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

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

(Stock Code: 1072)

CONTINUING CONNECTED TRANSACTIONS
ENTERING INTO FINANCE LEASE FRAMEWORK AGREEMENT

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On 30 September 2022, the Company entered into the Finance Lease Framework Agreement with Honghua Group, pursuant to which, Honghua Group agreed to provide finance lease services for production equipment, including direct leasing and sale-and-leaseback services, to the Group. The term will commence on 30 September 2022 until 31 December 2024, with the annual caps of the continuing connected transactions.

LISTING RULES IMPLICATIONS

As at the date of this announcement, DEC is the controlling shareholder of the Company, holding approximately 55.40% of the total issued shares of the Company. At the same time, DEC directly and indirectly holds 29.98% of the issued shares of Honghua Group and is a substantial shareholder of Honghua Group. Honghua Group is an associate of DEC under the Listing Rules and a connected person of the Company in accordance with the Listing Rules. Therefore, the Finance Lease Framework Agreement and the transactions contemplated thereunder will constitute continuing connected transactions of the Company under Chapter 14A of the Listing Rules.

As the highest applicable percentage ratio in respect of the annual caps for the transactions under the Finance Lease Framework Agreement exceeds 0.1% but is less than 5%, the transactions are only subject to the reporting, announcement and annual review requirements, but exempt from the circular and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

FINANCE LEASE FRAMEWORK AGREEMENT

The Board announces that on 30 September 2022, the Company entered into the Finance Lease Framework Agreement with Honghua Group, pursuant to which, Honghua Group agreed to provide finance lease services for production equipment, including direct leasing and sale-and-leaseback services, to the Group. The principal terms of the Finance Lease Framework Agreement are summarized as follows:

Date:

30 September 2022

Parties:

- (a) The Company (as the Lessee, on behalf of itself, its subsidiaries and its associates);
and
- (b) Honghua Group (as the Lessor, on behalf of its subsidiaries).

Term and effectiveness condition:

From 30 September 2022 to 31 December 2024. The Finance Lease Framework Agreement shall become effective subject to the approval by the general meeting of Honghua Group.

Form of lease:

- i. Direct leasing: 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;
- ii. Sale-and-leaseback: the Lessor shall purchase the leased asset from the Group and lease it back for an agreed period and receive 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.

The Company has the right to choose to use the finance lease services provided by independent third parties to the Group on the most favourable terms and conditions of the transaction and is not under any obligation to use the finance lease services provided by Honghua Group.

Annual caps and basis of determination:

	For the year ending 31 December		
	2022	2023	2024
	<i>(RMB'000)</i>		
Finance lease services	50,000	150,000	150,000

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

1. the prevalent market conditions (including interest rates) and the potential adjustments to the lending rates by the PBOC in the future; and
2. the Group's current financing needs and future development prospects.

As of the date of this announcement, Honghua Group 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 Group, 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 which are no less favourable to the Group than those offered by lessors of similar qualifications; 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.

In determining the handling fees to be paid to Honghua Group, the Company will take into account, among others, (i) the applicable rates for the relevant services published by the PBOC from time to time; and (ii) the terms and conditions which are no less favourable to the Group than those offered by lessors of similar qualifications.

As at the date of this announcement, DEC is the controlling shareholder of the Company, holding approximately 55.40% of the total issued shares of the Company. At the same time, DEC directly and indirectly holds 29.98% of the issued shares of Honghua Group and is a substantial shareholder of Honghua Group. Honghua Group is an associate of DEC under the Listing Rules and a connected person of the Company in accordance with the Listing Rules. Therefore, the Finance Lease Framework Agreement and the transactions contemplated thereunder will constitute continuing connected transactions of the Company under Chapter 14A of the Listing Rules.

As the highest applicable percentage ratio in respect of the annual caps for the transactions under the Finance Lease Framework Agreement exceeds 0.1% but is less than 5%, the transactions are only subject to the reporting, announcement and annual review requirements, but exempt from circular and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

REASONS FOR AND BENEFITS OF ENTERING INTO FINANCE LEASE FRAMEWORK AGREEMENT

The transactions under the Finance Lease Framework Agreement are beneficial to the Group as they will enable the Company to (1) broaden its financing channels and raise low-cost funds; (2) optimise cash flow management; and (3) facilitate the smooth development and operation of the Group's business.

The Directors consider that the 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 its Shareholders as a whole.

INTERNAL CONTROL MEASURES

The Company has established a connected transaction management policy (關聯交易管理辦法) (the “**CT Management Policy**”) to ensure that connected transactions will be conducted in a fair, just 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 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 risk control 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 under 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 members.

Where various units and controlled subsidiaries of the Company enter into continuing connected transaction agreements with the same associate 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 risk control department of the Company and finance department of the Company and report it 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 it 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 it 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 (關連交易運行簡報) to the Board (including independent non-executive directors) for consideration.

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

Before entering into any separate leasing agreements with the Lessor, the Company will select lessor in accordance with the measures for management of purchases of the Company and negotiate with the lessor 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.

GENERAL INFORMATION

About 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.

About DEC

DEC is a wholly state-owned company established in the PRC with limited liability in 1984. DEC is principally engaged in investment management and import and export business. As at the date of this announcement, DEC is a controlling shareholder of the Company, holding approximately 55.40% of the total issued shares of the Company.

Honghua Group

Honghua Group is a company incorporated in the Cayman Islands with limited liability, the shares of which are listed on the Stock Exchange (stock code: 196). As at the date of this announcement, DEC directly and indirectly holds 29.98% of the issued shares of Honghua Group, and is a substantial shareholder of Honghua Group; Tricor Equity Trustee Limited, as the trustee of The ZYL Family Trust and other 5 family trusts, holds 13.69% of the issued shares of Honghua Group in total.

Honghua Group and its subsidiaries are principally engaged in the business of developing, manufacturing and selling drilling rigs, rig parts and components and providing after-sales services.

OPINIONS OF THE BOARD

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

Each of Mr. Yu Peigen, Mr. Xu Peng, Mr. Liu Zhiquan, Mr. Zhang Jilie and Mr. Zhang Yanjun, being a Director who holds a management position with DEC, is considered to have material interests in the Finance Lease Framework Agreement, and has abstained from voting on the Board resolution approving the Finance Lease Framework Agreement and the transactions contemplated thereunder. The remaining three independent non-executive Directors (Mr. Liu Dengqing, Mr. Huang Feng and Mr. Ma Yongqiang) have voted on and considered and approved unanimously the Board resolution approving the Finance Lease Framework Agreement and the transactions contemplated thereunder.

Save as disclosed above, none of the Directors has any material interests in the transactions contemplated under the Finance Lease Framework Agreement and their annual caps.

DEFINITIONS

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

“A Shares”	the domestic shares of the Company with a nominal value of RMB1.00 each, which are listed on the Shanghai Stock Exchange and traded in RMB
“associate(s)”	has the meaning ascribed thereto under the 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 Listing Rules
“continuing connected transactions”	has the meaning ascribed thereto under the Listing Rules
“controlling shareholder”	has the meaning ascribed thereto under the Listing Rules
“DEC”	中國東方電氣集團有限公司 (Dongfang Electric Corporation), a wholly state-owned company established in the PRC with limited liability and the controlling shareholder of the Company
“DEC Group”	DEC and its subsidiaries (excluding the Group)
“Director(s)”	director(s) of the Company
“Finance Lease Framework Agreement”	2022-2024 finance lease framework agreement dated 30 September 2022 and entered into between the Company and Honghua Group
“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
“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
“Listing Rules”	Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited
“PBOC”	中國人民銀行 (The People’s Bank of China)
“PRC”	the People’s Republic of China which, for the purpose of this announcement, excludes Hong Kong, the Macau Special Administrative Region and Taiwan

“RMB”	Renminbi, the lawful currency of the PRC
“Share(s)”	the share(s) of the Company, including A Shares and H Shares
“Shareholder(s)”	holder(s) of Shares
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“%”	per cent

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

Chengdu, Sichuan, the PRC
30 September 2022

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

Directors: *Yu Peigen, Xu Peng, Zhang Yanjun, Liu Zhiquan and Zhang Jilie*

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