual report of the Company for the year ended 31 December 2022 (the “**2022 Annual Report**”) and for the year ended 31 December 2023 (the “**2023 Annual Report**”):

	For the year ended 31 December 2022 RMB'000	For the year ended 31 December 2023 RMB'000	For the six months ended 30 June 2024 RMB'000	Change from 2022 to 2023 %
Operating income	55,363,782	60,676,613	33,457,011	9.6
– Renewable energy equipment	14,913,929	13,837,887	8,215,032	(7.2)
– Clean and efficient energy equipment	14,684,570	20,589,292	14,065,200	40.2
– Engineering and trade	10,539,987	12,022,435	3,538,128	14.1
– Modern manufacturing service industry	4,239,940	5,383,541	3,521,052	27.0
– Emerging growth industry	10,985,356	8,843,458	4,117,599	(19.5)
Profit from operations	3,323,258	3,976,684	2,110,327	19.7
Net profit	3,013,739	3,643,709	1,808,544	20.9

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

	As at 31 December 2022 <i>RMB'000</i>	As at 31 December 2023 <i>RMB'000</i>	As at 30 June 2024 <i>RMB'000</i>	Change from 2022 to 2023 %
Cash and cash equivalents	12,124,165	14,167,585	18,230,196	16.9
Total Assets	115,344,350	121,108,373	131,570,408	5.0
Total Liabilities	76,708,776	79,888,499	90,109,297	4.2
Total Equity	38,635,575	41,219,875	41,461,111	6.7

As depicted from the table above, operating income of the Group for the year ended 31 December 2023 (“FY2023”) amounted to approximately RMB60.7 billion, representing an increase of approximately 9.6% as compared to that for the year ended 31 December 2022 (“FY2022”). With reference to the 2023 Annual Report, the increase in operating income was mainly due to the fact that the Company recorded rise in operating income of (i) clean and efficient energy equipment; (ii) engineering and trade; and (iii) modern manufacturing service industry.

The Group recorded higher profit from operating for FY2023 as compared to profit from operating for FY2022, which increased 19.7% from RMB3.3 billion to RMB4.0 billion. The improvement in profit and loss position for FY2023 were mainly attributable to new effective orders, increase in the completed furnace generator electricity projects and growth in demand of power generation equipment. In addition, the momentum of major products and business development continued to be positive, causing an increase of operating income and rise of gross profit, operating profit and net profit in FY2023.

As at 30 June 2024, the Group recorded total equity and cash and cash equivalents of approximately RMB41.5 billion and RMB21.7 billion respectively. As at 30 June 2024, the Group’s total assets and total liabilities were approximately RMB131.6 billion and RMB90.1 billion respectively.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

(A) THE SALES AND PRODUCTION SERVICES CCT

(1) Background of the 2025 Sales and Production Services Framework Agreement

The Company entered into several sales and production services framework agreements with DEC since May 2007. The latest sales and production services agreement, being the 2022 Sales and Production Services Framework Agreement, will expire on 31 December 2024 and the Company and DEC intend to continue the transactions thereunder. On 30 October 2024, the Board announces that it has approved the Company and DEC to enter into the 2025 Sales and Production Services Framework Agreement, with a term effective from 1 January 2025 to 31 December 2027. Subject to the consideration and approval of the relevant resolution by the Shareholders at the extraordinary general meeting of the Company, the Company will enter into the 2025 Sales and Production Services Framework Agreement with DEC.

Information on DEC

DEC is a wholly state-owned company established in the PRC with limited liability in 1984. Its registered and paid-up capital was approximately RMB5,047 million. DEC is principally engaged in investment management and import and export business. According to the audited consolidated financial statements of DEC for FY2023 prepared in accordance with the PRC accounting standard, its total asset value, net asset value, total operating income and net profits were approximately RMB138,895 million, RMB47,601 million, RMB66,507 million and RMB3,265 million, respectively. DEC is a controlling shareholder of the Company, holding approximately 55.82% of the total issued shares of the Company as at the Latest Practicable Date.

Reasons for and possible benefits of the Sales and Production Services CCT

As advised by the Directors, given the long and close business relationship between DEC Group and the Group and the close geographical proximity of their respective operations, the Board believes that the arrangement in respect of the continuing connected transaction with DEC Group would be cost effective and will facilitate the business operations of the Group.

As also confirmed by the Directors, as the Sales and Production Services CCT are entered into in the ordinary and usual course of business of the Group and on a frequent and regular basis, it would be costly and impractical to make regular disclosure of each of the relevant transactions and obtain the prior approval from the Independent Shareholders, as required by the Hong Kong Listing Rules, if necessary. Accordingly, the Directors are of the view that the Sales and Production Services CCT will be beneficial to the Company and the Shareholders as a whole.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

In view of the above, we concur with the Directors that the Sales and Production Services CCT is conducted in the ordinary and usual course of business of the Group and is in the interests of the Company and the Shareholders as a whole.

(2) **Principal terms of the 2025 Sales and Production Services Framework Agreement**

The following table tabulates a summary of the major terms of the 2025 Sales and Production Services Framework Agreement, details of which are set out under the section headed “2025 Sales and Production Services Framework Agreement” of the Board Letter:

Date	30 October 2024
Parties	(i) The Company (as seller and service provider); and (ii) DEC (as purchaser and service user)
Subject of the transaction	<p><i>Products and materials to be supplied by the Group:</i></p> <p>The Company will, and will procure other members of the Group to, supply the following products to DEC Group: raw materials, semi-finished products, finished products, turbine products, boiler products, nuclear power products, gas turbines products, power generation equipment, production equipment, components, spare parts, supporting materials, employee necessities and other related products and materials such as photovoltaic equipment, etc.</p> <p><i>Production services to be provided by the Group:</i></p> <p>The Company will, and will procure other members of the Group to, provide the following production services to DEC Group: processing services, technical services, transportation services, import agency services, and other related production services.</p>
Term	From 1 January 2025 to 31 December 2027

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Basis of fee determination

For determining the fees of the products, materials and services to be supplied by the Group, the price of each transaction contemplated under the agreement will be determined on the following bases:

- (a) market price: i.e. the price offered by the party supplying products or providing production services to an independent third party in respect of the supply or provision of the same or similar products or production services in the ordinary course of business or the price obtained by the party purchasing products or receiving production services by way of open tender or negotiated tender, provided that independent third parties shall participate in the open tender or negotiated tender or the procedures of the open tender or negotiated tender shall comply with the requirements of applicable laws and regulations of the PRC government with reference to the Tender and Bidding Laws of the People's Republic of China (《中華人民共和國招標投標法》); or
- (b) agreed price: the cost incurred by the relevant member of the Group for the production or supply of such products or materials or provision of such services (as the case may be) plus a service charge of not more than 15% of such cost. The service charge of not more than 15% is determined with reference to the market practice adopted by other industry players. The finance department of the Company regularly reviews service charges adopted by other participants within the power equipment manufacturing industry to ensure that any service charge applied is in line with market trends and shall not be more favourable than the terms and conditions offered by the Group to any independent third parties for the supply or provision of the same or similar products and production services.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

- (c) The Company and DEC mutually agree that the fees and payment terms of the products and production services provided by the Group to DEC Group shall be based on the principle of fairness and reasonableness and should comply with general commercial practice and on normal commercial terms.
- (d) The pricing will be no less favorable than the terms of contracts with independent third parties.

Annual caps RMB2,500,000,000 for each of three years ending 31 December 2027.

In order to assess the fairness and reasonableness of the terms of sales of the Group's products, materials and production services to DEC Group, we have obtained and reviewed the Group's sales breakdown with DEC Group by product categories during FY2022, FY2023 and the six months ended 30 June 2024 (the "**Review Period**") provided by the Group.

We have discussed with the Management and understood that the prices of the products or services had followed the pricing policies stipulated under the 2022 Sales and Production Services Framework Agreement. For our due diligence purpose, we have obtained, reviewed and examined randomly-selected samples of sale and production contracts/invoices and other documents and information (e.g. description of the products, materials being sold and production services being provided) under the 2022 Sales and Production Services Framework Agreement between the Company and DEC within the Review Period, and compared them to another nine randomly-selected samples of sale and production contracts/invoices or quotations for similar products, materials and production services between the Group and independent third parties at or around the similar time. In our review of these samples, we have reviewed the products, materials being sold and production services being provided and their respective unit prices or service charge applied. The comparison shows that the prices or service charge applied of the product, materials and production services sales made by the Group to DEC Group are not lower than (i) market prices of similar products and materials between the Group and independent third parties; or (ii) agreed price representative by service charge applied for production services between the Group and independent third parties. Also, we have reviewed the payment terms of the above samples. The comparison shows that the payment terms offered by the Group to DEC Group are no more favorable than those between the Group and independent third parties.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Given that (i) our review of the pricing policy; (ii) auditor's confirmation in relation to the Continuing Connected Transactions as set out in the Company's annual reports; (iii) the nine samples were selected on a random basis, of which one were sales samples and one was production samples for each of the year/period of the Review Period; (iv) the sample were spread across each of the year/period of the Review Period; (v) the Review Period covered the historical transaction period (up to June 2024) under the 2022 Sales and Production Services Framework Agreement; and (vi) the sample selected covered average approximately 45% of the respective revenue during the Review Period, we consider the samples reviewed are fair and representative and sufficient in supporting our analysis.

Having considered the above, and the comparison shows that the prices or service charge made by the Group to DEC Group were either not lower than the market prices or agreed price between the Group and independent third parties, we concur with the Directors that the selling prices and payment terms with DEC Group for these transactions were have been adhered to the basis of determination of the selling price of the Group in respect of the supply of products, materials and production services to DEC Group. Taking into account the above and the fact that (i) there are no material differences in the principal terms of the 2025 Sales and Production Services Framework Agreement and 2022 Sales and Production Services Framework Agreement save for the proposed annual caps for each of three years ending 31 December 2027 (the "**New Sales and Production Services Cap**"); (ii) the Group will continue to implement the same policy to review and ensure the terms offered by the Group to DEC Group be on normal commercial terms and not prejudicial to the interest of the Company's minority Shareholders; and (iii) the pricing policy is fair and reasonable, we are of the view that the terms of the 2025 Sales and Production Services Framework Agreement are on normal commercial terms and are fair and reasonable so far as the Independent Shareholders are concerned.

(3) **Internal Control Measures**

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

The office of the Board and the responsible departments for managing connected transactions in the Group are responsible for ensuring that the transactions under the 2025 DEC Framework Agreements and the New Finance Lease Framework Agreement will not exceed the proposed annual caps and will be carried out in accordance with the terms (not limited to the pricing policy) of the particular transactions.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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

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

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

With reference to the Board Letter, as far as the 2025 Sales and Production Services Framework Agreement is concerned, currently all products and services under the Sales and Production Services Framework Agreement are supplied at market prices within prescribed price range determined through negotiation between the parties in accordance with the Company's internal sales policy. The market prices will be determined or approved by the authorized department of the Group in relation to the particular transaction.

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Having considered the above and in particular that

- i. We have further reviewed the CT Management Policy and based on our discussions with the Management of the Group, we understand that the Group would monitor the Sales and Production Services CCT in accordance with the CT Management Policy. The relevant department of the Group would review regularly whether the Sales and Production Services CCT is implemented in accordance with the terms of the Sales and Production Services Framework Agreement. Shall there be any material change in the market price of the materials or the production service, the parties shall negotiate to adjust the pricing policies to ensure the fairness and reasonableness of the pricing policies;
- ii. In accordance with the Listing Rules, (i) the independent non-executive Directors shall continue to report annually on whether the Sales and Production Services CCT are, among other things, conducted on normal commercial terms; and (ii) the independent auditors of the Company shall also continue to report on the non-exempt continuing connected transactions, which include the Sales and Production Services CCT. We have further reviewed the two most recent annual reports of the Company and noted that, for each of FY2022 and FY2023, (i) the Directors, including the independent non-executive Directors, had reviewed the continuing connected transactions of the Company, and confirmed, among other things, such transactions were conducted on normal commercial terms; and (ii) the independent auditors of the Company had also reported on such transactions.

We consider the effective implementation of such internal control measures would help to ensure fair pricing of the Sales and Production Services CCT. Having also considered our due diligence conducted as mentioned above, we do not doubt the effectiveness of the internal control measures.

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(4) Basis of the proposed annual caps

The table below demonstrates the historical amounts, existing annual caps and the proposed annual caps for the Sales and Production Services CCT:

	For the Year ended 31 December 2022 <i>RMB' 000</i>	For the year ended 31 December 2023 <i>RMB' 000</i>	For the six months ended 30 June 2024 <i>RMB' 000</i>
Historical amounts	325,203.2	1,212,488.9	541,182.3
Utilization rate	18.1%	67.4%	30.1%
	For the Year ended 31 December 2022 <i>RMB' 000</i>	For the year ended 31 December 2023 <i>RMB' 000</i>	For the year ending 31 December 2024 <i>RMB' 000</i>
Existing annual caps	1,800,000	1,800,000	1,800,000
	For the Year ending 31 December 2025 <i>RMB' 000</i>	For the year ending 31 December 2026 <i>RMB' 000</i>	For the year ending 31 December 2027 <i>RMB' 000</i>
Proposed annual caps	2,500,000	2,500,000	2,500,000

With reference to the Board Letter, in determining the New Sales and Production Services Cap for 2025, 2026 and 2027, the Board has considered the following factors: (a) the historical transaction amounts; (b) the growth of demand for renewable energy equipment due to relevant national energy policies. DEC Group is one of China's major energy equipment suppliers and also one of the largest energy equipment manufacturing enterprise group in the world. Against this background, the transaction amount under the 2025 Sales and Production Framework Agreement between the Group and DEC Group is expected to further increase in the future. According to the year-on-year growth rate of the comprehensive index of new power generation index in 2024, it is estimated that there will be an increase of about 30% based on the highest procurement in the past two years; (c) the estimated sale and purchase unit prices of products and materials; (d) the estimated additional sales of power generation

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equipment of RMB800 million with the commencement of the finance leasing business of DEC; (e) in terms of engineering business, the estimated demand for contracting services for solar power generation projects by DEC Group; (f) the continuing growth of demand for materials, such as steel plates and steel materials by DEC Group; and (g) taking out the impact of the temporary suspension of trading of thermal coal business.

In respect of the fairness and reasonableness of New Sales and Production Services Cap, we have performed the following work and analysis:

(i) Historical utilization rate of the existing annual caps

As shown in the table above, the utilization rates of the existing annual caps for the Sales and Production Services CCT for FY2022 and FY2023, were approximately 18.1% and 67.4%, respectively. As of the end of October 2024, the historical transaction amount was approximately RMB830 million, representing approximately 46.1% of the existing annual caps. As advised by the Management of the Company, the historically transaction amounts were relatively low mainly due to the issuance of the “Notice on Standardizing the Trade Management of Central Enterprises and Strictly Prohibiting All Types of False Trade” (Guo Zi Fa Cai Ping Gui [2023] No. 74) by the State-owned Assets Supervision and Administration Commission of the State Council (the “SASAC”), which put forward the “Ten Prohibitions” requirements for trade among connected enterprises. In order to comply with relevant compliance regulations, the Company has temporarily suspended the trading of thermal coal, resulting in a significant decrease in the business of thermal coal products. As such, the utilization rate under the Sales and Production Services CCT of the existing annual caps was moderately utilized under such circumstance.

With reference to the past business conditions and business development plans of the Group and DEC Group, as well as, the demand for products, materials purchased by DEC Group from the Group, especially steel plates and steel materials which have increased by over 600 times in FY2023 as compared to FY2022.

Given the continued growth of DEC Group’s business, with annual revenue growth of approximately 12.1% for FY2023, the Company expected that the cooperation with DEC Group will keep expanding.

(ii) Growing demand for renewable energy industry driven by recent policies

We noted that current policies are in place to support and drive increasing demand for the materials, products and production services of the Group related to the clean energy industry, which will generate momentum for both existing business and the new business opportunity. Given propelling force from the national 《「十四五」可再生能源發展規劃》 (the 14th Five-Year Plan for Renewable Energy Development) published by National Development and Reform Commission of the PRC (the “**NDRC**”) and 《「十四五」現代能源體系規劃》(the 14th Five-year Plan for Modern Energy Systems) (the “**Plans**”) jointly published by NDRC and National Energy Administration of the PRC (the “**NEA**”) in January 2022, as market-oriented power system reforms progress, the markets for electricity sales, distribution, and integrated energy services will be opened systematically. The Plans both highlighted two fundamental energy targets established by the PRC: achieving a non-fossil energy consumption proportion of around 25% and a significant increase in solar and wind power generation to 1,200 GW by 2030. The Plans also target that the annual electricity generation from renewable sources is expected to reach around 33 trillion kWh by 2025, and the incremental increase in renewable energy generation is expected to account for over 50% of the total increase in electricity consumption with wind and solar power generation doubling their output during the Plans period. In terms of actual operational conditions, as of September 2024, the comprehensive index of non-fossil energy power generation was 147.8, representing an increase of 47.8% over the 2020 base period and a year-on-year increase of 11.1%; among them, the comprehensive index of new energy power generation was 221.1, representing an increase of 121.1% over the 2020 base period and a year-on-year increase of 31.6%.¹

Building on these policies, the National Energy Administration’s 《2024年能源工作指導意見》 (Guiding Opinions on Energy Development for 2024), released on March 18, 2024, further tightened regulations on coal-fired power and called for an expansion of clean and renewable energy, setting targets to increase the non-fossil power generation installed capacity to about 55%, with wind and solar power generation contributing over 17% to the national power output. For our due diligence purpose, we discussed with the Company regarding the policies released. The Directors expect that the initiative to advance renewable energy will continue to drive demand for the construction of electricity plants, thereby increasing the need for the Group’s products and services. The focus on sustainable energy development offers a growth opportunity, enabling the Group to increase the sales to DEC Group in the following 3 years.

Note 1: For details, please refer to <https://cec.org.cn/detail/index.html?3-337895>

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(iii) New business opportunity generated by the commencement of the financial lease service

As advised by the Directors, Honghua Financial Leasing is an indirect wholly-owned subsidiary of DEC, and the principal business of which includes financial leasing (direct lease, sale and leaseback), operating lease, factoring, consulting services, etc. After the completion of equity transfer and restructuring in April 2024, Honghua Financial Leasing are now acting as DEC Group's finance lease service provider and will purchase the materials and equipments from the Group or other suppliers and lease it back to its customers for an agreed period of time at periodic rents. As suggested by the management of the Group, DEC Group aims to expand its business and enhance its market penetration by offering finance lease services to its customers, as finance leasing has become a prevalent method of conducting business in the green energy sector.

It is noted that pursuant to the "Opinions of the Central Committee of the Communist Party of China and the State Council on Accelerating Comprehensive Green Transformation of Economic and Social Development" released on July 31, 2024, local governments are encouraged to reduce the financing costs of green bonds through various means, including actively develop financial instruments such as green equity financing, green finance leases, and green trusts, and orderly promote the innovation of carbon financial products and derivatives. According to the China Banking Association's "Development Report on China's Financial Leasing Industry (2024)," finance lease companies play an important role in advancing the construction of a strong financial nation. In 2023, financial leasing companies invested an additional RMB571 billion in the green finance sector, with a compound annual growth rate of 75.47% over the past three years. Further, in April 2024, seven departments including the Ministry of Industry and Information Technology of China published the "Implementation Plan for Promoting Equipment Renewal in the Industrial Sector", proposing to intensify equipment renewal in the industrial sector. According to the implementation plan, it is estimated that by 2027, the scale of equipment investment will increase by more than 25% compared to 2023.

We have discussed with the Management and obtained a proposed potential project list, with a transaction size amounting to RMB800 million, which includes information such as the geographical location, counterparty, proposed type of equipment, materials or production services, project size, etc, that Honghua Financial Leasing are planning to participate. The list includes potential projects of (i) the Group, such as the 50 MW wind power project in Qing County, Cangzhou, and the 48.5 MW wind power project in Zhaojue; (ii) DEC Group; and (iii) the independent third parties.

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We have discussed with the Management and understand that the New Sales and Production Services Cap, and reviewed the breakdown of the calculation of it, are determined after taking into account the following factors: (i) the FY2024 annualised transaction value of approximately RMB1.1 billions based on the historical amounts for the six months ended 30 June 2024; (ii) the continuing growth of China's new energy power generation market, which was approximately 31.6% for 12 months ended September 2024; (iii) the key product development and technological innovation to consistently deliver products to the market and enhance market penetration; (iv) the new business opportunities amounting to approximately RMB800 million generated by the commencement of the finance lease service of DEC Group; and (v) catering for the potential effect such as unexpected fluctuation in market sentiment and any other unexpected fluctuation in the estimate.

We have discussed with and are advised by the Management that New Sales and Production Services Cap are based on the estimated transaction amounts of products, materials and production services to be sold to DEC Group and are projected based various factors including (a) the historical transaction amounts; (b) the growth of demand for renewable energy equipment due to relevant national energy policies. DEC Group is one of China's major energy equipment suppliers and also one of the largest energy equipment manufacturing enterprise group in the world. Against this background, the transaction amount under the 2025 Sales and Production Framework Agreement between the Group and DEC Group is expected to further increase in the future. According to the year-on-year growth rate of the comprehensive index of new power generation index in 2024, it is estimated that there will be an increase of about 30% based on the highest procurement in the past two years; (c) the estimated sale and purchase unit prices of products and materials; (d) the estimated additional sales mainly consist of power generation equipment of RMB800 million from the commencement of the finance leasing business of DEC; (e) in terms of engineering business, the estimated demand for contracting services for solar power generation projects by DEC Group; (f) the continuing growth of demand for materials, such as steel plates and steel materials by DEC Group; and (g) taking out the impact of the temporary suspension of trading of thermal coal business. Such estimated sales amounts for each product, material and production service are discussed and estimated by the responsible business representative of the Group and DEC Group mainly with reference to the anticipated demand for the relevant products, materials and production services after taking into account the nature of products, the market development trend as well as the expected business growth of DEC Group.

As illustrated above, and based on the due diligence conducted, we consider the New Sales and Production Services Cap to be fair and reasonable.

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(5) **Hong Kong Listing Rules implications**

The Directors confirmed that the Company shall comply with the requirements of Rules 14A.53 to 14A.59 of the Hong Kong Listing Rules pursuant to which (i) the values of the 2025 Sales and Production Services Framework Agreement must be restricted by the New Sales and Production Services Cap; (ii) the terms of the 2025 Sales and Production Services Framework Agreement must be reviewed by the independent non-executive Directors annually; (iii) details of independent non-executive Directors' annual review on the terms of the 2025 Sales and Production Services Framework Agreement must be included in the Company's subsequent published annual reports and financial accounts. Furthermore, it is also required by the Hong Kong Listing Rules that the auditors of the Company must provide a letter to the Board confirming whether anything has come to their attention that causes them to believe that the transactions contemplated under the 2025 Sales and Production Services Framework Agreement (i) have not been approved by the Board; (ii) were not entered into, in all material respects, in accordance with the relevant agreement governing the transactions; and (iii) have exceeded the annual cap. In the event that the total amounts of the transactions contemplated under the 2025 Sales and Production Services Framework Agreement is anticipated to exceed the annual cap, or that there is any proposed material amendment to the terms of the 2025 Sales and Production Services Framework Agreement, as confirmed by the Directors, the Company shall comply with the applicable provisions of the Hong Kong Listing Rules governing continuing connected transactions.

Recommendation on the Sales and Production Services CCT

Having taken into account the above factors and reasons, we are of the opinion that (i) the terms of the 2025 Sales and Production Services Framework Agreement (including the proposed annual caps) are on normal commercial terms and are fair and reasonable so far as the Independent Shareholders are concerned; and (ii) the Sales and Production Services CCT is in the interests of the Company and the Shareholders as a whole and is conducted in the ordinary and usual course of business of the Group. Accordingly, we recommend the Independent Board Committee to advise the Independent Shareholders to vote in favour of the relevant ordinary resolution(s) to be proposed at the EGM to approve the 2025 Sales and Production Services Framework Agreement and the transactions contemplated thereunder and we recommend the Independent Shareholders to vote in favour of the resolution(s) in this regard.

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(B) THE LOAN CCT

(1) Background of the Loan CCT under the 2025 Financial Services Framework Agreement

DEC Finance, the Group subsidiary, entered into several financial services framework agreements with DEC since May 2007. The latest Loan CCT, being the Loan CCT under the 2022 Financial Services Framework Agreement, will expire on 31 December 2024 and DEC Finance and DEC intend to continue the transactions thereunder. On 30 October 2024, the Board announces that it has approved DEC Finance and DEC to enter into the Loan CCT under the 2025 Financial Services Framework Agreement, with a term effective from 1 January 2025 to 31 December 2027. Subject to the consideration and approval of the relevant resolution by the Shareholders at the extraordinary general meeting of the Company, DEC Finance will enter into the Loan CCT under the 2025 Financial Services Framework Agreement with DEC.

(i) *Information on DEC Finance*

As extracted from the Board Letter, DEC Finance is a non-bank finance company established in 1988 with the approval of the PBOC. It is currently held as to 95% by the Company and thus a subsidiary of the Company. The remaining 5% is held by DEC. As at the Latest Practicable Date, its total registered and paid-up capital was RMB2,095 million. The business activities of DEC Finance are regulated and supervised by the NFRA and PBOC. Its principal businesses include the provision of financial services and financial consultancy to group entities; provision of credit verification and related advisory service; provision of agency services; assisting group entities to settle payments; provision of guarantees to group entities; provision of entrusted loans and entrusted investment among group entities; provision of bill acceptance and discounting among group entities; provision of internal account settlement and clearing among group entities; design of liquidation schemes; accept of deposits from group entities; provision of loans and finance leasing among group entities; provision of intercompany borrowings; provision of short-term life and health insurance, motor vehicles insurance and corporate property insurance agency services; provision of underwriting services of corporate bonds for group entities; provision of equity investments in financial institutions; provision of buyer's credit and finance lease for group entities' products; investments in securities (including stocks); forward settlement and sale of foreign exchange (basic).

According to the consolidated financial statements of DEC Finance for FY2023 prepared in accordance with the PRC accounting standard, its total asset value, interest income and net profits were approximately RMB41,093 million, RMB1,163 million, and RMB272 million, respectively.

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(ii) Reasons for and possible benefits of the Loan CCT

With reference to the Board Letter, DEC Finance provides loan services to DEC Group:

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

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

As advised by the Management of the Company, the Company is of the view that entering into the Loan CCT will benefit the Group in the following aspects:

- i. In consideration of the sound financial position and the existing cash surplus of DEC Finance, the Group would like to seize the opportunity to obtain greater returns for the Shareholders. The proposed annual caps for each of three years ending 31 December 2027 in respect of the Loan CCT (the “**New Loan Cap**”) of RMB5,000 million is currently deposited in the banks in the PRC with an interest rate ranging from approximately 0.35% to 2.50% for FY2022, 0.35% to 2.55% for FY2023 and 0.15% to 2.45% for six months ended 30 June 2024, respectively, per annum while the one-year loan prime rate is 3.10% as published by PBOC as at the date of the Loan CCT. As such, the interest rates under the Loan CCT are expected to be no less favourable than that deposit interest rate offered by banks in the PRC. Therefore, entering into the Loan CCT will enable the Group to increase the rate of return of its cash and cash equivalents so as to increase both the interest income and the profits of the Group. As the Company has not identified other significant investment opportunities or business expansion at the current stage, the provision of loan services would provide additional interest income to the Company and is considered to be a good investment opportunity for the Group.

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- ii. DEC Group is under the supervision of competent authorities in the PRC and is ultimately controlled by the SASAC. Having considered (a) the background of DEC Group's ultimate beneficial owner; (b) the strong financial position of DEC Group, with total asset value, net asset value, total operating income and net profits of approximately RMB138,895 million, RMB47,601 million, RMB66,507 million and RMB3,265 million, respectively; and (c) the Company is able to access to and review the material information and development of DEC Group from time to time, the Board is of the view that (i) DEC Group has the ability and intention to repay the interests and principal as they fall due and the default risk of DEC Group is justifiable; and (ii) the assets and interests of the Company and the Shareholders can be safeguarded.

In assessing the reason and benefits of entering into the Loan CCT, we have considered the size of cash and cash equivalents and deposits of DEC Finance. The table below illustrates the cash and cash equivalents of DEC Finance as at 31 December 2022 and 31 December 2023:

	As at 31 December 2022	As at 31 December 2023
	<i>(RMB'000)</i>	<i>(RMB'000)</i>
	<i>(Approximately)</i>	<i>(Approximately)</i>
	(Audited)	(Audited)
Cash and cash equivalents and deposits	10,733,528	9,521,007

Having considered that (i) DEC Finance will enjoy interest rates at least no less favourable than the deposit interest rate(s) offered by the banks in the PRC and it is beneficial to the Group to increase the rate of return of its cash and cash equivalents and deposits for the purposes of increasing both the interest income and the profits of the Group as compared to depositing idle cash resources in banks; (ii) the Company has internal control measures, as stated in section "(3) Internal Control Measures" below, to monitor credit risk; and (iii) DEC Group has no material record of default of payment and non-compliance, as it is wholly owned by the SASAC, which ensures the recoverability of the loans, we concur with the Directors that the provision of loan services is in the interests of the Company and the Shareholders as a whole.

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(2) **Principal terms of the 2025 Financial Services Framework Agreement in respect of the Loan CCT**

The following table tabulates a summary of the major terms of the 2025 Financial Services Framework Agreement in respect of the Loan CCT:

Date	30 October 2024
Parties	(i) DEC Finance (as service provider); and (ii) DEC (as service user)
Subject of the transaction	<p>DEC Finance will provide the loan services to DEC Group.</p> <p>DEC Finance and DEC (or members of DEC Group) shall separately enter into further specific contracts in relation to the use of loan services to provide for specific transaction terms (including but not limited to repayment period and detailed rules on deposit and withdrawal services). Such specific contracts shall be based on and in line with the principles, terms and conditions under the Loan CCT of 2025 Financial Services Framework Agreement and relevant laws and regulations (including but not limited to the Hong Kong Listing Rules).</p> <p>DEC, based on consideration after comparing the terms and conditions offered by DEC Finance and any third parties, is entitled to select the most favourable transaction terms and conditions and use the loan services provided by independent third parties to DEC Group and its members.</p>
Term	From 1 January 2025 to 31 December 2027
Basis of fee determination	<p>The interest rates for loans provided by DEC Finance to DEC Group will be determined based on the relevant interest rates as announced by the PBOC from time to time.</p> <p>The interest rates charged by DEC Finance on loans to DEC Group will be no less favorable than the interest rates charged by major PRC commercial banks on comparable loans.</p>
Annual caps	RMB5,000,000,000 for each of three years ending 31 December 2027.

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We have reviewed the 2022 Financial Services Framework Agreement in respect of Loan CCT and also the 2025 Financial Services Framework Agreement in respect of Loan CCT. We note that, save for the duration and annual cap, other key terms in the 2022 Financial Services Framework Agreement in respect of Loan CCT are similar to the 2025 Financial Services Framework Agreement entered into by the parties in respect of Loan CCT.

We have discussed with the Management and understood that the interest rates of the loan services had followed the terms stipulated under the 2022 Financial Services Framework Agreement in respect of the Loan CCT. We have also reviewed samples of Individual Agreements entered into between DEC Finance and DEC Group regarding the provision of loan services provided by the Group and compared with the contracts between the third-party commercial banks and DEC Group regarding comparable loans with relevant documents or the interest rates as announced by the PBOC. We noted that (i) the interest rates for loans provided by DEC Finance to DEC Group were no less favourable than the relevant interest rates as announced by the PBOC from time to time; and (ii) the interest rates charged by DEC finance on loans to DEC Group were no less favourable than the interest rates charged by third-party commercial banks on comparable loans.

Given that (i) our review of the terms; (ii) auditor's confirmation in relation to the Continuing Connected Transactions as set out in the Company's annual reports; (iii) the 15 samples were selected on a random basis; (iv) the samples were spread across each of the year/period of the Review Period; (v) the Review Period covered the historical transaction period (up to June 2024) under the 2022 Financial Services Framework Agreement; and (vi) the samples selected covered average of approximately 48% during the Review Period, we consider the samples reviewed are sufficient and representative for accessing the comparables.

In light of all of the above and the due diligence that we performed, we concur with the Directors that the terms of the Loan CCT are on normal commercial terms and are fair and reasonable so far as the Independent Shareholders are concerned.

(3) Internal Control Measures

Apart from the internal control measures as mentioned above in section "A (3) Internal Control Measures", in respect of the Loan CCT under the 2025 Financial Services Framework Agreement, DEC Finance takes the following measures, as referenced in the Board Letter:

- (a) the financial statements of DEC Finance for each month will be provided to and reviewed by the finance department of the Company prior to the fifth working day of the following month;
- (b) DEC Finance will ensure the stability of its fund management system to secure funds, monitor credit risks and try its best to meet the payment needs of DEC Group while strictly complying with the risk monitoring indicators for financial institutions issued by the NFRA; and

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- (c) DEC Finance has formulated management systems for credit rating, comprehensive credit granting and credit management, etc., and examines loan applications in strict accordance with the provisions of the relevant systems. Prior to the granting of loans, the account manager of DEC Finance will review the business background of the borrower, including but not limited to:
- (1) the borrower's business scope, investment plan, etc;
 - (2) the financial position of the borrower's accounts receivable, accounts payable, etc;
 - (3) the borrower's total working capital requirements and existing financing liabilities;
 - (4) the specific purpose of the loan;
 - (5) the repayment sources, including cash flow generated from operations, etc;
 - (6) the ownership and value of the pledge or the guarantor's qualification and ability to guarantee, etc. for secured loans.

DEC Finance will regularly conduct post-credit summaries and evaluations of the credit transactions. After a loan is granted, the credit department of DEC Finance will regularly monitor the operation and financial situation of the borrower and the repayment situation on a regular basis, and if necessary, it will take appropriate measures such as requesting the borrower to repay the loan in advance or downward adjustment of the loan's risk classification in accordance with the relevant loan contract for control, so as to control and minimize the risk of the loan effectively.

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Having considered the above and in particular that

- i. We have further reviewed the two most recent risk and operation assessment report of DEC Finance, and we are not aware of any factors that would raise our concerns on the risk control measures of DEC Finance. Based on our discussions with the Management of the Group, we understand that the Group would review regularly, and at least semiannually, on the operation and risk control of DEC Finance. Shall there be any material change on the risk level of DEC Finance, the Company would take appropriate measures to control and minimize the risk accordingly.
- ii. Based on our discussions with the Management, we understand that the Company would monitor the Loan CCT in accordance with the internal control policies. The relevant department of the Group would review regularly whether the Loan CCT is implemented in accordance with the terms of the 2025 Financial Services Framework Agreement, among others, the interest rate. Shall there be any material change in the interest rate as announced by the PBOC, the parties shall negotiate to adjust the interest to ensure the fairness and reasonableness of the pricing policies.
- iii. In accordance with the Listing Rules, (i) the independent non-executive Directors shall continue to report annually on the Loan CCT are, among other things, conducted on normal commercial terms; and (ii) the independent auditors of the Company shall also continue to report on the non-exempt continuing connected transactions, which include the Loan CCT. We have further reviewed the two most recent annual reports of the Company and noted that, for each of FY2022 and FY2023, (i) the Directors, including the independent non-executive Directors, had reviewed the continuing connected transactions of the Company, and confirmed, among other things, such transactions were conducted on normal commercial terms; and (ii) the independent auditors of the Company had also reported on such transactions.

We consider the effective implementation of such internal control measures would help to ensure fair pricing of the Loan CCT. Having also considered our due diligence conducted as mentioned above, we do not doubt the effectiveness of the internal control measures.

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(4) Basis of the proposed annual caps in respect of the Loan CCT

The table below shows the historical amounts, existing annual caps and the proposed annual caps for the Loan CCT:

	For the Year ended 31 December 2022 <i>RMB' 000</i>	For the year ended 31 December 2023 <i>RMB' 000</i>	For the six months ended 30 June 2024 <i>RMB' 000</i>
Maximum daily balance of loans and accrued interest	642,561.8	1,349,782.4	1,782,008.9
Utilization rate	35.7%	75.0%	99.0%*
	For the Year ended 31 December 2022	For the year ended 31 December 2023	For the year ending 31 December 2024
Existing annual caps for the maximum daily balance of loans and accrued interest <i>(RMB' 000)</i>	1,800,000	1,800,000	1,800,000
	For the Year ending 31 December 2025 <i>RMB' 000</i>	For the year ending 31 December 2026 <i>RMB' 000</i>	For the year ending 31 December 2027 <i>RMB' 000</i>
Proposed annual caps for the maximum daily balance of loans and accrued interest	5,000,000	5,000,000	5,000,000

* *Utilization rate of the existing annual caps for the maximum daily balance of loans and accrued interest for the six months ended 2024*

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With reference to the Board Letter, in determining the New Loan Cap for the loan services for each of the years ending 31 December 2025, 2026 and 2027, the Board has considered the following factors: (a) the historical amounts are close to the annual caps; (b) the demand for loans services arising from the operation and development of members of DEC Group. The Company expects that there will be approximately RMB1.6 billion of loans from 2024 to be carried over to next year, and expects to increase the loan amount by 20% (approximately RMB320 million) on the existing business as at the Latest Practicable Date. In addition, it is estimated that the increase in loan demand generated from digitization, new materials and other businesses of the members of DEC Group, as well as from the continued growth in the future offshore engineering business and investment in the construction of offshore wind power platforms of the Honghua Group and the possibility of taking over due loans from other commercial banks placed by members of DEC Group, may amount to a total of approximately RMB3 billion; (c) interest rates offered by other commercial banks in the PRC to DEC Group for comparable loans; and (d) the Group's cash on hand and the amount of accounts receivable.

In assessing the reasonableness of the New Loan Cap, we have considered the major factors in relation to the (i) the utilization rates of the existing Loan CCT; (ii) the balance of cash and cash equivalents and deposits; and (iii) the business prospect of DEC Group.

- i. The utilization rates of the Loan CCT for FY2022 and FY2023 were approximately 35.7% and 75.0% respectively, and for the six months ended 30 June 2024, the utilization rate of the existing annual caps reached approximately 99.0%, which was close to fully utilized. Given that the maximum daily balance of loans and accrued interest has a growth rate of 110.1% as of December 31, 2023, and 32.0% as of June 30, 2024, and considering that the loan amount for 2024 was limited by the existing annual cap, the Director advised that DEC Group would be able to utilize higher level of funding over the next three years and hence it is reasonable for DEC Finance to set the New Loan Cap for each of three years ending 31 December 2027 to RMB5,000 million.
- ii. As illustrated above in section "1.(ii) Reasons for and possible benefits of the Loan CCT", we noted that according to the financial statements of DEC Finance, the cash and cash equivalents and deposits of DEC Finance was approximately RMB10,734 million as at 31 December 2022 and RMB9,521 million as at 31 December 2023 respectively.

As such, the size of the New Loan Cap only accounted for approximately 52.5% of the cash and cash equivalents and deposits of DEC Finance as at 31 December 2023, which indicates DEC Finance is capable to make productive use of their idle cash resources and the provision of loans service has provided DEC Finance the opportunities to earn higher income from idle cash resources from time to time. With such a high level of cash resources, even the New Loan Cap is fully utilized, DEC Finance will still have sufficient capital for their operational usage.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

- iii. As advised by the management of the Group, the business development of DEC Group drives the demand for loan services. The loan amounts under the Loan CCT for the year ending 31 December 2025 are arranged as follows: (i) with an existing loan balance of approximately RMB1.6 billion rolling over into the next year, a 20% increase in the loan amount is anticipated based on the current business operation; and (ii) the ongoing investments in digitalization, new materials, and the future offshore wind power platform construction by DEC Group and Honghua Group will further boost the expected loan amounts. We noted that, pursuant to 《「十四五」現代能源體系規劃》(the 14th Five-year Plan for Modern Energy Systems) jointly published by the NDRC and the NEA of the PRC in January 2022, and 《2024年能源工作指導意見》(the Guiding Opinions on Energy Development for 2024) released by the NEA on 18 March 2024, the development of industry related to non-fossil and renewable energy, including wind and solar energy etc., is anticipated to drive the growth of DEC Group's business, which is expected to increase the demand for the loan services provided by DEC Finance. Thereby, it is recommended that the New Loan Cap to be increased to RMB5 billion to meet the business needs.

We have discussed with the Management and understand that the annual cap of RMB5 billion are determined taking into account: (i) with an existing loan balance of approximately RMB1.6 billion rolling over into the next year, a 20% increase in the loan amount is anticipated based on the current business operation; (ii) an approximately of RMB2 billion of the existing loan that are provided by the banks to DEC Group, can be replaced by the facility line provided by DEC Finance should there be sufficient annual caps for loans; (iii) the ongoing investments in digitalization, new materials, and the future offshore wind power platform construction by DEC Group and Honghua Group will further boost the expected loan amounts; and (iv) catering for the potential effect such as unexpected fluctuation in market sentiment and any other unexpected fluctuation in the estimate.

In order to utilize the idle cash and cater the potential business growth of DEC Group, it is reasonable for the Group to manage spare funds by provision of loan services to DEC Group, given that the interest rates are at terms not lower than those offered by either PBOC from time to time or major commercial banks in the PRC, which provides an opportunity to earn additional income, while maintaining a sufficient financial resources for operational usage. Having considered the above, we are of the view that the basis adopted by the Company in determining the New Loan Cap are fair and reasonable and in the interest of the Company and its Shareholders as a whole. However, the Shareholders should note that the New Loan Cap relates to the future event and it does not represent a forecast of turnover to be generated from the provision of loan services contemplated under the Loan CCT.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

(5) Hong Kong Listing Rules implications

The Directors confirmed that the Company shall comply with the requirements of Rules 14A.53 to 14A.59 of the Hong Kong Listing Rules pursuant to which (i) the maximum values of the Loan CCT must be restricted by the New Loan Cap; (ii) the terms of the 2025 Financial Services Framework Agreement in respect of Loan CCT must be reviewed by the independent non-executive Directors annually; (iii) details of independent non-executive Directors' annual review on the terms of the Loan CCT under the 2025 Financial Services Framework Agreement must be included in the Company's subsequent published annual reports and financial accounts. Furthermore, it is also required by the Hong Kong Listing Rules that the auditors of the Company must provide a letter to the Board confirming whether anything has come to their attention that causes them to believe that the transactions contemplated under the 2025 Financial Services Framework Agreement in respect of Loan CCT (i) have not been approved by the Board; (ii) were not entered into, in all material respects, in accordance with the relevant agreement governing the transactions; and (iii) have exceeded the annual cap. In the event that the total amounts of the transactions contemplated under the Loan CCT of the 2025 Financial Services Framework Agreement is anticipated to exceed the annual cap, or that there is any proposed material amendment to the terms of the Loan CCT under the 2025 Financial Services Framework Agreement, as confirmed by the Directors, the Company shall comply with the applicable provisions of the Hong Kong Listing Rules governing continuing connected transactions.

With the stipulation of the above requirements for the Loan CCT pursuant to the Hong Kong Listing Rules as well as the internal control policy adopted by the Group, we are of the view that there are adequate measures in place to monitor the Loan CCT under the 2025 Financial Services Framework Agreement and hence the interest of the Independent Shareholders would be safeguarded.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Recommendation on the Loan CCT

Having taken into account the above factors and reasons, we are of the opinion that (i) the terms of the Loan CCT are on normal commercial terms and are fair and reasonable so far as the Independent Shareholders are concerned; and (ii) the Loan CCT is in the interests of the Company and the Shareholders as a whole and is conducted in the ordinary and usual course of business of the Group. Accordingly, we recommend the Independent Board Committee to advise the Independent Shareholders to vote in favour of the relevant ordinary resolution(s) to be proposed at the EGM to approve the Loan CCT under 2025 Financial Services Framework Agreement and the transactions contemplated thereunder and we recommend the Independent Shareholders to vote in favour of the resolution(s) in this regard.

Yours faithfully,
For and on behalf of
Sunny Fortune Capital Limited
Tam Wui Chun
Director

Mr. Tam Wui Chun is a licensed person under the SFO to engage in, among others, Type 6 (advising on corporate finance) regulated activity and has over 10 years of experience in investment banking and corporate finance.

1. RESPONSIBILITY STATEMENT

This circular includes particulars given in compliance with the Hong Kong Listing Rules for the purpose of giving information with regard to the Company. The Directors collectively and individually accept full responsibility for the accuracy of the information contained in this circular and confirm, having made all reasonable enquiries, that to the best of their knowledge and belief there are no other facts the omission of which would make any statement herein misleading.

2. DISCLOSURE OF INTERESTS

2.1 Interests of Directors, Supervisors, Chief Executives of the Company

As at the Latest Practicable Date, the interests of Directors, supervisors and chief executives of the Company in the Shares of the Company are as follows:

Name	Position	Nature of Interest	Number of Shares held	Approximate percentage	Approximate percentage
				of the Company's total issued share capital	in the respective class of the Company's total issued share capital
Liang Shuo	Supervisor	Beneficial owner	8,000 A Shares (L)	0.00%	0.00%

(L) – Long Position

Save as disclosed above, as at the Latest Practicable Date, none of the Directors, Supervisors and chief executives of the Company had any interest or short positions in the shares and underlying shares of the Company and its associated corporations (within the meaning of Part XV of the SFO) which (a) were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO), (b) were required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein or (c) were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers, to be notified to the Company and the Stock Exchange.

2.2 Positions held by Directors and Supervisors of the Company in Substantial Shareholder(s)

As at the Latest Practicable Date:

- (a) Yu Peigen, a Director, was also the secretary of the party committee and chairman of the board of directors of DEC.
- (b) Zhang Yanjun, a Director, was also a member of the Party Group, a director and the general manager of DEC.
- (c) Song Zhiyuan, a Director, was also a director and deputy secretary of Party Group of DEC.
- (d) Sun Guojun, a Director, was also a deputy general manager and a member of the Party Leadership Group of DEC.

2.3 Interests of Substantial Shareholders' of the Company

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

Name of shareholder	Capacity and nature of interest	Number of Shares held	Percentage of total share capital (%)	Percentage in the respective class of share capital (%)
Dongfang Electric Corporation	Beneficial owner	1,739,215,216 A Shares (L)	55.79%	62.62%
	Interest held by controlled corporation	858,800 H Shares (L)	0.03%	0.25%

(L) – Long position

3. COMPETING INTERESTS

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

4. INTERESTS IN THE GROUP'S ASSETS OR SIGNIFICANT CONTRACTS

As at the Latest Practicable Date, (i) none of the Directors, had any direct or indirect interest in any assets which had been since 31 December 2023 (being the date to which the latest published audited accounts of the Company were made up) acquired or disposed of by or leased to, or were proposed to be acquired or disposed of by or leased to, any member of the Group; and (ii) none of the Directors is materially interested in any contract or arrangement entered into by the Company or any of its subsidiaries which contract or arrangement is subsisting at the date of this circular and which is significant in relation to the business of the Group.

5. QUALIFICATION AND CONSENT

The following is the qualification of the experts who have given an opinion or advice on the information contained in this circular:

Name	Qualifications
Sunny Fortune Capital Limited	A corporation licensed under the SFO and permitted to carry out Type 1 (dealing in securities), Type 4 (advising on securities) and Type 6 (advising on corporate finance) regulated activities under the SFO

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

As at the Latest Practicable Date, SFCap did not have any direct or indirect interest in any assets which had been acquired or disposed of by or leased to any member of the Group, or was proposed to be acquired or disposed of by or leased to any member of the Group since 31 December 2023, being the date to which the latest published audited accounts of the Company were made up.

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

6. NO MATERIAL ADVERSE CHANGE

The Directors are not aware of any material adverse change in the financial or trading position of the Group since 31 December 2023, being the date to which the latest published audited consolidated accounts of the Company were made up.

7. SERVICE CONTRACTS

As at the Latest Practicable Date, none of the Directors or supervisors of the Company had any service contract with the Company or any of its subsidiaries which would not expire or was not determinable by the Company or any of its subsidiaries within one year without payment of compensation (other than statutory compensation).

8. MATERIAL LITIGATION

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

9. MATERIAL CONTRACTS

Set out below are the material contracts (not being contracts entered into in the ordinary course of business) entered into by any member of the Group within the two years immediately preceding the Latest Practicable Date:

- (a) the DEC Group Subscription Agreement;
- (b) the DEC Group Assets Acquisition Agreement; and
- (c) the Compensation Agreement.

Save as disclosed above, there is no material contract (not being a contract entered into in the ordinary course of business) entered into by any member of the Group within the two years immediately preceding the Latest Practicable Date.

10. DOCUMENTS ON DISPLAY

Copies of the following documents will be displayed on the website of the Stock Exchange (<https://www.hkexnews.hk>) and the website of the Company (www.dec-ltd.cn) for the period of 14 days commencing from the date of this circular:

- (a) the 2025 Sales and Production Services Framework Agreement; and
- (b) the 2025 Financial Services Framework Agreement.

11. GENERAL

- (a) The registered office of the Company is situated at No. 18 Xixin Road, High-Tech District (Western District), Chengdu, Sichuan, the PRC.
- (b) The principal place of business of the Company is at No. 333, Shuhan Road, Chengdu, Sichuan, the PRC.
- (c) Save as otherwise disclosed in this circular, the English text of this circular shall prevail over the Chinese text in case of inconsistency.

NOTICE OF THE EGM



東方電氣股份有限公司

DONGFANG ELECTRIC CO., LTD.

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

(Stock Code: 1072)

NOTICE OF THE 2024 THIRD EXTRAORDINARY GENERAL MEETING

NOTICE IS HEREBY GIVEN that the 2024 third extraordinary general meeting (the “**EGM**”) of Dongfang Electric Corporation Limited (the “**Company**”) will be held at the conference room of the Company, No. 18 Xixin Road, High-Tech District (Western District), Chengdu City, Sichuan Province, the People's Republic of China (the “**PRC**”) at 9:00 a.m. on Friday, 27 December 2024 for the purposes of considering and, if thought fit, approving the following resolutions:

SPECIAL RESOLUTION

1. To consider and approve the resolution in relation to the repurchase and cancellation of certain restricted shares

NOTICE OF THE EGM

ORDINARY RESOLUTIONS

2. To consider and approve the resolution in relation to the 2025–2027 ordinary continuing connected transactions of the Company
 - 2.01 To consider and approve the 2025–2027 Purchase and Production Services Framework Agreement
 - 2.02 To consider and approve the 2025–2027 Sales and Production Services Framework Agreement
 - 2.03 To consider and approve the 2025–2027 Combined Ancillary Services Framework Agreement
 - 2.04 To consider and approve the 2025–2027 Financial Services Framework Agreement
 - 2.05 To consider and approve the 2025–2027 Properties and Equipment Lease Lessee Framework Agreement
 - 2.06 To consider and approve the 2025–2027 Properties and Equipment Lease Lessor Framework Agreement
 - 2.07 To consider and approve the 2025–2027 Finance Lease Framework Agreement

By Order of the Board
Dongfang Electric Corporation Limited
Feng Yong
Joint Company Secretary

Chengdu, Sichuan Province, the PRC
12 December 2024

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

Directors: Yu Peigen, Zhang Yanjun, Song Zhiyuan and Sun Guojun

Independent Non-executive Directors: Huang Feng, Zeng Daorong and Chen Yu

NOTICE OF THE EGM

Notes:

1. All holders of the Company's H Shares whose names appear on the register of members of the Company on Wednesday, 25 December 2024 are entitled to attend the EGM and should bring along their identity cards or passports when attending the EGM. Holders of the Company's H Shares should note that the register of members of the Company will be closed from Wednesday, 25 December 2024 to Friday, 27 December 2024 (both dates inclusive) during which period no transfers of H Shares will be effected. All transfer documents accompanied by the relevant share certificates must be lodged with the Company's share registrar in respect of H Shares, namely Computershare Hong Kong Investor Services Limited at Shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong no later than 4:30 p.m. on Tuesday, 24 December 2024. Holders of the Company's H Shares who intend to attend the EGM should deliver the completed and signed reply slip for attending at the EGM, a copy of each of the shareholding document(s), copies of their identity cards or passports (with the pages showing the names of such Shareholders), by hand, by post (postal code: 611731) or by facsimile (fax number: (86) 28 8758 3551), to the correspondence address of the Company (No. 18 Xixin Road, High-Tech District (Western District), Chengdu City, Sichuan Province, the PRC) with the attention to the office of the Board on or before Thursday, 26 December 2024. The record date and arrangements in respect of the holders of A Shares who are entitled to attend the EGM will be determined and announced separately in the PRC by the Company.
2. Any Shareholder of the Company entitled to attend and vote at the EGM is entitled to appoint a proxy or more proxies (who need not be a Shareholder of the Company) to attend the EGM and vote thereat in his/her/its stead. For Shareholders of the Company who appoint more than one proxy, the voting right can only be exercised by their proxies on a poll.
3. Any Shareholder of the Company who intends to appoint a proxy to attend the EGM shall put it in writing, to be signed by the appointer or his/her/its attorney duly authorized in writing. If any holder of the Company's H Shares who intends to appoint a proxy is a corporation, the proxy form must be affixed with the common seal of such Shareholder, or signed by any of its directors or attorney duly authorized in writing. If the proxy form is signed by an attorney authorized by the Shareholder of the Company, the power of attorney or other authority must be notarially certified. The notarially certified power of attorney or other authority together with the instrument appointing the proxy must be delivered to the Company's H share registrar, Computershare Hong Kong Investor Services Limited at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong (for H Shareholders only) not later than 24 hours before the time appointed for the holding of the EGM. Completion and return of the proxy form will not affect the rights of the Shareholders of the Company to attend and vote at the EGM in person.
4. Proxies of holders of the Company's H Shares shall bring along the proxy form, instrument(s) for appointing a proxy (if applicable) and the proxies' identity cards or passports to attend the EGM.
5. An ordinary resolution shall be passed by Shareholders (including proxies) representing more than half of the votes represented by the Shareholders (including proxies) present at the EGM. A special resolution shall be passed by Shareholders (including proxies) representing more than two-third of the votes represented by the Shareholders (including proxies) present at the EGM.

NOTICE OF THE EGM

6. Directors, supervisors and senior management of the Company and the witnessing lawyers and other relevant staff members employed by the Company will attend the EGM.
7. The EGM will last for not more than one day. Shareholders and proxies attending the EGM should be responsible for their own accommodation, travelling and other relevant expenses.
8. Contact details of the Company are set out as follows:

Correspondence address: No. 18 Xixin Road, High-Tech District (Western District), Chengdu City, Sichuan Province, the PRC

Contact person: Mr. Liu Zhi
Telephone: (86) 28 8758 3666
Fax: (86) 28 8758 3551
Email address: dsb@dongfang.com
Postal code: 611731

NOTICE OF THE H SHARES CLASS MEETING



東方電氣股份有限公司

DONGFANG ELECTRIC CO., LTD.

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

(Stock Code: 1072)

NOTICE OF THE 2024 SECOND H SHARES CLASS MEETING

NOTICE IS HEREBY GIVEN that the 2024 Second H Shares Class Meeting of Dongfang Electric Corporation Limited (the “**Company**”) will be held at the conference room of the Company, No. 18 Xixin Road, High-Tech District (Western District), Chengdu City, Sichuan Province, the People's Republic of China (the “**PRC**”) at 9:00 a.m. on Friday, 27 December 2024 (or immediately after the 2024 Second A Shares Class Meeting of the Company to be convened and held on the same date and at the same place) (“**H Shares Class Meeting**”) for the purpose of considering and, if thought fit, passing the following special resolution:

SPECIAL RESOLUTION

1. To consider and approve the resolution in relation to the repurchase and cancellation of certain restricted shares

By order of the Board
Dongfang Electric Corporation Limited
Feng Yong
Joint Company Secretary

Chengdu, Sichuan Province, the PRC
12 December 2024

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

Directors: Yu Peigen, Zhang Yanjun, Song Zhiyuan and Sun Guojun

Independent Non-executive Directors: Huang Feng, Zeng Daorong and Chen Yu

NOTICE OF THE H SHARES CLASS MEETING

Notes:

1. All holders of the Company's H Shares whose names appear on the register of members of the Company on Wednesday, 25 December 2024 are entitled to attend the H Shares Class Meeting and should bring along their identity cards or passports when attending the H Shares Class Meeting. Holders of the Company's H Shares should note that the register of members of the Company will be closed from Wednesday, 25 December 2024 to Friday, 27 December 2024 (both dates inclusive) during which period no transfers of H Shares will be effected. All transfer documents accompanied by the relevant share certificates must be lodged with the Company's share registrar in respect of H Shares, namely Computershare Hong Kong Investor Services Limited at Shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong no later than 4:30 p.m. on Tuesday, 24 December 2024. Holders of the Company's H Shares who intend to attend the H Shares Class Meeting should deliver the completed and signed reply slip for attending at the H Shares Class Meeting, a copy of each of the shareholding document(s), copies of their identity cards or passports (with the pages showing the names of such Shareholders), by hand, by post (postal code: 611731) or by facsimile (fax number: (86) 28 8758 3551), to the correspondence address of the Company (No. 18 Xixin Road, High-Tech District (Western District), Chengdu City, Sichuan Province, the PRC) with the attention to the office of the Board on or before Thursday, 26 December 2024.
2. Any Shareholder of the Company entitled to attend and vote at the H Shares Class Meeting is entitled to appoint a proxy or more proxies (who need not be a Shareholder of the Company) to attend the H Shares Class Meeting and vote thereat in his/her/its stead. For Shareholders of the Company who appoint more than one proxy, the voting right can only be exercised by their proxies on a poll.
3. Any Shareholder of the Company who intends to appoint a proxy to attend the H Shares Class Meeting shall put it in writing, to be signed by the appointer or his/her/its attorney duly authorized in writing. If the Shareholder of the Company who intends to appoint a proxy is a corporation, the proxy form must be affixed with the common seal of such Shareholder, or signed by any of its directors or attorney duly authorized in writing. If the proxy form is signed by an attorney authorized by the Shareholder of the Company, the power of attorney or other authority must be notarially certified. The notarially certified power of attorney or other authority together with the proxy form must be delivered to the Company's H share registrar, Computershare Hong Kong Investor Services Limited at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong (for H Shareholders only) not later than 24 hours before the time appointed for the holding of the H Shares Class Meeting. Completion and return of the proxy form will not affect the rights of the holders of the Company to attend and vote at the H Shares Class Meeting in person.
4. Proxies of holders of the Company's H Shares shall bring along the proxy form, instrument(s) for appointing a proxy (if applicable) and the proxies' identity cards or passports to attend the H Shares Class Meeting.
5. A special resolution shall be passed by holders of the Company's H Shares (including proxies) representing more than two-third of the votes represented by holders of the Company's H Shares (including proxies) present at the H Shares Class Meeting.
6. Directors, supervisors and senior management of the Company and the witnessing lawyers and other relevant staff members employed by the Company will attend the H Shares Class Meeting.

NOTICE OF THE H SHARES CLASS MEETING

7. The H Shares Class Meeting will last for not more than one day. Holders of the Company's H Shares and proxies attending the H Shares Class Meeting should be responsible for their own travelling, accommodation and other relevant expenses.
8. Contact details of the Company are set out as follows:

Correspondence address: No. 18 Xixin Road, High-Tech District (Western District), Chengdu City, Sichuan Province, the PRC

Contact person: Mr. Liu Zhi
Telephone: (86) 28 8758 3666
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