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**THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION**

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If you are in any doubt about any of the contents of this circular or as to what action to take in relation to this circular, you should seek independent professional advice.

If you have sold or transferred all your shares in **Huadian Power International Corporation Limited\*** (the “Company”), you should at once hand this circular and the proxy form and reply slip to the purchaser(s) or the transferee(s) or to the bank, licensed securities dealer or other agent through whom the sale or transfer was effected for transmission to the purchaser(s) or the transferee(s).

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**華電國際電力股份有限公司**

**Huadian Power International Corporation Limited\***

*(A Sino-foreign investment joint stock company limited by shares incorporated in the People's Republic of China (the “PRC”))*

(Stock Code: 1071)

**(1) DISCLOSEABLE AND CONNECTED TRANSACTION  
ACQUISITION OF EQUITY INTEREST IN HUBEI POWER GENERATION  
FROM CHINA HUADIAN;  
AND  
(2) CONTINUING CONNECTED TRANSACTIONS RESULTING FROM  
THE ACQUISITION AND ADJUSTMENT OF ANNUAL CAPS**

**Financial Adviser to the Company**



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



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A letter from the Board is set out on pages 1 to 29 of this circular. A letter from the Independent Board Committee is set out on pages 30 to 31 of this circular. A letter from the Independent Financial Adviser, containing its advice to the Independent Board Committee and the Independent Shareholders, is set out on pages 32 to 59 of this circular.

The notice convening the EGM of the Company to be held at 2 p.m. on 30 June 2015 at Huabin International Hotel, No.4 Xuanwumennei Street Xicheng District, Beijing, the PRC was despatched to the Shareholders on 15 May 2015, which is reproduced on pages 116 to 119 of this circular.

If you are eligible and intend to attend the EGM, please complete and return the reply slip despatched on 15 May 2015 in accordance with the instructions printed thereon on or before Tuesday, 9 June 2015. Shareholders who intend to appoint a proxy to attend the EGM shall complete and return the proxy form despatched on 15 May 2015 in accordance with the instructions printed thereon not less than 24 hours before the time fixed for holding the EGM or any adjournment thereof (as the case may be). Completion and return of the proxy form will not preclude you from attending the EGM and voting in person if you so wish.

8 June 2015

\* For identification purpose only

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## DEFINITIONS

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

- “A Shares” means domestically listed domestic shares in the ordinary share capital of the Company, with a par value of RMB1.00 each, which are listed on the Shanghai Stock Exchange;
- “Acquisition” means the acquisition of the 82.5627% equity interest in Hubei Power Generation by the Company from China Huadian, which is subject to the Independent Shareholders’ approval at the EGM;
- “Acquisition Agreement” means the acquisition agreement dated 15 May 2015 entered into between the Company and China Huadian in relation to the proposed acquisition of equity interest in Hubei Power Generation which is subject to the Independent Shareholders approval at the EGM;
- “associate” has the meaning ascribed to it under the Hong Kong Listing Rules that apply to the Company;
- “Board” means the board of Directors constituted from time to time;
- “Cap Increment” means the addition RMB1.5 billion increment (from RMB6 billion to RMB7.5 billion) to the Existing Annual Cap to the Existing Financial Services Agreement for each of the three years ending 31 December 2017 in respect of the deposit services provided by Huadian Finance to the Enlarged Group pursuant to the Supplemental Agreement to Financial Services Agreement, which is subject to the Independent Shareholders’ approval at the EGM;
- “Carve-out Agreement” means the equity transfer agreement entered into between Hubei Power Generation and China Huadian on 15 May 2015 in respect of the Wuchang Thermal Power Carve-out;
- “CBRC” means China Banking Regulatory Commission;
- “China Huadian” means 中國華電集團公司 (China Huadian Corporation\*), a wholly state-owned enterprise in the PRC, and the controlling shareholder of the Company;

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## DEFINITIONS

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“Company”	means 華電國際電力股份有限公司 (Huadian Power International Corporation Limited*), a Sino-foreign investment joint stock company limited by shares incorporated in the PRC, whose H Shares and A Shares are listed on the Hong Kong Stock Exchange and the Shanghai Stock Exchange respectively;
“Completion Date”	means the 1st of the following calendar month after the Acquisition Agreement becoming effective upon obtaining the Independent Shareholders’ approval at the EGM in respect of the Acquisition;
“connected person(s)”	has the meaning ascribed to it under the Hong Kong Listing Rules that apply to the Company;
“Consideration”	means RMB3,845.21 million, the consideration payable by the Company to China Huadian for the Acquisition;
“controlled installed capacity”	means the aggregate installed capacity of a company and its subsidiaries;
“controlling shareholder”	has the meaning ascribed to it under the Hong Kong Listing Rules that apply to the Company;
“Directors”	means the director(s) of the Company duly appointed from time to time;
“EGM”	means the extraordinary general meeting of the Company to be convened to consider and approve the (i) the Acquisition and the Acquisition Agreement and (ii) the Supplemental Agreement to Financial Services Agreement and Cap Increment;
“Enlarged Group”	means the Company and, from time to time, its subsidiaries, including but not limited to Hubei Power Generation and its respective subsidiaries and branch company, if any, following completion of the Acquisition;

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## DEFINITIONS

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“Existing Annual Cap(s)”	means, as the case may be, (i) the annual cap for the year ended 31 December 2015 for the transactions contemplated under the Existing Coal, Equipments and Services Purchase (Supply) Framework Agreement and/or (ii) the cap for each of the three years ending 31 December 2017 in respect of the transactions contemplated under the Existing Financial Services Agreement regarding deposit services provided by Huadian Finance, each approved by the independent Shareholders at an extraordinary general meeting held on 23 December 2014;
“Existing Coal, Equipments and Services Purchase (Supply) Framework Agreement”	means the coal, equipments and services purchase (supply) framework agreement entered into between China Huadian and the Company on 6 November 2014 in relation to the mutual supply of coal and provision of products and services between China Huadian and the Group, the principal terms of which have been announced in the Company’s announcement on 6 November 2014 and circular on 27 November 2014 and summarised in this circular;
“Existing Financial Services Agreement”	means the financial services framework agreement entered into between Huadian Finance and the Company on 6 November 2014 in relation to the provision of financial services by Huadian Finance, the principal terms of which have been announced in the Company’s announcement on 6 November 2014 and circular on 27 November 2014 and summarised in this circular;
“Group”	means the Company and its subsidiaries from time to time;
“H Shares”	means the overseas listed foreign shares in the ordinary share capital of the Company, with a par value of RMB1.00 each, which are listed on the Hong Kong Stock Exchange;
“HK\$”	means Hong Kong dollars, the lawful currency of Hong Kong;
“Hong Kong”	means the Hong Kong Special Administrative Region of the People’s Republic of China;
“Hong Kong Listing Rules”	means the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited;
“Hong Kong Stock Exchange”	means The Stock Exchange of Hong Kong Limited;

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## DEFINITIONS

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“Huadian Coal”	means 華電煤業集團有限公司 (Huadian Coal Industry Group Company Limited*), a subsidiary of China Huadian and holding 40% equity interest in Huadian Hubei Fuel;
“Huadian Finance”	means 中國華電集團財務有限公司 (China Huadian Corporation Finance Company Limited*), a limited liability company established in the PRC, and an associate of China Huadian;
“Huadian Hubei Fuel”	means 華電湖北燃料有限公司 (Huadian Hubei Fuel Company Limited*), a limited liability company incorporated on 7 April 2013 in the PRC;
“Huadian Xisaishan Power Generation”	means 湖北華電西塞山發電有限公司 (Hubei Huadian Xisaishan Power Generation Company Limited*), a limited liability company incorporated on 15 August 2007 in the PRC;
“Huangshi Thermal Power Plant”	means 華電湖北發電有限公司黃石熱電廠 (Huangshi Thermal Power Plant of Huadian Hubei Power Generation Company Limited*), a branch of Hubei Power Generation established on 5 February 2010 in the PRC;
“Hubei Huadian Engineering”	means 湖北華電電力工程有限公司 (Hubei Huadian Electric Power Engineering Company Limited*), a limited liability company incorporated on 14 May 2009 in the PRC, a subsidiary of Hubei Power Generation;
“Hubei Power Generation” or the “Target Company”	means 華電湖北發電有限公司 (Huadian Hubei Power Generation Company Limited*), a limited liability company incorporated in the PRC, being the target of the Acquisition;
“Independent Board Committee”	means the board committee to be established for the purpose of the Acquisition, the Supplemental Agreement to the Financial Services Agreement and the Cap Increment comprising the independent non-executive Directors;

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## DEFINITIONS

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“Independent Financial Adviser” or “China Investment Securities”	means China Investment Securities International Capital Limited, a corporation licensed to conduct Type 6 (advising on corporate finance) regulated activity under the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong), the independent financial adviser appointed by the Company to advise the Independent Board Committee and the Independent Shareholders in respect of the Acquisition, the Supplemental Agreement to Financial Services Agreement and the Cap Increment;
“Independent Shareholders”	means the Shareholders other than China Huadian and its associates, and all other Shareholders (if any) who are interested or involved in the Acquisition, the Supplemental Agreement to Financial Services Agreement and the Cap Increment;
“Jinyuan Hydroelectric”	means 湖北金源水電發展有限責任公司 (Hubei Jinyuan Hydroelectric Development Limited Liability Company*), a limited liability company incorporated on 7 April 1995 in the PRC;
“KPMG Huazhen”	KPMG Huazhen (Special General Partnership), Certified Public Accountants registered in the PRC, qualified to practise securities and futures related businesses;
“Latest Practicable Date”	means 3 June 2015, being the latest practicable date prior to the printing of this circular for ascertaining certain information contained herein;
“PBOC”	means the People’s Bank of China;
“PRC”	means the People’s Republic of China;
“PRC Accounting Standards”	means China Accounting Standards for Business Enterprises;
“Proposed Shaanxi Coal Annual Cap(s)”	means the annual caps for each of the three years ended 31 December 2017 for the transactions contemplated under the Shaanxi Coal Purchase Framework Agreement;
“RMB”	means Renminbi, the lawful currency of the PRC;

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## DEFINITIONS

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“SASAC”	means the State-owned Assets Supervision and Administration Commission of the State Council of the PRC;
“SFO”	means the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong), as amended, supplemented or otherwise modified from time to time;
“Shaanxi Coal and Chemical Group”	means 陝西煤業化工集團有限責任公司 (Shaanxi Coal and Chemical Group Industry Group Co., Ltd.*), a limited company incorporated in June 2006 in the PRC;
“Shaanxi Coal Purchase Framework Agreement”	means the coal purchase framework agreement entered into between Shaanxi Coal Transportation and the Company on 15 May 2015 in relation to supply of coal by Shaanxi Coal Transportation to the Enlarged Group;
“Shaanxi Coal Transportation”	means 陝西省煤炭運銷（集團）有限責任公司 (Shaanxi Coal Selling and Transportation (Group) Corporation*), a limited company incorporated in August 1998 in the PRC, a wholly owned subsidiary of Shaanxi Coal and Chemical Group;
“Share(s)”	means share(s) with a par value of RMB1.00 each in the share capital of the Company;
“Shareholders”	means shareholders of the Company;
“Supplemental Agreement to Financial Services Agreement”	means the supplemental agreement to the Existing Financial Services Agreement entered into between Huadian Finance and the Company on 15 May 2015, which is subject to the Independent Shareholders’ approval at the EGM;



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## DEFINITIONS

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“Target Group”	means Hubei Power Generation, its subsidiaries and branch company, including Huangshi Thermal Power Plant, Xisaishan Power Generation, Huadian Xisaishan Power Generation, Xiangyang Power Generation, Huadian Hubei Fuel, Jinyan Hydroelectric and Hubei Huadian Engineering, excluding Wuchang Thermal Power;
“Valuer”	means China Enterprise Appraisals Co., Ltd. (北京中企華資產評估有限公司), a qualified State-owned assets valuer authorised by the State, which is appointed by China Huadian to appraise the equity interest in the Target Group;
“Wuchang Thermal Power”	means 湖北華電武昌熱電有限公司 (Hubei Huadian Wuchang Thermal Power Company Limited*), a limited company incorporated on 19 May 2006 in the PRC;
“Wuchang Thermal Power Carve-out”	means the carve-out of Wuchang Thermal Power from Hubei Power Generation pursuant to the Carve-out Agreement;
“Xiangyang Power Generation”	means 湖北華電襄陽發電有限公司 (Hubei Huadian (Xiangyang) Power Generation Company Limited*), a limited company incorporated on 28 November 2003 in the PRC;
“Xisaishan Power Generation”	means 湖北西塞山發電有限公司 (Hubei Xisaishan Power Generation Company Limited*), a limited liability company incorporated on 18 October 2000 in the PRC; and
“%”	means per cent.

\* *For identification purpose only*



華電國際電力股份有限公司

**Huadian Power International Corporation Limited\***

(A Sino-foreign investment joint stock company limited by shares incorporated in the People's Republic of China (the "PRC"))

(Stock Code: 1071)

*Directors*

Li Qingkui (*Chairman, Non-executive Director*)  
Chen Jianhua (*Vice Chairman, Non-executive Director*)  
Wang Yingli (*Vice Chairman, Non-executive Director*)  
Chen Bin (*Executive Director*)  
Geng Yuanzhu (*Executive Director*)  
Gou Wei (*Non-executive Director*)  
Chu Yu (*Non-executive Director*)  
Zhang Ke (*Non-executive Director*)  
Ding Huiping (*Independent Non-executive Director*)  
Wang Dashu (*Independent Non-executive Director*)  
Wei Jian (*Independent Non-executive Director*)  
Zong Wenlong (*Independent Non-executive Director*)

*Office address:*

No.2 Xuanwumennei Street  
Xicheng District  
Beijing, the PRC

*Place of business in Hong Kong:*

36<sup>th</sup> Floor, Tower Two  
Times Square  
1 Matheson Street  
Causeway Bay  
Hong Kong

8 June 2015

*To the Shareholders*

Dear Sir or Madam,

**(1) DISCLOSEABLE AND CONNECTED TRANSACTION  
ACQUISITION OF EQUITY INTEREST IN HUBEI POWER GENERATION  
FROM CHINA HUADIAN;**

**AND**

**(2) CONTINUING CONNECTED TRANSACTIONS RESULTING FROM  
THE ACQUISITION AND ADJUSTMENT OF ANNUAL CAPS**

**I. INTRODUCTION**

Reference is made to the announcement of the Company dated 15 May 2015 in relation to the Acquisition, the Existing Agreement to Coal, Equipments and Services Purchase (Supply) Framework Agreement and the Supplemental Agreement to Financial Services Agreement and the Cap Increment.

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## LETTER FROM THE BOARD

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The purpose of this circular is to provide the Shareholders with further information in respect of resolutions regarding the following matters to be proposed at the EGM to enable the Shareholders to make their informed decisions as to how to vote at the EGM:

- (i) details of the proposed Acquisition; and
- (ii) the terms of the Supplemental Agreement to Financial Services Agreement and the Cap Increment.

### II. THE ACQUISITION

On 15 May 2015, the Company entered into the Acquisition Agreement with China Huadian, pursuant to which, China Huadian has conditionally agreed to sell, and the Company has agreed to purchase, 82.5627% equity interest in Hubei Power Generation at a consideration of approximately RMB3,845.21 million which will be paid by the Company in cash with its own funds. Upon completion of the Acquisition, Hubei Power Generation will become a subsidiary of the Company.

The principal terms of the Acquisition Agreement are set out as follows:

#### THE ACQUISITION AGREEMENT

##### Date

15 May 2015

##### Parties

Vendor: China Huadian

Purchaser: The Company

##### Equity interest in Hubei Power Generation to be acquired by the Company

- 82.5627% equity interest in Hubei Power Generation;

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## LETTER FROM THE BOARD

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### Consideration

The Consideration is approximately RMB3,845.21 million. The Consideration is determined with reference to the total appraised value of the Target Group (including the appraised value of the equity interest in Wuchang Thermal Power) as at 31 December 2014 at approximately RMB4,657.33 million in the aggregate, valued by the Valuer. In accordance with the valuation report issued by the Valuer, the results of the valuation determined through an assets-based approach was adopted to arrive at the overall valuation of the Target Group. The full details of the valuation report of the Target Company provided by the Valuer is disclosed in Appendix I of this circular.

Based on the valuation report issued by the Valuer, the appraised value of the 82.5627% equity interest in Hubei Power Generation as at 31 December 2014 is set out as follows:

<b>Equity interests in Hubei Power Generation</b>	<b>Appraised value</b>
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82.5627% equity interest in Hubei Power Generation	Approximately RMB3,845.21 million ( <i>Note</i> )
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*Note:* The Company expects that completion of Wuchang Thermal Power Carve-out will take place before the Completion Date. The consideration of Wuchang Thermal Power Carve-out was determined with reference to the appraised value of Wuchang Thermal Power as of 31 December 2014, which is included in the appraised value of Hubei Power Generation as of 31 December 2014. Upon completion of the Wuchang Thermal Power Carve-out, the cash consideration payable to Hubei Power Generation in respect of the Wuchang Thermal Power Carve-out will become a receivable of Hubei Power Generation. The net assets value of Hubei Power Generation will not be affected after completion of the Wuchang Thermal Power Carve-out. Based on the above, the Company submits that the Consideration is fair and reasonable to include Wuchang Thermal Power in the valuation.

The Company will arrange for preparation of completion accounts for the Target Company as of the completion date. If the amount of the Target Company's net assets as shown by such completion accounts differs from the corresponding appraised value which has been considered by the parties in determining the Consideration, China Huadian will be entitled to or liable for an amount (the "**variance**") equal to a proportionate portion of such excess or shortfall, as the case may be. China Huadian has undertaken to operate the Target Group and its businesses in generally the same manner as they have been until completion; and based on information available about the Target Group, the Company anticipates that the variance, if any, should be of a relatively negligible or an insignificant amount when compared to the Consideration.

China Huadian is entitled to rights to dividends from the Target Company that correspond to its profits during the period from 1 January 2015 to the Completion Date.

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## LETTER FROM THE BOARD

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According to applicable laws, the valuation report of the Target Group and Wuchang Thermal Power have been duly filed in compliance with state-owned asset appraisal procedure.

### **Major Terms**

#### *Conditions precedent to the Acquisition*

The completion of the Acquisition is conditional upon satisfaction of the following conditions:

- (a) all necessary internal corporate approval procedures having been satisfied in accordance with the requirements of the articles of associations of China Huadian and the Company and applicable laws and regulations;
- (b) there being no laws, rules or regulations announced or promulgated by any competent governmental authorities or orders or injunctions issued by courts with jurisdiction that restrict the completion of the Acquisition;
- (c) all necessary approvals, consents, filings or certificates and consents from third parties of material importance having been obtained from the government or its designated institutions, except for such legal procedure that can only be proceeded after completion as required by applicable laws and regulations; and
- (d) the Acquisition Agreement and the Acquisition having been approved by the Independent Shareholders at the EGM as required under the rules and regulations of the relevant stock exchanges applicable to the Company.

#### *Completion and payment of consideration*

Subject to the conditions precedent mentioned above being fulfilled, the Acquisition will complete on the Completion Date or such other date as agreed in writing between the Company and China Huadian.

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## LETTER FROM THE BOARD

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The Consideration will be payable by the Company in cash by way of transfer into the bank account as designated by China Huadian in the following manners:

- (a) Within five working days from the day when the Acquisition Agreement becoming effective, the Company shall pay the first instalment of the Consideration, being 51% of the Consideration, to China Huadian;
- (b) Within five working days from the completion of the change of industrial and commercial registration in respect of the Acquisition, the Company shall pay the second instalment of the Consideration, being 29% of the Consideration, to China Huadian; and
- (c) Within six months after the completion date of the Acquisition, the Company shall pay the last instalment of the Consideration (deducting relevant fees and expenses), being 20% of the Consideration, to China Huadian.

China Huadian and the Company will, as soon as practicable after the Completion Date, complete the necessary filing and registration in relation to the change of shareholder of Hubei Power Generation with the relevant authority under State Administration for Industry and Commerce (國家工商行政管理機關).

### ***Representations, warranties and other provisions***

The Acquisition Agreement contains representations, warranties, undertakings, indemnities and reimbursements' provisions about matters such as the Target Group and its operations or business affairs. Such provisions are generally customary for a transaction of this nature, and were agreed after arm's length negotiations between the parties.

### ***Wuchang Thermal Power Carve-out***

Wuchang Thermal Power has been a 94.26% subsidiary of Hubei Power Generation. Wuchang Thermal Power will be carved out of Hubei Power Generation and will not form part of the Target Group for the purpose of the Acquisition.

On 15 May 2015, China Huadian and Hubei Power Generation entered into a Carve-out Agreement, pursuant to which Hubei Power Generation agreed to transfer and China Huadian agreed to acquire the 94.26% equity interest in Wuchang Thermal Power at a consideration of RMB175,351,900, which was determined based on an appraised value of Wuchang Thermal Power.

The Company currently expects that completion of the Wuchang Thermal Power Carve-out will take place before the Completion Date.

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## LETTER FROM THE BOARD

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### INFORMATION ON THE TARGET GROUP

#### 1. *Installed capacity of the Target Group*

Hubei Power Generation is principally engaged in generation of coal-fire power. Its general information is as follows:

	<b>Total controlled installed capacity as at 31 March 2015</b>	<b>Nature of power plant</b>	<b>Province</b>	<b>Shareholding percentage of Hubei Power Generation after completion of the Acquisition</b>
Target Group*	5,120MW	Coal-fired	Hubei	82.5627%

\* The operating data of Wuchang Thermal Power has been discounted from operating data included in this circular in relation to Hubei Power Generation to reflect the Wuchang Thermal Power Carve-out. For the avoidance of doubts, Huadian Hubei Fuel does not have power generation assets

As at 31 March 2015, the Company's total controlled installed capacity was 38,093.3MW. It is estimated that upon completion of the Acquisition, the Company's total controlled installed capacity will increase to appropriately 43,213.3MW, representing an increase of approximately 13.44%.

#### 2. *Information on Hubei Power Generation, its subsidiaries and branch company*

- *Hubei Power Generation*

Hubei Power Generation was incorporated on 6 December 1995 with a registered capital of RMB1,492,012,075. Before completion of the Acquisition, Hubei Power Generation is held as to 82.5627% by China Huadian and 17.4373% by other independent third party investors.

Hubei Power Generation is principally engaged in the development, investment, construction, operation and management of electric power, thermal power and new energy, the processing and sale of electric power equipments and materials, consultation for electric power technology and management, comprehensive application of electric power resources, environmental protection and other high and new technologies.

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## LETTER FROM THE BOARD

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As of the Latest Practicable Date, Hubei Power Generation held interest in the following companies and thermal power plants:

a. Huangshi Thermal Power Plant

According to the scope of business as set out in the relevant business licence of Huangshi Thermal Power Plant, Huangshi Thermal Power Plant is principally engaged in production, supply and comprehensive application of electric power (except for those prohibited by the PRC government); production and sale of thermal power; sale of coal ash, combined ash and desulphurized gypsum; lease on self-owned properties and lands; wholesale of coal. Huangshi Thermal Power Plant currently operates a coal-fired generator of 200 MW and a coal-fired generator of 330 MW.

Huangshi Thermal Power is a branch company of Hubei Power Generation.

b. Xisaishan Power Generation

Xisaishan Power Generation is held as to 50% by Hubei Power Generation and 50% by two independent third party investors. According to the scope of business as set out in the relevant business licence of Xisaishan Power Generation, Xisaishan Power Generation is principally engaged in construction, possession, operation, and maintenance of generators (the licence of Xisaishan Power Generation currently allows up to two generators each with a capacity at 300 MW level and one generator with a capacity at 100 MW level); production and sale of electric power; comprehensive application and operation of wastes from the electric power plant; consultation and services for electric power technology, procurement of electric power materials and equipments, thermal supply, coal operation, and provision of relevant operation and services. Xisaishan Power Generation currently operates two coal-fired power generators each with a capacity of 330 MW.

Xisaishan Power Generation is a subsidiary of Hubei Power Generation.



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## LETTER FROM THE BOARD

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c. Huadian Xisaishan Power Generation

Huadian Xisaishan Power Generation is held as to 50% by Hubei Power Generation and 50% by two independent third party investors. According to the scope of business as set out in the relevant business licence of Huadian Xisaishan Power Generation, Huadian Xisaishan Power Generation is principally engaged in the construction, possession, operation and maintenance of supercritical coal-fired generators each with a capacity at 2\*600 MW level, production and sale of electric power; comprehensive application and operation of wastes from the electric power plant; consultation and services for electric power technology, procurement of electric power materials and equipments, thermal supply, coal operation, and provision of relevant operation and services. Huadian Xisaishan Power Generation currently operates two coal-fired power generators each with a capacity of 680 MW.

Huadian Xisaishan Power Generation is a subsidiary of Hubei Power Generation.

d. Xiangyang Power Generation

Xiangyang Power Generation is held as to 60.1% by Hubei Power Generation and 39.9% by independent third party investors. According to the scope of business as set out in the relevant business licence of Xiangyang Power Generation, Xiangyang Power Generation is principally engaged in development, investment, construction and operation of electric power projects; production and sale of electric power; comprehensive application and operation of wastes from the electric power plant; consultation and services for electric power technology, procurement of electric power materials and equipments. Xiangyang Power Generation currently operates one coal-fired power generator with a capacity of 300 MW, three coal-fired power generators each with a capacity of 330 MW, and two coal-fired generators each with a capacity of 640 MW.

Xiangyang Power Generation is a subsidiary of Hubei Power Generation.

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## LETTER FROM THE BOARD

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e. Huadian Hubei Fuel

Huadian Hubei Fuel is held as to 60% by Hubei Power Generation and 40% by Huadian Coal, a subsidiary of China Huadian. Huadian Coal is also held as to 12.72% by the Group.

According to the scope of business as set out in the relevant business licence of Huadian Hubei Fuel, Huadian Hubei Fuel is principally engaged in investment in coal and transportation industries (including import and export trading); sale of mineral products and environment-friendly electric and gas equipments; storage services; consultation and services on coal information; consultation on economy and trading; investment, research and development and application of new energy and environmental protection technology; high-efficient coal-fired technology and equipments; research and development and services of IT technology; wholesale of coal.

Currently, Huadian Hubei Fuel is a subsidiary of Hubei Power Generation. Previously, Huadian Hubei Fuel was held as to 49% by Hubei Power Generation and it became a subsidiary of Hubei Power Generation upon Hubei Power Generation completing an acquisition of an additional 11% equity interest in Huadian Hubei Fuel from Huadian Coal in January 2015. As such, historically, Huadian Hubei Fuel was not consolidated in the consolidated financial statements of Hubei Power Generation for the years ended 31 December 2013 and 31 December 2014.

f. Jinyuan Hydroelectric

Jinyuan Hydroelectric is held as to 65% by Hubei Power Generation and 35% by two independent third party investors. According to the scope of business as set out in the relevant business licence of Jinyuan Hydroelectric, Jinyuan Hydroelectric is principally engaged in development of hydroelectric power of the province; investment, development and construction of electric power projects; introduction and trading of high new technology on electric power construction; consultation and services for electric power technology; wholesale and operation of building materials, decoration materials, electric power equipments, mechanical appliances, household appliances, travel products, daily goods, steel materials, non-edible local agricultural products; processing and sale of knitted garments; and lease of properties.

Jinyuan Hydroelectric is a subsidiary of Hubei Power Generation.

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## LETTER FROM THE BOARD

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g. Hubei Huadian Engineering

Hubei Huadian Engineering is an indirect wholly owned subsidiary of Hubei Power Generation. According to the scope of business as set out in the relevant business licence of Hubei Huadian Engineering, Hubei Huadian Engineering is principally engaged in examination, maintenance, installation and testing of electric power equipments, technology upgrade, operation of electric power materials, supervision and management on electric power projects and provision of electric power technology services.

Hubei Huadian Engineering is a subsidiary of Hubei Power Generation.

3. *Financial information of the Hubei Power Generation*

Set out below is certain financial information extracted from the consolidated financial statements of Hubei Power Generation (including Wuchang Thermal Power) prepared in accordance with the PRC Accounting Standards and audited by KPMG Huazhen for the years ended 31 December 2013 and 31 December 2014:

	<b>As of</b> <b>31 December</b> <b>2013</b> <i>(RMB'000)</i>	<b>As of</b> <b>31 December</b> <b>2014</b> <i>(RMB'000)</i>
Total assets	14,999,244	15,760,650
Total liabilities	10,439,528	10,863,693
Net assets	4,559,716	4,896,957 <i>(Note)</i>
	<b>For the year ended</b> <b>31 December 2013</b> <i>(RMB'000)</i>	<b>For the year ended</b> <b>31 December 2014</b> <i>(RMB'000)</i>
Turnover	9,007,259	8,304,083
Operating profit	1,456,147	1,388,760
Profit before taxation	1,467,431	1,238,651
Net profit (after taxation)	1,281,803	965,939

As stated above, Wuchang Thermal Power will not form part of the Target Group. Set out below is certain financial information extracted from the financial statements of Wuchang Thermal Power prepared in accordance with the PRC Accounting Standards and audited by KPMG Huazhen for the years ended 31 December 2013 and 31 December 2014:

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## LETTER FROM THE BOARD

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	<b>As of</b> <b>31 December 2013</b> <i>(RMB'000)</i>	<b>As of</b> <b>31 December 2014</b> <i>(RMB'000)</i>
Total assets	789,577	1,137,636
Total liabilities	694,926	934,751
Net assets	94,651	202,885

	<b>For the year ended</b> <b>31 December 2013</b> <i>(RMB'000)</i>	<b>For the year ended</b> <b>31 December 2014</b> <i>(RMB'000)</i>
Turnover	451,730	530,130
Operating profit/(loss)	9,118	(3,775)
Profit/(loss) before taxation	9,118	(2,060)
Net profit/(loss) (after taxation)	9,393	(1,766)

*Note:*

The financial information of Hubei Power Generation included in this circular is extracted from the consolidated financial statements of Hubei Power Generation while that in the valuation report of the Target Company provided by the Valuer is extracted from the separate financial statements of Hubei Power Generation, both of which were prepared in accordance with the PRC Accounting Standards.

As stated above historically, Huadian Hubei Fuel was not consolidated in the consolidated financial statements of Hubei Power Generation for the years ended 31 December 2013 and 31 December 2014. Huadian Hubei Fuel was not consolidated as a subsidiary in the consolidated financial statements of Hubei Power Generation prior to January 2015. Based on the available financial information provided by Huadian Hubei Fuel, the net profit (after taxation) were approximately RMB1,857,000 and RMB3,237,000 for each of the two years ended 31 December 2013 and 31 December 2014, respectively.

**4. Additional information relating to the buildings occupied by the Target Group**

As disclosed in the valuation report of the Target Company provided by the Valuer contained in appendix I to this circular on page 107, certain special issues relating to the property ownership certificates (“**Property Ownership Certificates**”) of some of the buildings occupied by certain members of the Target Group were identified.

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## LETTER FROM THE BOARD

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As of the valuation benchmark date, Xisaishan Power Generation, Huadian Xisaishan Power Generation, Huangshi Thermal Power Plant and Xiangyang Power Generation occupied buildings, with an aggregate carrying amount of RMB762,701,515.24, in respect of which no application for Property Ownership Certificates were filed. The Company understands that the relevant members of the Target Group have filed applications to the relevant Housing Administrative Bureau (房產管理部門) in the regions where properties in question located to apply for the Property Ownership Certificates. As advised by its PRC legal advisers, the Company was given to understand that (1) the respective members of the Target Group have occupied the buildings without notified of threatened or existing claims against the ownership as of the Latest Practicable Date; (2) the Target Group is not subject to any court orders or judgments to vacate the buildings as of the Latest Practicable Date; and (3) the application for the Property Ownership Certificates is a matter of formality of administrative nature.

Secondly, the respective name of the legal person holding the Property Ownership Certificate in relation to the buildings, with an aggregate carrying amount of RMB42,461,979.25, occupied by Huangshi Thermal Power Plant and Xiangyang Power Generation, is inconsistent with the name of the legal person entitled to the rights thereunder. The relevant Property Ownership Certificates were registered in the former names of Huangshi Thermal Power Plant and Xiangyang Power Generation. Huangshi Thermal Power Plant and Xiangyang Power Generation had not updated the registration after the change of name. Huangshi Thermal Power and Xiangyang Power Generation have applied for ratification from the relevant Housing Administrative Bureau (房產管理部門). As advised by its PRC legal advisers, the Company does not foresee any legal impediment in ratifying the name of the legal person in the Property Ownership Certificates.

Pursuant to the Acquisition Agreement, the expenses and costs relating to the application or ratification of the aforementioned Property Ownership Certificates will be borne by China Huadian. Based on the information provided by China Huadian and the due diligence conducted by the Company, the Company believes that the issues relating to the Property Ownership Certificates as described above will not cause any material disruption to the operation of the Target Group.

### **THE REASONS FOR AND BENEFITS OF THE ACQUISITION**

The Board refers to the announcement of the Company dated 29 August 2014 in relation to undertakings of relevant matters for avoidance of business competition by China Huadian in favour of the Company.

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## LETTER FROM THE BOARD

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The Board considers that the Acquisition would support the sustainable and stable development of the business, integrate relevant quality assets and reduce business competition between China Huadian and the Group. The Company believes that the Acquisition is part of the measures being implemented by China Huadian to reduce potential business competition with the Group's business operations in Hubei Province, and to seek to position the Company as a core enterprise invested by China Huadian with a focus on the integrated platform for the conventional energy based electricity generation assets.

The assets of the Target Group are located in central China region with projects that have commenced production and projects under construction. The Acquisition will also contribute to expanding the production scale and geographic coverage of the Company, thereby enhancing the overall competitiveness of the Company so as to further improve the Company's profitability and enhance the Company's market position in the industry.

The terms of the Acquisition Agreements have been agreed upon arm's length negotiations between the parties. The Directors (including the independent non-executive Directors) are of the opinion that the terms of the Acquisition Agreement are on normal commercial terms, fair and reasonable and in the interest of the Company and its Shareholders as a whole.

### **III. CONTINUING CONNECTED TRANSACTIONS RESULTING FROM THE ACQUISITION AND ADJUSTMENT OF ANNUAL CAPS**

Reference is made to the announcement of the Company dated 6 November 2014 and the circular of the Company dated 27 November 2014 in relation to the Existing Coal, Equipments and Services Purchase (Supply) Framework Agreement and the Existing Financial Services Agreement.

#### **A. THE EXISTING COAL, EQUIPMENTS AND SERVICES PURCHASE (SUPPLY) FRAMEWORK AGREEMENT AND SUPPLEMENTAL AGREEMENT TO FINANCIAL SERVICES AGREEMENT**

On 6 November 2014, the Company entered into the Existing Coal, Equipments and Services Purchase (Supply) Framework Agreement with China Huadian. The agreement is for a term of one year commencing from 1 January 2015 and expiring on 31 December 2015.

The principal terms of the Existing Coal, Equipments and Services Purchase (Supply) Framework Agreement have been previously disclosed in the Company's announcement published on 6 November 2014 and circular published on 27 November 2014. The transactions contemplated thereunder and the Existing Annual Cap in respect of the Existing Coal, Equipments and Services Purchase (Supply) Framework Agreement and the Existing Annual Caps were approved by the independent Shareholders at an extraordinary general meeting held on 23 December 2014.

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## LETTER FROM THE BOARD

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Upon completion of the Acquisition, Hubei Power Generation will become a subsidiary of the Company and the existing continuing transactions between the Enlarged Group (including the Target Group) on the one hand and China Huadian and its associates on the other hand relating to the mutual provision of coal, equipments and other miscellaneous and related services constitute continuing connected transactions under the Existing Coal, Equipments and Services Purchase (Supply) Framework Agreement.

Huadian Hubei Fuel, is an associate of China Huadian and the continuing transactions between Huadian Hubei Fuel and the Group in relation to provision of coal constitute continuing connected transactions under the Existing Coal, Equipments and Services Purchase (Supply) Framework Agreement. Upon completion of the Acquisition, Huadian Hubei Fuel, (which is a member of the Target Group and is held as to 40% by Huadian Coal, a subsidiary of China Huadian) will continue to be an associate of China Huadian and will at the same time also become a connected subsidiary of the Company pursuant to Rule 14A.16 of the Hong Kong Listing Rules and the continuing transactions between Huadian Hubei Fuel and China Huadian and its associates and between Huadian Hubei Fuel and the Enlarged Group in relation to provision of coal remain continuing connected transactions under the Existing Coal, Equipments and Services Purchase (Supply) Framework Agreement.

The Company has assessed the actual transaction amounts incurred for three months ended 31 March 2015 and considers that the Existing Annual Caps under the Existing Coal, Equipments and Services Purchase (Supply) Framework Agreement will be sufficient to include the transactions between the Enlarged Group and China Huadian and its associates (including Huadian Hubei Fuel) and the Existing Annual Cap for the Existing Coal, Equipments and Services Purchase (Supply) Framework Agreement shall remain valid for the year ending 31 December 2015.

### **B. THE EXISTING FINANCIAL SERVICES AGREEMENT AND THE SUPPLEMENTAL AGREEMENT TO FINANCIAL SERVICES AGREEMENT**

#### *Existing Financial Services Agreement*

On 6 November 2014, the Company entered into the Existing Financial Services Agreement with Huadian Finance for the provision of certain financial services by Huadian Finance to the Group on a non-exclusive basis. The Financial Services Agreement was for a term of three years from 1 January 2015 to 31 December 2017.

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## LETTER FROM THE BOARD

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Huadian Finance was established pursuant to the relevant PRC laws and regulations relating to the establishment of “group finance company” to enhance the centralized management of funds among, and to improve the efficiency of fund utilization of the individual member companies of, China Huadian, including the Group. Huadian Finance is a non-banking financial institution approved and regulated by the PBOC and the CBRC. Huadian Finance only provides financial services to China Huadian and its member companies in the PRC.

The principal terms of the Existing Financial Services Agreement are as follows:

Date:	6 November 2014
Parties:	Huadian Finance as financial services provider; the Company as service recipient
Existing Term:	Three years commencing from 1 January 2015 and expiring on 31 December 2017
Nature of transactions:	The financial services provided by Huadian Finance including deposit services, settlement services, loan services and other financial services to members of the Group.

### *Price Determination Principles*

For transactions conducted under the Existing Financial Services Agreement, the price determination principles were disclosed in the announcement of the Company dated 6 November 2014 and the circular of the Company dated 27 November 2014. The Company summarizes the key price determination principles as follows:

(1) *Deposit services:*

- (i) Interest rates for the Group’s deposits with Huadian Finance shall not be lower than the interest rates for deposits offered by the commercial banks in the PRC (such as Industrial and Commercial Bank of China, China Construction Bank, Bank of China and so on) (“**Major Commercial Banks in the PRC**”) during the same period and shall not be lower than the interest rates for the same type of deposits by other member companies of China Huadian; and
- (ii) The average daily deposit amount placed by the Group with Huadian Finance shall not be more than the average daily loan balance from Huadian Finance to the Group and shall not be more than RMB6.0 billion.



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## LETTER FROM THE BOARD

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(2) *Settlement services:*

- (i) The fees charged by Huadian Finance for the provision of settlement services shall comply with the relevant guidelines and regulations promulgated by the PBOC and shall not be higher than the fees charged by the Major Commercial Banks in the PRC and other financial institutions in the PRC for the same services or the fees for the same type of services by other member companies of China Huadian.

(3) *Loan services and other financial services*

- (i) The fees charged by Huadian Finance for the provision of loan services and other financial services shall not be higher than the fees charged by the Major Commercial Banks in the PRC and other financial institutions in the PRC for the same services or the fees for the same type of services by other member companies of China Huadian.

Upon completion of the Acquisition, Huadian Finance will provide the deposit services and other financial services to the Enlarged Group in accordance with the terms and conditions of the Existing Financial Services Agreement and the Supplemental Agreement to Financial Services Agreement and therefore such transaction amounts will be subject to the Existing Annual Cap (RMB6 billion as the maximum daily balance in respect of the deposit services) for each of the three years ending 31 December 2017.

### ***Supplemental Agreement to Financial Services Agreement***

On 15 May 2015, the Group and Huadian Finance conditionally entered into the Supplemental Agreement to Financial Services Agreement to (i) extend the services to be provided by Huadian Finance under the Existing Financial Services Agreement to all members of the Enlarged Group from time to time including the Target Group following completion of the Acquisition; and (ii) adjust the associated annual caps in respect of deposit services provided by Huadian Finance to the Group as a result of the anticipated increase in transaction volume between the Enlarged Group and Huadian Finance after completion of the Acquisition until expiry of the Existing Finance Services Agreement as supplemented by the Supplemental Agreement to Financial Services Agreement. The principal terms of the Supplemental Agreement to Financial Services Agreement are set out in the follows:

The Supplemental Agreement to Financial Services Agreement is conditional upon Independent Shareholders' approval being obtained at the EGM.

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## LETTER FROM THE BOARD

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### *Historical Amounts*

#### *Deposit services*

Based on the information provided by Hubei Power Generation, the historical maximum daily balance of the deposits made by the Target Group with Huadian Finance are set out as follows:

	<b>For the year ended 31 December 2012</b>	<b>For the year ended 31 December 2013</b>	<b>For the year ended 31 December 2014</b>	<b>For the quarter ended 31 March 2015</b>
<b>Transactions</b>	<i>Aggregate transaction amount (RMB million)</i>	<i>Aggregate transaction amount (RMB million)</i>	<i>Aggregate transaction amount (RMB million)</i>	<i>Aggregate transaction amount (RMB million)</i>
Target Group	687	629	1,275	891

For the quarter ended 31 March 2015, the maximum daily balance of the deposits made by the Group with Huadian Finance pursuant to the Existing Financial Services Agreement was approximately RMB4,842 million, representing a utilization rate of approximately 80.7% of the Existing Annual Cap for the year ending 31 December 2015 under the Existing Financial Services Agreement.

#### *Settlement services and other financial services*

The historical amounts paid by the Target Group to Huadian Finance for the settlement services and other financial services for the three months ended 31 March 2015 were minimal. Having taken into account the historical amounts in respect of the settlement services and other financial services paid by the Target Group and the Group to Huadian Finance under the Existing Financial Services Agreement for the three months ended 31 March 2015, all the applicable percentage ratios of such transactions calculated based on such historical amounts were below 0.1%. The Company also expects that the related annual services fees payable by the Enlarged Group to Huadian Finance will remain insignificant after the completion of the Acquisition. Accordingly, such transactions are exempt continuing connected transactions under the Hong Kong Listing Rules and are not subject to the announcement, circular and shareholders' approval requirements.

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## LETTER FROM THE BOARD

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### *Loan services*

Since the services will be provided by Huadian Finance to the Enlarged Group at fees not higher than the fees charged by other commercial banks and financial institutions in the PRC for the same services, the transaction involves provision of financial assistance by Huadian Finance for the benefit of the Enlarged Group on normal commercial terms (or better to the Enlarged Group) where no security over the Enlarged Group's assets is granted in respect of the financial assistance. Such loans are exempt continuing connected transactions under Rule 14A.90 of the Hong Kong Listing Rules which are not subject to the announcement, circular and shareholders' approval requirements and therefore no annual caps were required under the Hong Kong Listing Rules.

### ***Adjustment of the annual caps for the continuing connected transactions contemplated under the Supplemental Agreement to Financial Services Agreement for each of the three years ending 31 December 2017***

The Directors propose the following Cap Increment for the financial services provided by Huadian Finance to the Enlarged Group under the Supplemental Agreement to Financial Services Agreement for each of the three years ending 31 December 2017 as follows:

Transactions	For the financial year ending 31 December 2015		For the financial year ending 31 December 2016		For the financial year ending 31 December 2017	
	Original annual cap	Cap Increment	Original annual cap	Cap Increment	Original annual cap	Cap Increment
	(RMB millions)	(RMB millions)	(RMB millions)	(RMB millions)	(RMB millions)	(RMB millions)
Deposit services	6,000	1,500*	6,000	1,500*	6,000	1,500*

*In respect of the settlement services and other financial services under the Existing Financial Services Agreement, based on the historical amounts for the three months ended 31 March 2015 and the price determination basis of the fees for such settlement services, the Company estimates that the amounts to be paid by the Company to Huadian Finance to the Enlarged Group for the provision of settlement services and other financial services by Huadian Finance for the three financial years ending 31 December 2015 to 2017 will continue to be minimal and such transactions will continue to remain as exempt continuing connected transactions under the Hong Kong Listing Rules.*

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## LETTER FROM THE BOARD

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*In respect of loan services, since such services are being provided by Huadian Finance to the Enlarged Group at fees not higher than the fees charged by other commercial banks and financial institutions in the PRC for the same services, the transaction involves provision of financial assistance by Huadian Finance for the benefit of the Enlarged Group on normal commercial terms or better to the Group where no security over the Group's assets is granted in respect of the financial assistance. Such loans are exempt continuing connected transactions under Rule 14A.90 of the Hong Kong Listing Rules which are not subject to the announcement, circular and shareholders' approval requirements, and therefore no annual caps are required under the Hong Kong Listing Rules.*

### ***Proposed Cap Increment and rationale***

Upon completion of the Acquisition, Hubei Power Generation will become a subsidiary of the Company. Having considered the expected growth of business operation as a result of the new power plants of the Group, the Company expects that the Existing Annual Cap of RMB6,000 million will not have sufficient buffer to cover the Enlarged Group. The Company understands that the Existing Annual Cap(s) should be re-considered to take into account the additional need of the Target Group.

The Cap Increment is intended to reflect the expected increase in the maximum daily balance deposits of the Enlarged Group, which is determined mainly based on the estimated maximum amount of deposits involved, with reference to the historical transaction volumes, being the maximum daily balance of the deposits made by the Target Group prior to the Acquisition and the estimated potential growth of the Target Group after the Acquisition.

The historical maximum daily balance of the Target Group with Huadian Finance had been increasing yearly from the year ended 31 December 2012 to the year ended 31 December 2014 and shows signs for a projected increase for the year ended 31 December 2015 based on the figures for the quarter ended 31 March 2015 due to (i) the continuous improvement of the business environment and (ii) the stable expansion of the scale of Target Group. The Company expects that the highest daily balance of deposits (including accrued interest) placed by the Enlarged Group with Huadian Finance pursuant to the Existing Financial Services Agreement and the Supplemental Agreement to the Financial Services Agreement will not exceed the average daily balance of the loan provided by Huadian Finance to the Enlarged Group or RMB7,500 million during the term of the Supplemental Agreement to the Financial Services Agreement. Therefore, the Company considers setting the Cap Increment based on the figures for the year ended 31 December 2014 reasonable and expects that the maximum daily balance would be less than RMB1,500 million in the next few years. The Company proposes to set the Cap Increment at RMB1,500 million taking into account the provision for buffer. The Directors consider the Cap Increment to be fair and reasonable.

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## LETTER FROM THE BOARD

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### *Reasons for and benefits for entering into the Supplemental Agreement to the Financial Services Agreement and the adjustment of the Existing Annual Caps*

Upon completion of the Acquisition, Hubei Power Generation will become a subsidiary of the Company and the existing continuing transactions between the Target Group, which will form part of the Enlarged Group, and Huadian Finance relating to provision of financial services will constitute continuing connected transactions under the Existing Financial Services Agreement.

Considering the established relationship between the Target Group and Huadian Finance, the Company considers that it is beneficial to the Enlarged Group and administratively convenient to continue using the financial services provided by Huadian Finance to the Enlarged Group. The Directors believe that it will also improve the efficiency of the Enlarged Group's capital and will continue to facilitate the operation and growth of the Enlarged Group's businesses.

The Directors (including the independent non-executive Directors) consider that the Supplemental Agreement to Financial Services Agreement are entered into (i) in the ordinary course and usual course of business of the Group; (ii) on normal commercial terms or better; and (iii) on terms that are fair and reasonable and in the interests of the Company and its Shareholders as a whole.

The Cap Increment for the continuing connected transactions under the Supplemental Agreement to Financial Services Agreement have been determined based on the estimated amount of transactions involved and with reference to the historical transaction volumes between the Target Group and Huadian Finance, the estimated potential growth of the Enlarged Group and the expected economic growth of China. The Directors (including the independent non-executive Directors) consider the Cap Increment to be fair and reasonable.

### **C. THE SHAANXI COAL PURCHASE FRAMEWORK AGREEMENT**

#### *Shaanxi Coal Purchase Framework Agreement*

On 15 May 2015, the Company entered into the Shaanxi Coal Purchase Framework Agreement with Shaanxi Coal Transportation for supply of coal by Shaanxi Coal Transportation to the Group. The Shaanxi Coal Purchase Framework Agreement is for a term up to 31 December 2017, conditional upon the completion of the Acquisition.

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## LETTER FROM THE BOARD

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The principal terms of the Shaanxi Coal Purchase Framework Agreement with Shaanxi Coal Transportation are set out as follows:

Date: 15 May 2015

Parties: Shaanxi Coal Transportation as supplier;  
the Company (for itself and on behalf of its subsidiaries) as buyer

Term: Commencing from the Completion Date up to 31 December 2017, although the agreement technically takes effect from the date of signing

Nature of transactions: Supply of coal by Shaanxi Coal Transportation

### *Price Determination Principles*

The Company and Shaanxi Coal Transportation agreed that the coal will be supplied at the prevailing market price and the prevailing market price shall be determined with reference to the then market price and the price of coal (of the same category or same type and quality) Shaanxi Coal Transportation supplies to other independent third parties under normal business circumstances.

The then market price is generally determined by the local spot market price as at the time of the purchase order. The local spot market price is usually determined with reference to: (i) the sales prices of local large-scale coal enterprises, which are published on various coal industry websites. The major information collection channels of the Company include (but are not limited to): China Coal Market website 中國煤炭市場網 (<http://www.cctd.com.cn>), China Coal Resources website 中國煤炭資源網 (<http://www.sxcoal.com>), Qinhuangdao Coal website 秦皇島煤炭網 (<http://www.cqcoal.com>); (ii) quotation from a number of enterprises; and (iii) certain coal price index, such as the Bohai Bay Thermal Coal Price Index which is authorized and guided by National Development and Reform Committee. The Marketing & Management Department of the Company monitors the monthly prices, the quality and the transportation method of coal supplied to the Group (or the Enlarged Group after the completion of the Acquisition). The Company's branch companies and power plants regularly collect information on the market and pithead prices of their own location. The Company will issue, at least on a monthly basis (twice a month when there is vigorous price fluctuation), the guidance procurement price of coal (the "**Guidance Price**") for its power plants based on the market information collected and the Company will invite at least three independent third party suppliers to provide quotations for supply of coal (of the same category or same type and quality) within the range of the guidance procurement price.

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## LETTER FROM THE BOARD

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The Company and Shaanxi Coal Transportation will from time to time determine the price for the supply of coal, on a case-by-case basis, with reference to the above price determination principles, subject to the parties' discussion and negotiation.

### *Historical Amounts*

The historical transaction amounts for the supply of coal by Shaanxi Coal Transportation to the Group together with the Target Group are set out as follows:

<b>Transactions</b>	<b>For the year ended 31 December 2012</b>	<b>For the year ended 31 December 2013</b>	<b>For the year ended 31 December 2014</b>	<b>For the quarter ended 31 March 2015</b>
	<i>Aggregate transaction amount (RMB million)</i>	<i>Aggregate transaction amount (RMB million)</i>	<i>Aggregate transaction amount (RMB million)</i>	<i>Aggregate transaction amount (RMB million)</i>
Supply of Coal by Shaanxi Coal Transportation to the Group and the Target Group	1,681	1,655	1,310	135

### *Proposed Shaanxi Coal Annual Caps for the continuing connected transactions contemplated under the Shaanxi Coal Purchase Framework Agreement*

The Directors propose the following annual caps for supply of coal by Shaanxi Coal Transportation to the Enlarged Group under the Shaanxi Coal Purchase Framework Agreement for each of the three years ending 31 December 2017 as follows:

<b>Transaction</b>	<b>For the period from the Completion Date to 31 December 2015</b>	<b>For the year ending 31 December 2016</b>	<b>For the year ending 31 December 2017</b>
	<b>Proposed Shaanxi Coal Annual Cap (RMB million)</b>	<b>Proposed Shaanxi Coal Annual Cap (RMB million)</b>	<b>Proposed Shaanxi Coal Annual Cap (RMB million)</b>
Supply of Coal by Shaanxi Coal Transportation to the Enlarged Group	1,200	2,500	2,500

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## LETTER FROM THE BOARD

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The Company noted that the prices of coal have been decreasing for the three years ended 31 December 2014 and the quarter ended 31 March 2015. Although the Group, together with the Target Group, purchased substantially the same volume of coal from Shaanxi Coal Transportation, the historical transaction amounts showed a downward trend because of the declining prices of coal during the corresponding period. The Company, when determining the Proposed Shaanxi Coal Annual Cap for each of the three years ending 31 December 2017, has taken into consideration, among other factors, the potential increase in the prices of coal driven by the growth in coal demand and in connection with the cyclical nature of coal price, and the needs of coal for power generation in the new thermal power plants of the Enlarged Group.

***Reasons for and benefits of entering into the Shaanxi Coal Purchase Framework Agreement and the Proposed Shaanxi Coal Annual Caps***

Upon completion of the Acquisition, Xiangyang Power Generation (being a 60.1% owned subsidiary of Hubei Power Generation) will become a subsidiary of the Company. Since Shaanxi Coal and Chemical Group, holding 30% equity interest in Xiangyang Power Generation, and as such is a substantial shareholder of Xiangyang Power Generation, Shaanxi Coal and Chemical Group will become a connected person of the Company at the subsidiary level for the purpose of Hong Kong Listing Rules. As Shaanxi Coal Transportation is a wholly-owned subsidiary of Shaanxi Coal and Chemical Group, Shaanxi Coal Transportation will also become a connected person of the Company upon completion of the Acquisition for the purpose of the Hong Kong Listing Rules. The continuing transactions between Shaanxi Coal Transportation and the Enlarged Group relating to supply of coal under the Shaanxi Coal Purchase Framework Agreement will constitute continuing connected transactions upon completion of the Acquisition.

Considering the established relationship between Shaanxi Coal Transportation and the Company, the Company considers that it is beneficial to the Enlarged Group and administratively convenient to continue the supply of coal by Shaanxi Coal Transportation to the Enlarged Group. The Directors believe that it will continue to facilitate the operation and growth of the Enlarged Group's businesses.



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## LETTER FROM THE BOARD

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The Directors (including the independent non-executive Directors) consider that the Shaanxi Coal Purchase Framework Agreement is entered into (i) in the ordinary course and usual course of business of the Group; (ii) on normal commercial terms or better; and (iii) on terms that are fair and reasonable and in the interests of the Company and its Shareholders as a whole. The Proposed Shaanxi Coal Annual Caps for the continuing connected transactions under the Shaanxi Coal Purchase Framework Agreement have been determined based on the estimated amount of transactions involved and with reference to the historical transaction volumes between the Group and Shaanxi Coal Transportation, the estimated potential growth of the Enlarged Group and the expected economic growth of China. The Directors consider the Proposed Shaanxi Coal Annual Caps to be fair and reasonable.

#### IV. HONG KONG LISTING RULES IMPLICATION

China Huadian is the controlling shareholder of the Company and thus a connected person of the Company. Huadian Finance is associate of China Huadian, which is held as to 36.148% by China Huadian. Therefore, Huadian Finance is a connected person of the Company under the Hong Kong Listing Rules.

The Acquisition contemplated under the Acquisition Agreement constitutes a connected transaction of the Company under Chapter 14A of the Hong Kong Listing Rules. As the relevant percentage ratios (as defined under Rule 14.07 of the Hong Kong Listing Rules) in relation to the Acquisition exceed 5%, the Acquisition will be subject to annual reporting, announcement, circular and independent shareholders' approval requirements. As one or more of the applicable percentage ratios in respect of the Acquisition exceed 5% but are less than 25%, the Acquisition also constitutes a discloseable transaction pursuant to Chapter 14 of the Hong Kong Listing Rules.

The continuing connected transactions under (i) the Existing Coal, Equipments and Services Purchase (Supply) Framework Agreement, (ii) the Existing Financial Services Agreement and the Supplemental Agreement to Financial Services Agreement and (iii) Shaanxi Coal Purchase Framework Agreement will be carried out on a continuing or recurring basis in the ordinary and usual course of business of the Group and accordingly constitute continuing connected transactions of the Company under the Hong Kong Listing Rules.

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## LETTER FROM THE BOARD

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In respect of the Existing Financial Services Agreement and the Supplemental Agreement to Financial Services, as one or more of the applicable percentage ratios (as defined under Rule 14.07 of the Hong Kong Listing Rules) in relation to the proposed maximum daily balance of the deposit services of RMB7.5 billion, being the Existing Annual Cap of RMB6.0 billion and the Cap Increment of RMB1.5 billion, exceeds 5%, the provision of deposit services constitutes non-exempt continuing connected transaction of the Company. Therefore, the Supplemental Agreement to Financial Services Agreement and the Cap Increment are subject to the all applicable requirements including the independent shareholders' approval requirements under Chapter 14A of the Hong Kong Listing Rules.

Since the amounts involved in settlement services and other financial services under the Existing Financial Services Agreement and the Supplemental Agreement to Financial Services Agreement will continue to be minimal, they are expected to fall within the de minimis threshold as stipulated under Rule 14A.76(1) of the Hong Kong Listing Rules and are fully exempt under Chapter 14A the Hong Kong Listing Rules. The Company will monitor the transaction amounts of such financial services and will comply with the relevant requirements under the Hong Kong Listing Rules as and when required.

In respect of the provision of loan services under the Existing Financial Services Agreement and the Supplemental Agreement to Financial Services Agreement, since the services are being provided by Huadian Finance to the Enlarged Group at fees not higher than the fees charged by other commercial banks and financial institutions in the PRC for the same services, the transaction involves provision of financial assistance received by the Enlarged Group from Huadian Finance on normal commercial terms or better to the Group where no security over the Group's assets is granted in respect of the financial assistance. Such loans are fully exempt under Rule 14A.90 of the Hong Kong Listing Rules.

In respect of the Shaanxi Coal Purchase Framework Agreement, as each of the applicable percentage ratios (as defined under Rule 14.07 of the Hong Kong Listing Rules) in relation to the Shaanxi Coal Purchase Framework Agreement and the Proposed Shaanxi Coal Annual Caps exceeds 1% but is below 5%, the supply of coal by Shaanxi Coal Transportation to the Enlarged Group pursuant to the Shaanxi Coal Purchase Framework Agreement will be exempt from the circular and Independent Shareholders' approval requirements under Chapter 14A of the Hong Kong Listing Rules.

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## LETTER FROM THE BOARD

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In addition to the continuing connected transactions under (i) the Existing Coal, Equipments and Services Purchase (Supply) Framework Agreement and (ii) the Existing Financial Services Agreement and the Supplemental Agreement to Financial Services Agreement, China Huadian currently provides guarantees in favour of the Target Group for certain existing borrowings. Upon completion of the Acquisition, such provision of guarantees by China Huadian in favour of the Enlarged Group will constitute financial assistances for the purpose of Chapter 14A of the Hong Kong Listing Rules. Based on the information provided by the Target Group, the financial assistances received by the Target Group from China Huadian are conducted on normal commercial terms or better and it is not secured by the assets of the Enlarged Group and therefore such financial assistances are fully exempt under Rule 14A.90 of the Hong Kong Listing Rules.

### V. INFORMATION OF THE PARTIES TO THE ACQUISITION AGREEMENT AND THE CONTINUING CONNECTED TRANSACTIONS

#### **Information relating to the Group**

The Group is one of the largest comprehensive energy companies in the PRC, and primarily engages in the construction and operation of power plants, including large-scale efficient coal or gas-fired generating units and various renewable energy projects, and the development, construction and operation of coal mines.

#### **Information relating to China Huadian**

China Huadian, the controlling shareholder of the Company, directly and indirectly holds approximately 50.04% of the Company's total issued share capital as at the date of this announcement. China Huadian is primarily engaged in power generation, heat production and supply, energy development of coal and other resources related to the power generation and relevant professional technical services.

#### **Information relating to Huadian Finance**

Huadian Finance was established on 12 February 2004 as a limited liability company in Beijing, the PRC. It is licensed by the CBRC and is engaged in the provision of financial services which principally include deposit taking, provision of loans, issue of corporate debentures, inter-bank lending, finance leasing, bills acceptance and discounting, entrusted loans and entrusted investment to member companies, arrangement of buyer's credit for member companies' products, underwriting of corporate debentures of member companies, provision of financial advisory, credit certification and other advisory agency services and security to member companies, and other types of financial services as may be approved by the CBRC.

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## LETTER FROM THE BOARD

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### **Information relating to Shaanxi Coal Transportation**

Shaanxi Coal Transportation, a wholly-owned subsidiary of Shaanxi Coal and Chemical Group, principally engages in the specialized sale of coal, industrial chemical products and other related products, and the construction of high-level logistic system. Shaanxi Coal and Chemical Group is a coal company based in Xi'an, Shaanxi Province. Shaanxi Coal and Chemical Group's principal businesses include exploration, mining, development, sales and comprehensive utilization of coal, research and development, manufacturing and sales of coal chemical products, chemical fertilizer and delicate chemical products. It also provides survey, design, logistic and construction services.

### **VI. EGM**

The notice of the EGM of the Company is set out on pages 116 to 119 of this circular. If you are eligible and intend to attend the EGM, please complete and return the reply slip despatched on or around 15 May 2015 in accordance with the instructions printed thereon on or before Tuesday, 9 June 2015.

China Huadian, which holds 4,321,061,853 issued A shares of the Company, and its wholly owned subsidiary, China Huadian Hong Kong Company Limited, which holds 85,862,000 issued H shares of the Company, representing in total approximately 50.04% of the Company's total issued share capital, will abstain from voting at the EGM on the resolutions for approving (i) the transactions contemplated under the Acquisition Agreement; and (ii) the Supplemental Agreement to Financial Services Agreement and the Cap Increment provided by Huadian Finance to the Enlarged Group. Four Directors, namely, Mr. Li Qingkui, Mr. Chen Jianhua, Mr. Gou Wei and Mr. Chu Yu, who hold positions in or are employees of China Huadian, have abstained from voting on the relevant Board resolutions approving the Acquisition and the Supplemental Agreement to Financial Services Agreement together with the Cap Increment. One supervisor, namely, Mr. Peng Xingyu, is an employee of China Huadian. In respect of the Shaanxi Coal Purchase Framework Agreement, none of the Directors have a material interest in the transaction and therefore none of them have abstained from voting on the Board resolutions approving such transactions.

Save as mentioned above, none of the Directors has material interest in the above mentioned transactions and hence no other Director has abstained from voting on such Board resolutions.

### **VII. RECOMMENDATIONS FROM THE INDEPENDENT BOARD COMMITTEE**

Your attention is drawn to the letter from the Independent Board Committee to the Independent Shareholders of the Company, which is set out on pages 30 to 31 of this circular, and which contains their recommendation in respect of (i) the Acquisition and the Acquisition Agreement; and (ii) the Supplemental Agreement to Financial Services Agreement and Cap Increment.

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## LETTER FROM THE BOARD

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The letter of advice from China Investment Securities to the Independent Board Committee and the Independent Shareholders on the fairness and reasonableness of (i) the terms of the Acquisition Agreement and whether the Acquisition and Acquisition Agreement; and (ii) the terms of the Supplemental Agreement to Financial Services Agreement and Cap Increment are on normal commercial terms and in the interests of the Company and its shareholders as a whole is set out on pages 32 to 59 of this circular.

The Independent Board Committee, having taken into account the advice of China Investment Securities, considers that the Acquisition Agreement and the Supplemental Agreement to Financial Services Agreement were entered into in the ordinary and usual course of business of the Company; and (i) the terms of the Acquisition Agreement and (ii) the terms of the Supplemental Agreement to Financial Services Agreement and Cap Increment are fair and reasonable so far as the Independent Shareholders are concerned and that the (i) the terms of the Acquisition Agreement; and (ii) the terms of the Supplemental Agreement to Financial Services Agreement and Cap Increment are on normal commercial terms and in the interests of the Company and its shareholders as a whole. Accordingly, it recommends that the Independent Shareholders vote in favour of the relevant resolutions to approve the Acquisition Agreement and the Supplemental Agreement to Financial Services Agreement (together with the Cap Increment) and the transactions contemplated thereunder.

### **VIII. RECOMMENDATION FROM THE BOARD**

The Directors (including independent non-executive Directors) are of the view that the Acquisition Agreement and the Supplemental Agreement to Financial Services Agreement were entered into: (i) in the ordinary and usual course of business of the Company; (ii) on normal commercial terms (i.e. on arm's length basis on terms no less favourable to the Company than terms available from third parties); and (iii) on terms that are fair and reasonable and are in the interests of the Company and its shareholders as a whole. The Board accordingly recommends the Shareholders to vote in favour of the relevant resolutions to approve the Acquisition Agreement and the Supplemental Agreement to Financial Services Agreement (together with the Cap Increment) and the transactions contemplated thereunder.

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## LETTER FROM THE BOARD

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### IX. FURTHER INFORMATION

Your attention is also drawn to the additional information as set out in appendices I and II to this circular.

Yours faithfully,  
For and on behalf of the Board  
**Huadian Power International Corporation Limited\***  
*Chairman*  
**Li Qingkui**

\* *For identification purpose only*



華電國際電力股份有限公司

**Huadian Power International Corporation Limited\***

*(A Sino-foreign investment joint stock company limited by shares incorporated in the People's Republic of China (the "PRC"))*

(Stock Code: 1071)

8 June 2015

*To the Independent Shareholders*

Dear Sir or Madam,

**(1) DISCLOSEABLE AND CONNECTED TRANSACTION  
ACQUISITION OF EQUITY INTEREST IN HUBEI POWER GENERATION  
FROM CHINA HUADIAN;  
AND  
(2) CONTINUING CONNECTED TRANSACTIONS RESULTING FROM  
THE ACQUISITION AND ADJUSTMENT OF ANNUAL CAPS**

We have been appointed to form the Independent Board Committee to consider and advise the Independent Shareholders in accordance with the Hong Kong Listing Rules as to our opinion on, (i) the Acquisition and the transactions contemplated thereunder; and (ii) the Supplemental Agreement to the Financial Services Agreement and the transactions contemplated thereunder, together with the Cap Increment; the details of which are set out in the circular issued by the Company to the Shareholders dated 8 June 2015 (the "**Circular**"), of which this letter forms part. Terms used herein shall have the same meanings as defined in the Circular unless the context otherwise requires.

We wish to draw the attention of the Independent Shareholders to this letter from the Board, the letter from the Independent Board Committee and the letter of advice from China Investment Securities International Capital Limited, the Independent Financial Adviser, set out on pages 1 to 29, pages 30 to 31 and pages 32 to 59 of the Circular, respectively.

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## LETTER FROM THE INDEPENDENT BOARD COMMITTEE

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Having taken into account the principal factors and reasons considered by the Independent Financial Adviser, its conclusion and advice, we concur with the view of the Independent Financial Adviser and consider that (i) the terms of the Acquisition Agreement, (ii) the terms of the Supplemental Agreement to the Financial Services Agreement and the continuing connected transactions contemplated thereunder are fair and reasonable, on normal commercial terms, in the ordinary and usual course of business of the Group and in the interests of the Company and the Shareholders as a whole; and (ii) the related Cap Increment under the Supplemental Agreement to the Financial Services Agreement are fair and reasonable.

Accordingly, we recommend the Independent Shareholders to vote in favor of the resolutions to be proposed at the EGM to approve the (i) the Acquisition and the transactions contemplated thereunder; and (ii) the Supplemental Agreement to the Financial Services Agreement and the transactions contemplated thereunder, together with the Cap Increment.

Yours faithfully,

*Independent Board Committee of*

**Huadian Power International Corporation Limited\***

*Independent Non-executive Directors*

**Ding Huiping, Wang Dashu, Zong Wei and Jian Wenlong**

\* *For identification purpose only*



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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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*The following is the text of the letter of advice from the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders, which has been prepared for the purpose of inclusion in this circular.*



63th Floor  
Bank of China Tower,  
1 Garden Road,  
Central,  
Hong Kong

8 June 2015

**Huadian Power International Corporation Limited**

No.2 Xuanwumennei Street,  
Xicheng District  
Beijing, PRC

*To the Independent Board Committee and the Independent Shareholders*

Dear Sirs,

**(1) DISCLOSEABLE AND CONNECTED TRANSACTION  
ACQUISITION OF EQUITY INTERESTS IN HUBEI POWER  
GENERATION FROM CHINA HUADIAN;  
AND  
(2) CONTINUING CONNECTED TRANSACTIONS RESULTING FROM  
THE ACQUISITION AND ADJUSTMENT OF ANNUAL CAPS**

**INTRODUCTION**

We refer to our appointment as the independent financial adviser to the Company to advise the Independent Board Committee and the Independent Shareholders in respect of (i) the Acquisition Agreement and the transactions contemplated thereunder including the Acquisition; and (ii) the Supplemental Agreement to Financial Services Agreement and the transactions contemplated thereunder together with the Cap Increment, details of which are set out in the letter from the Board (the “**Letter from the Board**”) contained in the circular dated 8 June 2015 (the “**Circular**”) issued by the Company to the Shareholders, of which this letter forms apart. The terms used in this letter shall have the same meanings as defined in the Circular unless the context otherwise requires.

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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The letter contains our advice to the Independent Board Committee and the Independent Shareholder as to whether or not (i) the Acquisition Agreement and the transactions contemplated thereunder including the Acquisition are ordinary and usual course of the business of the Company, and are on normal commercial terms, fair and reasonable so far as the Independent Shareholders are concerned and in the interests of the Company and the Shareholders as a whole; (ii) the Supplemental Agreement to Financial Services Agreement and the transactions contemplated thereunder together with the Cap Increment are ordinary and usual course of the business of the Company, and are on normal commercial terms, fair and reasonable so far as the Independent Shareholders are concerned and in the interests of the Company and the Shareholders as a whole; and (iii) the Independent Shareholders should vote in favour of the Acquisition Agreement and the transactions contemplated thereunder including the Acquisition and the Supplemental Agreement to Financial Services Agreement and the transactions contemplated thereunder together with the Cap Increment at the EGM.

As at the Latest Practicable Date, we did not have any relationships or interests with the Company or any other parties that could reasonably be regarded as relevant to the independence of us. In the last two years, we have acted as an independent financial adviser to the then independent board committee as independent shareholders of the Company in relation to three occasions as detailed in the circulars of the Company dated 15 November 2013, 27 November 2014 and 20 January 2015 respectively. Given (i) our independent role in these three engagements; and (ii) our fees for these three engagements represented an insignificant percentage of the revenue of our parent group, we consider these three engagements would not affect our independence to form our opinion in respect of the Acquisition Agreement and the Supplemental Agreement to Financial Services Agreement.

### **BASIS OF OUR OPINION**

In formulating our advice and recommendation, we have relied on the accuracy of the information and facts supplied, and the opinions expressed by the Company, its Directors and its management to us. We have assumed that all statements of belief and intention made by the Directors and the management of the Company in the Circular were made after due enquiry. We have also assumed that all information, representations and opinion made or referred to in the Circular are true, accurate, and complete at the time they were made and continued to be so at the Latest Practicable Date. Should there be any material changes to our opinion after the dispatch of the Circular, the Shareholders would be notified as soon as possible. We have no reason to doubt the truth, accuracy and completeness of the information and representations provided to us by the Company, its Directors and its management, and have been advised by the Directors and the management of the Company that no material facts have been omitted from the information provided and referred to in the Circular.

In rendering our opinions, we have researched, analysed and relied on information from independent third party sources. We have assumed such information to be accurate and reliable and have not carried out any independent verification on the accuracy of such information. Such relevant information provides us with a basis on which we have been able to formulate our independent opinion.

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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We consider that we have reviewed sufficient information to reach an informed view, to justify our reliance on the accuracy of the information contained in the Circular and to provide a reasonable basis for our recommendation. We have not, however, conduct any form of in-depth investigation into the business affairs, financial position or future prospects of the Group or the counterparties of the Acquisition Agreement and the Supplemental Agreement to Financial Services Agreement, nor carry out any independent verification of the information supplied, representations made or opinions expressed by the Company, its Directors and its management.

### PRINCIPAL FACTORS AND REASONS CONSIDERED

In arriving at our opinions and recommendations, we have taken into consideration the following principal factors and reasons:

#### I. Background

##### *The Acquisition*

On 15 May 2015, the Company entered into the Acquisition Agreement with China Huadian, pursuant to which, China Huadian, has conditionally agreed to sell, and the Company has agreed to purchase, 82.5627% equity interest in Hubei Power Generation at a consideration of approximately RMB3,845.21 million which will be paid by the Company in cash with its own funds. Upon completion of the Acquisition, Hubei Power Generation will become a subsidiary of the Company.

##### *Continuing connected transactions resulting from the Acquisition and adjustment of annual caps*

Upon completion of the Acquisition, Hubei Power Generation will become a subsidiary of the Company and the existing continuing transactions between the Enlarged Group and Huadian Finance relating to provision of financial services constitute continuing connected transactions under the Existing Financial Services Agreement. On 15 May 2015, the Group and Huadian Finance conditionally entered into the Supplemental Agreement to Financial Services Agreement to (i) extend the services to be provided by Huadian Finance under the Existing Financial Services Agreement to all members of the Enlarged Group from time to time including the Target Group following completion of the Acquisition; and (ii) to adjust the associated annual caps in respect of deposit services (the “**Deposit Services**”) provided by Huadian Finance to the Enlarged Group as a result of the anticipated increase in transaction volume between the Enlarged Group and Huadian Finance after completion of the Acquisition until expiry of the Existing Finance Services Agreement as supplemented by the Supplemental Agreement to Financial Services Agreement.

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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### *1. Hong Kong Listing Rules' implication*

As at the Latest Practicable Date, China Huadian was the controlling shareholder of the Company and thus a connected person of the Company. Huadian Finance is associate of China Huadian, which is held as to 36.148% by China Huadian. Therefore, Huadian Finance is a connected person of the Company under the Hong Kong Listing Rules.

The Acquisition contemplated under the Acquisition Agreement constitutes a connected transaction of the Company under Chapter 14A of the Hong Kong Listing Rules. As the relevant percentage ratios (as defined under Rule 14.07 of the Hong Kong Listing Rules) in relation to the Acquisition exceed 5%, the Acquisition will be subject to annual reporting, announcement, circular and independent shareholders' approval requirements. As one or more of the applicable percentage ratios in respect of the Acquisition exceed 5% but are less than 25%, the Acquisition also constitutes a discloseable transaction pursuant to Chapter 14 of the Hong Kong Listing Rules.

In respect of the Existing Financial Services Agreement and the Supplemental Agreement to Financial Services, as one or more of the applicable percentage ratios (as defined under Rule 14.07 of the Hong Kong Listing Rules) in relation to the proposed maximum daily balance of the Deposit Services of RMB7.5 billion, being the Existing Annual Cap of RMB6.0 billion and the Cap Increment of RMB1.5 billion, exceeds 5%, the provision of the Deposit Services constitutes non-exempt continuing connected transaction of the Company. Therefore, the Supplemental Agreement to Financial Services Agreement and the Cap Increment are subject to the all applicable requirements including the independent shareholders' approval requirements under Chapter 14A of the Hong Kong Listing Rules.

As at the Latest Practicable Date, China Huadian, which holds 4,321,061,853 issued A shares of the Company, and its wholly-owned subsidiary, China Huadian Hong Kong Company Limited, which holds 85,862,000 issued H shares of the Company, representing in total approximately 50.04% of the Company's total issued share capital, will abstain from voting for approving (i) the transactions contemplated under the Acquisition Agreement; and (ii) the Supplemental Agreement to Financial Services Agreement and the Cap Increment provided by Huadian Finance to the Enlarged Group.

The Company has established an Independent Board Committee, comprising all the independent non-executive Directors, to advise the Independent Shareholders on the Acquisition, the Supplemental Agreement to Financial Services Agreement and the Cap Increment.

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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### 2. *Background of the Group*

As set out in the Letter from the Board, the Group is one of the largest comprehensive energy companies in the PRC, and primarily engages in the construction and operation of power plants, including large-scale efficient coal or gas-fired generating units and various renewable energy projects, and the development, construction and operation of coal mines.

Certain financial information of the Group (prepared in accordance with International Financial Reporting Standards) for the two years ended 31 December 2014, as extracted from the annual report of the Company for the year ended 31 December 2014 (the “**2014 Annual Report**”).

	<b>For the year ended 31 December</b>	
	<b>2014</b>	<b>2013</b>
	<i>(RMB'000)</i>	<i>(RMB'000)</i>
	(Audited)	(Audited)
Turnover	67,781,771	66,049,455
Operating profit	14,723,475	12,484,679
Profit before taxation	9,458,091	7,094,676
Net profit for the year	<u>7,521,820</u>	<u>5,579,195</u>

As calculated from the above table, the Group’s turnover increased by approximately 2.62% for the year ended 31 December 2014 as compared with that for the year ended 31 December 2013. The increase in turnover was mainly due to the growth in volume of electricity sold.

Set out below is the revenue breakdown of the Group for the two years ended 31 December 2014 as extracted from the 2014 Annual Report.

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**LETTER FROM THE INDEPENDENT FINANCIAL ADVISER**

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	<b>For the year ended 31 December</b>			
	<b>2014</b>		<b>2013</b>	
	<i>(RMB'000)</i>	<i>% to total</i>	<i>(RMB'000)</i>	<i>% to total</i>
	<i>(Audited)</i>	<i>revenue</i>	<i>(Audited)</i>	<i>revenue</i>
Sale of electricity	63,761,606	94.07%	62,154,933	94.10%
Sale of heat	2,988,856	4.41%	2,962,605	4.49%
Sale of coal	1,031,309	1.52%	931,917	1.41%
	<hr/>		<hr/>	
Total	<u>67,781,771</u>	<u>100.0%</u>	<u>66,049,455</u>	<u>100.0%</u>

As shown above, majority of the revenue is derived from the sale of electricity.

**3. Background of China Huadian**

As set out in the Letter from the Board, China Huadian, the controlling shareholder of the Company, directly and indirectly holds approximately 50.04% of the Company's total issued share capital as at the Latest Practicable Date. China Huadian is primarily engaged in power generation, heat production and supply, energy development of coal and other resources related to the power generation and relevant professional technical services.

**4. Background of the Target Group**

*Installed capacities of the Target Group*

As set out in the Letter from the Board, the Target Group (including Hubei Power Generation, its subsidiaries and branch company) is principally engaged in generation of coal-fire power. Its general information are as follows:

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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	<b>Total controlled installed capacity as at 31 March 2015</b>	<b>Nature of power plant</b>	<b>Province</b>	<b>Shareholding percentage of Hubei Power Generation after the Acquisition</b>
Target Group	5,120 MW	Coal-fired	Hubei	82.5627%

*Information on Hubei Power Generation, its subsidiaries and branch company*

Hubei Power Generation

Hubei Power Generation was incorporated on 6 December 1995 with a registered capital of RMB1,492,012,075. Before completion of the Acquisition, Hubei Power Generation is held as to 82.5627% by China Huadian and 17.4373% by other independent third party investors.

Hubei Power Generation is principally engaged in the development, investment, construction, operation and management of electric power, thermal power and new energy, the processing and sale of electric power equipments and materials, consultation for electric power technology and management, comprehensive application of electric power resources, environmental protection and other high and new technologies.

As of the Latest Practicable Date, Hubei Power Generation held interest in the following companies and thermal power plants:

a. Huangshi Thermal Power Plant

According to the scope of business as set out in the relevant business licence of Huangshi Thermal Power Plant, Huangshi Thermal Power Plant is principally engaged in production, supply and comprehensive application of electric power (except for those prohibited by the PRC government); production and sale of thermal power; sale of coal ash, combined ash and desulphurized gypsum; lease on self-owned properties and lands; wholesale of coal. Huangshi Thermal Power Plant currently operates a coal-fired generator of 200 MW and a coal-fired generator of 330 MW.

Huangshi Thermal Power is a branch company of Hubei Power Generation.

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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b. Xisaishan Power Generation

Xisaishan Power Generation is held as to 50% by Hubei Power Generation and 50% by two independent third party investors. According to the scope of business as set out in the relevant business licence of Xisaishan Power Generation, Xisaishan Power Generation is principally engaged in construction, possession, operation, and maintenance of generators (the licence of Xisaishan Power Generation currently allows up to two generators each with capacity of 300 MW level and one generator with capacity of 100 MW level); production and sale of electric power; comprehensive application and operation of wastes from the electric power plant; consultation and services for electric power technology, procurement of electric power materials and equipments, thermal supply, coal operation, and provision of relevant operation and services. Xisaishan Power Generation currently operates two coal-fired power generators each with a capacity of 330 MW.

Xisaishan Power Generation is a subsidiary of Hubei Power Generation.

c. Huadian Xisaishan Power Generation

Huadian Xisaishan Power Generation is held as to 50% by Hubei Power Generation and 50% by two independent third party investors. According to the scope of business as set out in the relevant business licence of Huadian Xisaishan Power Generation, Huadian Xisaishan Power Generation is principally engaged in the construction, possession, operation and maintenance of supercritical coal-fired generators each with a capacity of 2\*600 MW level, production and sale of electric power; comprehensive application and operation of wastes from the electric power plant; consultation and services for electric power technology, procurement of electric power materials and equipments, thermal supply, coal operation, and provision of relevant operation and services. Huadian Xisaishan Power Generation currently operates two coal-fired power generators each with a capacity of 680 MW.

Huadian Xisaishan Power Generation is a subsidiary of Hubei Power Generation.



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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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d. Xiangyang Power Generation

Xiangyang Power Generation is held as to 60.1% by Hubei Power Generation and 39.9% by independent third party investors. According to the scope of business as set out in the relevant business licence of Xiangyang Power Generation, Xiangyang Power Generation is principally engaged in development, investment, construction and operation of electric power projects; production and sale of electric power; comprehensive application and operation of wastes from the electric power plant; consultation and services for electric power technology, procurement of electric power materials and equipments. Xiangyang Power Generation currently operates one coal-fired power generator with a capacity of 300 MW, three coal-fired power generators each with a capacity of 330 MW, and two coal-fired generators each with a capacity of 640 MW.

Xiangyang Power Generation is a subsidiary of Hubei Power Generation.

e. Hubei Fuel

Hubei Fuel is held as to 60% by Hubei Power Generation and 40% by Huadian Coal, a subsidiary of China Huadian. Huadian Coal is also held as to 12.72% by the Group.

According to the scope of business as set out in the relevant business licence of Hubei Fuel, Hubei Fuel is principally engaged in investment in coal and transportation industries (including import and export trading); sale of mineral products and environment-friendly electric and gas equipments; storage services; consultation and services on coal information; consultation on economy and trading; investment, research and development and application of new energy and environmental protection technology; high-efficient coal-fired technology and equipments; research and development and services of IT technology; wholesale of coal.

Hubei Fuel is a subsidiary of Hubei Power Generation.

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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f. Jinyuan Hydroelectric

Jinyuan Hydroelectric is held as to 65% by Hubei Power Generation and 35% by two independent third party investors. According to the scope of business as set out in the relevant business licence of Jinyuan Hydroelectric, Jinyuan Hydroelectric is principally engaged in development of hydroelectric power of the province; investment, development and construction of electric power projects; introduction and trading of high new technology on electric power construction; consultation and services for electric power technology; wholesale and operation of building materials, decoration materials, electric power equipments, mechanical appliances, household appliances, travel products, daily goods, steel materials, non-edible local agricultural products; processing and sale of knitted garments; and lease of properties.

Jinyuan Hydroelectric is a subsidiary of Hubei Power Generation.

g. Hubei Huadian Engineering

According to the scope of business as set out in the relevant business licence of Hubei Huadian Engineering, Hubei Huadian Engineering is principally engaged in examination, maintenance, installation and testing of electric power equipments, technology upgrade, operation of electric power materials, supervision and management on electric power projects and provision of electric power technology services.

Hubei Huadian Engineering is a subsidiary of Hubei Power Generation.

*Financial information of the Hubei Power Generation*

Set out below is certain financial information extracted from the consolidated financial statements of the Hubei Power Generation (including Wuchang Thermal Power) prepared in accordance with the PRC Accounting Standards and audited by KPMG Huazhen for the years ended 31 December 2013 and 31 December 2014:

	<b>As of 31 December 2013</b> <i>(RMB'000)</i>	<b>As of 31 December 2014</b> <i>(RMB'000)</i>
Total assets	14,999,244	15,760,650
Total liabilities	10,439,528	10,863,693
Net assets	<u>4,559,716</u>	<u>4,896,957</u>

## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

	For the year ended 31 December 2013 (RMB'000)	For the year ended 31 December 2014 (RMB'000)
Turnover	9,007,259	8,304,083
Operating profit	1,456,147	1,388,760
Profit before taxation	1,467,431	1,238,651
Net profit (after taxation)	<u>1,281,803</u>	<u>965,939</u>

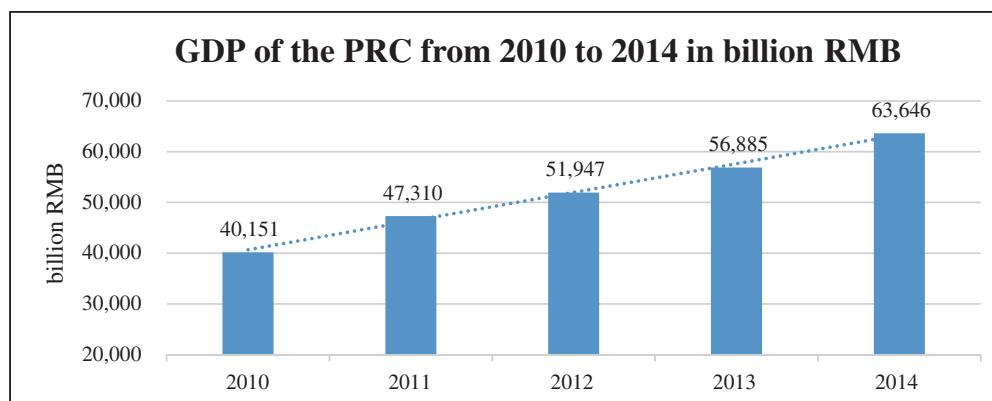
### 5. *Background of Huadian Finance*

Huadian Finance was established on 12 February 2004 as a limited liability company in Beijing, the PRC. It is licensed by the CBRC and is engaged in the provision of financial services which principally include deposit taking, provision of loans, issue of corporate debentures, inter-bank lending, finance leasing, bills acceptance and discounting, entrusted loans and entrusted investment to member companies, arrangement of buyer's credit for member companies' products, underwriting of corporate debentures of member companies, provision of financial advisory, credit certification and other advisory agency services and security to member companies, and other types of financial services as may be approved by the CBRC.

## II. Overview of the economy of the PRC and the thermal power industry of the PRC.

### 1. *The economy of the PRC*

Set out below is the gross domestic product ("GDP") of the PRC from 2010 to 2014:



Source: National Bureau of Statistics of China

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

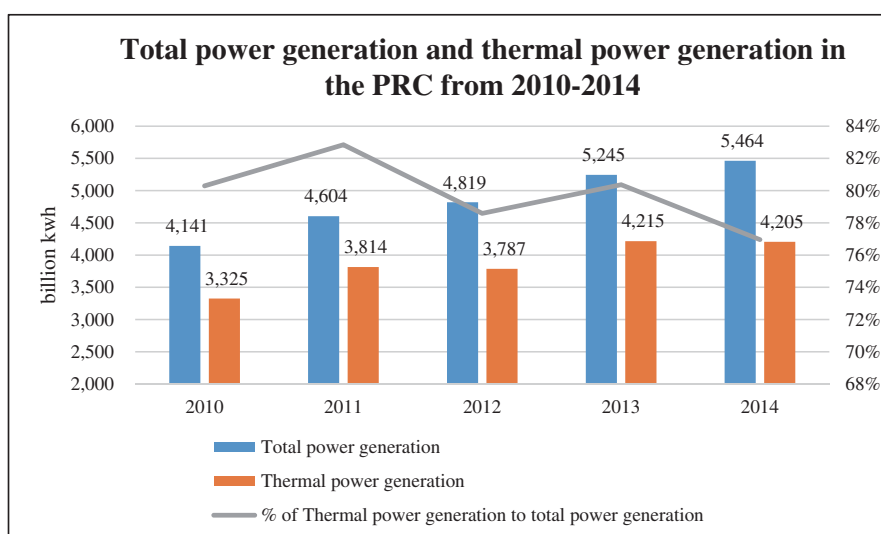
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As shown out in the above table, nominal GDP of the PRC grew from approximately RMB40,151 billion in 2010 to approximately RMB63,646 billion in 2014.

According to the National Bureau of Statistics of China, GDP of the PRC in the first quarter of 2015 is approximately RMB14,066 billion and the growth rate is approximately 7.0% compared to GDP of the PRC in the first quarter of 2014.

### 2. *The thermal power industry of the PRC*

Set out below is the total power generation and thermal power generation in the PRC from 2010 to 2014:



Source: *National Bureau of Statistics of China*

The total power generation increased from approximately 4,141 billion kwh in 2010 to approximately 5,464 billion kwh in 2014, representing a compound annual growth rate (“CAGR”) of approximately 7.17%. The thermal power generation increased from approximately 3,325 billion kwh in 2010 to approximately 4,205 billion kwh in 2014, representing a CAGR of approximately 6.04%. The average percentage ratio of the thermal power generation to the total power generation in the PRC from 2010 to 2014 is approximately 79.8%.

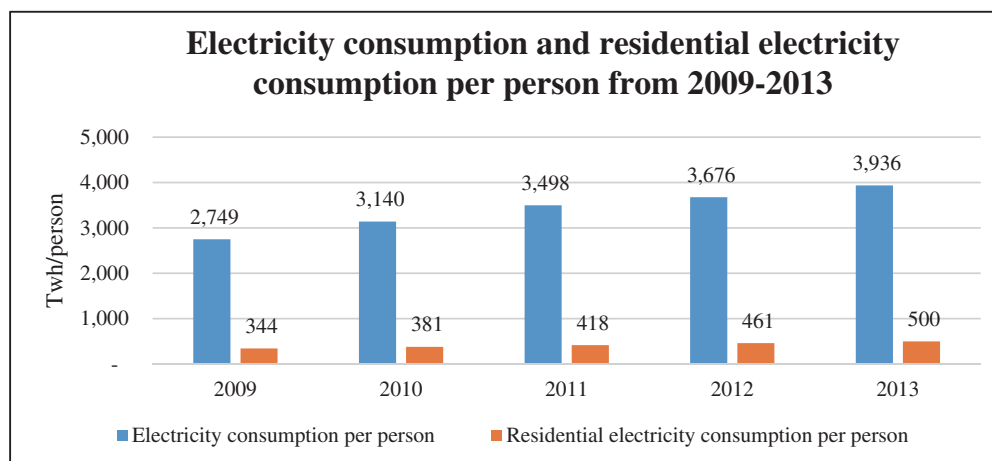
Based on National Bureau of the Statistics of China, for the first quarter of 2015, the total power generation and the thermal power generation in the PRC is approximately 1,310 billion kwh and 1,047 billion kwh respectively. The percentage ratio of thermal power generation to the total power generation in the PRC is approximately 79.9%.

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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Based on the above, thermal power generation which utilize coal, crude oil and natural gas as primary fuel is still the primary power generation method in the PRC.



Source: *China Electricity Council*

The diagram above illustrated the growth of electricity consumption and residential electricity consumption per person for the year from 2009-2013. The electricity consumption and residential electricity consumption increased steadily from 2009-2013, and representing a CAGR of approximately 9.4% and 9.8% respectively.

In summary, the demand for electricity in China is expected to grow steadily and thermal power generation is remaining the primary power generation method in the PRC. We consider that the thermal power industry is in a stable and sustainable manner.

### III. The Acquisition

#### 1. *Reasons for and benefits of the Acquisition*

*In line with the Company's future plans*

As stated in the 2014 Annual Report, the Group is one of the largest comprehensive energy companies in the PRC and the Company will change its development mode from focusing on self-directed development to a favourable combination of self-directed development and acquisition of assets from its parent company, thus vigorously promoting the sustainable development of the Company and comprehensively enhancing the value creation capacity of the Company.

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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As set out in the Letter from the Board, the Acquisition would (i) support the sustainable and stable development of the business; and (ii) contribute to expanding the production scale and geographic coverage of the Company, thereby improving the overall competitiveness of the Company so as to further improve the Company's profitability and enhance the Company's market position in the industry.

Moreover, as stated in the section headed "Overview of the economy of the PRC and the thermal power industry of the PRC" above, thermal power which utilize coal, crude oil and natural gas as primary fuel is still the major energy generation method in the PRC and the coal-fired electricity power generation is still the primary power source in the power industry. The power industry is in a stable and sustainable manner.

Upon completion, Hubei Power Generation will become a subsidiary of the Company. In the long run, we concurred with the Directors' view that the Acquisition will enable the Group to further consolidate its leading position as one of the largest comprehensive energy companies in PRC.

### *Reduce and avoid potential competitions between the Company and China Huadian*

We have made reference to the announcements made by the Company dated 16 April 2014, 30 June 2014, 29 August 2014 and 29 December 2014 in relation to the undertaking and its further clarification provided by China Huadian in favour of the Company (collectively, the "**Non-compete Undertaking**") in support of the sustainable and stable development of the Company. Pursuant to the Non-compete Undertaking, China Huadian will continue to perform its undertakings previously given and treat the Company as the ultimate integration platform for its conventional energy based electricity generation assets and as its core enterprise for developing conventional energy based electricity generation business. With respect to its non-listed conventional energy based electricity generation assets, China Huadian undertakes to inject such assets into the Company in approximately 3 years upon such assets meeting the conditions for listing and to grant the Company the pre-emptive right to develop and acquire conventional energy based electricity generation projects.

As discussed with the management of the Company, Hubei Power Generation are shortlisted after careful scrutiny and evaluation by the Company. Based on the reasons set out below, China Huadian and the Company believed that the Acquisition in whole meet with the criteria for injecting into the Company under, and are consistent with the terms of, the Non-compete Undertaking. Detailed reasons are as follows:

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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- (i) Hubei Power Generation is located in Hubei Province. The Acquisition is part of the measures being implemented by China Huadian to reduce potential business competition with the Group's business operations in Hubei Province, and to seek to position the Company as a core enterprise invested by China Huadian with a focus on the integrated platform for the conventional energy based electricity generation assets;
- (ii) China Huadian has, among other things, (i) warranted to the Company that the ownerships of Hubei Power Generation owned by them respectively is clearly defined and is not subject to any mortgage, pledge, lien, third party interest or any other circumstances that would prevent the transfer of ownership thereof; (ii) covenanted with the Company that any losses caused by any fine from competent authorities regarding the lands and properties of which the ownership certificates had not been obtained would be promptly compensated in full by China Huadian;
- (iii) the indemnity and compensation mechanism, including representations, warranties, undertakings, indemnities and reimbursements' provisions for the title defects, dispute, litigation, arbitration ongoing or pending arising from the normal operations or business affairs of the Hubei Power Generation offered by China Huadian, also function as a warranty for the Acquisition;
- (iv) given that the Acquisition do not involve any issuance of the Shares and that Hubei Power Generation has positive income flow, hence, and the earnings per share of the Company following completion of the Acquisition will not be diluted; and
- (v) asset-based approach has been adopted for evaluating Hubei Power Generation which reflects the prudent consideration of the parties on pricing and a positive effect on preservation of and value appreciation of state-owned assets.

After considering the above factors, we concurred with the Directors' view that the Acquisition in whole contemplated under the Acquisition Agreements is consistent with the Non-compete Undertaking and would enable the Company to consolidate its position and role as an integration platform for the conventional energy based electricity generation assets. As at 31 March 2015, the Company's total controlled installed capacity was approximately 38,093.3 MW. It is estimated that upon completion of the Acquisition, the Company's total controlled installed capacity will increase to approximately 43,213.3 MW, representing an increase of 13.44%.

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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Having considered that the Acquisition (i) is in line with the Company's future plan and strengthen the core business of the Company, and (ii) can reduce and avoid potential competitions between the Company and China Huadian, we are of the view that the Acquisition is in the ordinary and usual course of business of the Company, and is on normal commercial terms, fair and reasonable so far as the Independent Shareholders are concerned and in the interest of the Company and the Independent Shareholders as a whole.

### 2. *Consideration of the Acquisition Agreement*

As set out in the Letter from the Board, the Consideration is approximately RMB3,845.21 million. The Consideration is determined with reference to the total appraised value of the Target Group (including the appraised value of the equity interest in Wuchang Thermal Power) as at 31 December 2014 at approximately RMB4,657.33 million in the aggregate, valued by the Valuer. In accordance with the valuation report (the "**Valuation Report**") issued by the Valuer, the results of the valuation determined through an assets-based approach was adopted to arrive at the overall valuation of the Target Group.

Based on the Valuation Report issued by the Valuer, the appraised value of the 82.5627% equity interest in Hubei Power Generation as at 31 December 2014 is set out in the following table:

<b>Equity Interests in the Hubei Power Generation</b>	<b>Appraised value</b>
82.5627% equity interests in Hubei Power Generation	Approximately RMB3,845.21 million

#### *Valuation*

We have discussed with the Valuer regarding the Valuer's qualification and experience in relation to the performance of the valuation of the Hubei Power Generation. We noted that the Valuer has experience in performing valuation services for numerous sizeable enterprises covering a wide range of industries in the PRC. The Valuer confirmed that it is an independent third party to the Company and all relevant material information provided by the Company had been incorporated in the Valuation Report. In addition, by reviewing the Valuer's engagement letter and the Valuation Report, we also noted that the scope of work is appropriate to the opinion required to be given and we are not aware of any limitation on the scope of work which might have an adverse impact on the degree of assurance given by the Valuation Report. Based on the above, we are of the view that the scope of work of the Valuer is appropriate and the Valuer is qualified to perform the valuation of the Hubei Power Generation.



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### *Selection of valuation methodology*

According to the Valuation Report, the appraised value of the net assets of Hubei Power Generation were conducted by one or more of the three generally accepted valuation approaches, namely (1) asset-based approach; (2) market approach; and (3) income approach. We noted from the Valuer that it is inapplicable to adopt the market approach due to the fact that Hubei Power Generation is not public listed company and there are no similar companies in the industry that can be compared with Hubei Power Generation in the PRC.

In addition, we have also discussed with the Valuer that:

- i) the principle activities of Hubei Power Generation are to manage and supervise the development of its branch company and its subsidiaries, and to initiate proper investment in energy projects;
- ii) several power plants, including Jiangling Power Plant, are under construction or early phase of operation, and will not generate income in the next few years; and
- iii) Hubei Power Generation aims to expand its construction and investment platform in the near future, and thus the uncertainty of project development plan contributes to the unpredictability of its cash flow.

For the reasons set out above, the Valuer considered that the income approach will not be the most appropriate approach for the assessment of the Hubei Power Generation when compared with the asset-based approach. According to the Valuation Report, we understood that the asset-based approach represents an asset-based method of determining the value of the assessed assets by considering the fair value of Hubei Power Generation by deducting the fair value of liabilities from the fair value of various assets. Since the core assets of Hubei Power Generation consist of tangible assets (for example plants, equipments and land) and there are sufficient information for the Valuer to appraise Hubei Power Generation, therefore, the Valuer advised that the assets-based approach is the most appropriate valuation approach for the Valuation and adopted the asset-based approach for the appraisal of the net assets of Hubei Power Generation.

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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In assessing the fairness and reasonableness of the Acquisition, we noted that the Valuer has made various assumptions, including but not limited to, (i) there is no changes in the PRC governmental policies and regulations; (ii) there is an open market; (iii) the continuity of the business enterprise; (iv) there is no changes with the Hubei Power Generation's accounting policy; (v) there is no significant changes in interest rate, exchange rate, tax rate, and other relevant valuation bases; (vi) there is no significant changes with the Hubei Power Generation's management and operation; and (vii) the market condition remains constant after the valuation date. During the course of discussion with the Valuer, nothing unusual matter has come to our attention that would lead us to believe that the Valuation was not prepared on a reasonable basis. We are of the view that the methodology and assumptions which had been adopted were arrived at after due and careful consideration.

Based on the above, we concurred with the Company's view that the Consideration for the Acquisition, as determined with reference to the Valuation Report, are ordinary and usual course of the business of the Company, and are on normal commercial terms and fair and reasonable so far as the Independent Shareholders are concerned and are in the interests of the Company and the Shareholders as a whole.

### *Comparable Analysis*

In order to assess the fairness and reasonableness of the consideration under the Acquisition Agreement, we have, to the best of our effort, selected four comparable companies (the "Comparable Companies") exhaustively on the criteria that (i) currently listed on the Stock Exchange; (ii) primarily engaged in operation of power plants in the PRC with majority of generation capacity from thermal power plants; and (iii) operating power plants throughout various provinces in the PRC.

The following table shows the relevant ratios calculated based on the respective share prices of the Comparable Companies as at the Latest Practicable Date and their latest published financial statements for the latest full financial year.

<b>Company Name</b>	<b>Price to net profit<sup>1</sup></b> <i>(Times)</i>	<b>Price to book value<sup>2</sup></b> <i>(Times)</i>
China Power International Development Limited (Stock code: 2380)	9.93	1.33
China Resources Power Holdings Company Limited(Stock code: 836)	15.49	1.24

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Company Name	Price to net profit <sup>1</sup> (Times)	Price to book value <sup>2</sup> (Times)
Datang International Power Generation Co., Ltd. (Stock code: 991)	51.18	1.52
Huaneng Power International, Inc. (Stock code: 902)	11.56	1.85
The Group	10.14	1.78
Maximum	51.18	1.85
Average	19.66	1.54
Median	11.56	1.52
Minimum	9.93	1.24
Acquisition	<u>8.45<sup>3</sup></u>	<u>1.37<sup>4</sup></u>

*Source: Latest financial statement for the latest full financial year of each Comparable Companies from the website of the Stock Exchange*

*Notes:*

1. The price to net profit ratio refers to a comparison of the market value on the Latest Practicable Date (using the respective share prices in the case of the Comparable Companies) with the respective net profit to the equity holders of the latest full financial year as per the published financial statements.
2. The price to book value ratio refers to a comparison of the market value on the Latest Practicable Date (using the respective share prices in the case of the Comparable Companies) with the attributable net asset to the equity holders as per publicly as per the latest published full year financial statements.
3. The price to net profit ratio for the Acquisition refers to a comparison of the total consideration paid with the attributable net profit of the latest full financial year as per the latest financial statement of Hubei Power Generation available on the Latest Practicable Date.
4. The price to book value ratio for the Acquisition refers to a comparison of the consideration paid in the Acquisition with the attributable net asset on an equity basis as per the latest financial statement of Hubei Power Generation available on the Latest Practicable Date.

*Price to net profit*

The price to net profit ratio of the Acquisition is approximately 8.45 times, which is (i) lower than the average price to net profit ratio of the Group and Comparable Companies of approximately 19.66 times; and (ii) slightly lower than the minimum price to net profit ratio of the Group and Comparable Companies of approximately 9.93 times.

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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### *Price to book value*

The price to book value ratio of the Acquisition is approximately 1.37 times, which is (i) lower than the average price to book value ratio of the Group and Comparable Companies of approximately 1.54 times; and (ii) within the range of the price to book value ratio of the Group and the Comparable Companies of approximately 1.24 times to 1.85 times.

In addition, we also determine to compare the Acquisition with similar transactions in the PRC conducted by the Hong Kong listed companies principally engaged in power generating business (the “**Comparable Acquisitions**”) and announced from 1 January 2014, up to and including the Latest Practicable Date. We have exhaustively identified, to the best of our efforts, seven Comparable Acquisitions and details of our findings as summarized in the table below:

Announcement date	Purchaser/Vendor <sup>1</sup>	Book value <sup>2</sup> to MW <sup>3</sup> <i>(RMB million)</i>	Price to earnings <sup>4</sup> <i>(Times)</i>	Price to book value <sup>5</sup> <i>(Times)</i>	Price to MW <sup>6</sup> <i>(RMB million)</i>
29-Dec-14	China Longyuan Power Group Corporation Limited (Stock code: 916)	N/A <sup>7</sup>	27.83	1.14	N/A <sup>8</sup>
29-Dec-14	Beijing Jingneng Clean Energy Co., Limited (Stock code: 579)	N/A <sup>7</sup>	6.88	0.97	N/A <sup>8</sup>
13-Oct-14	Huaneng Power International, Inc. (Stock code: 902)	0.76	5.18	2.25	1.70
13-Oct-14	Huaneng Power International, Inc. (Stock code: 902)	0.59	N/A <sup>9</sup>	2.26	1.34
13-Oct-14	Huaneng Power International, Inc. (Stock code: 902)	0.77	7.01	1.79	1.39
25-Apr-14	Haitian Hydropower International Limited (Stock code: 8261)	1.56	72.20	5.69	8.89
17-Apr-14	Datang International Power Generation Co., Ltd. (Stock code: 991)	0.34	N/A <sup>9</sup>	2.65	0.91
Maximum		1.56	72.20	5.69	8.89
Average		0.81	23.82	2.39	2.84
Average excluding outliers <sup>10</sup>		0.71	11.72	2.02	1.48
Median		0.76	7.01	2.25	1.39
Minimum		0.34	5.18	0.97	0.91
Acquisition		0.66	8.45	1.37	0.91

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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*Notes:*

1. Purchaser/vendor refers to the respective listed company and/or its subsidiaries.
2. Book value refers to the attributable net asset on an equity basis as per publicly filed information of the Comparable Acquisitions available on the Latest Practicable Date.
3. MW refers to the generation capacity on an equity basis as per publicly filed information of the Comparable Acquisitions available on the Latest Practicable Date.
4. The price to earnings ratio refers to a comparison of the total consideration paid in the acquisition with the attributable net profit of the latest full financial year of the target power plant(s) as per publicly filed.
5. The price to book value ratio refers to a comparison of the consideration paid in the Comparable Acquisition with the attributable net asset on an equity basis as per publicly filed information of the Comparable Acquisitions available on the Latest Practicable Date.
6. The price to MW ratio refers to a comparison of the consideration paid in the Comparable Acquisitions with the generation capacity on equity basis as per publicly filed information of the Comparable Acquisitions available on the Latest Practicable Date.
7. Book value is not available per publicly filed information of the respective Comparable Acquisitions.
8. Generation capacity is not available per publicly filed information of the respective Comparable Acquisitions.
9. Net profit is not available per publicly filed information of the respective Comparable Acquisitions.
10. Averages excluding outliers for each of the data are calculated with excluding the minimum and maximum figures for each data.

*Book value to MW ratio*

The book value to MW ratio of the Acquisition is approximately RMB0.66 million, which is (i) lower than the average book value to MW ratio of the Comparable Acquisitions of approximately RMB0.81 million; and (ii) within the range of the book value to MW ratio of the Comparable Acquisitions of approximately RMB0.34 million to RMB1.56 million.

*Price to earnings ratio*

The price to earnings ratio of the Acquisition is approximately 8.45 times, which is (i) lower than the average price to earnings ratio of the Comparable Acquisitions of approximately 23.82 times; and (ii) within the range of the price to earnings ratio of the Comparable Acquisitions of approximately 5.18 times to 72.20 times.

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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### *Price to book value ratio*

The price to book value ratio of the Acquisition is approximately 1.37 times, which is (i) lower than the average price to book value ratio of the Comparable Acquisitions of approximately 2.39 times; and (ii) within the range of the price to book value ratio of the Comparable Acquisitions of approximately 0.97 times to 5.69 times.

### *Price to MW ratio*

The price to MW ratio of the Acquisition is approximately RMB0.91 million, which is (i) lower than the average price to MW ratio of the Comparable Acquisitions of approximately RMB2.84 million; and (ii) within the range of the price to MW ratio of the Comparable Acquisitions of approximately RMB0.91 million to RMB8.89 million.

Based on our review of the relevant announcements and circulars of the Comparable Companies or Comparable Acquisitions, in view of the fact that (i) the Company and the Comparable Companies or other listed companies related to the Comparable Acquisitions operate power plants in various provinces in the PRC, in which the regulation policies and operating environment may be different; (ii) there may be differences in accounting policies and taxation standards between the Company and the Comparable Companies or other listed companies related to the Comparable Acquisitions; and (iii) the business models adopted by the Company and the Comparable Companies or other listed companies related to the Comparable Acquisitions may be different due to the unique characteristics of each company.

Thus, we consider that the Comparable Companies or the Comparable Acquisitions might not represent a fair and representative sample and thus the findings above may only be used to provide a general reference only.

### **3. *Financial effects of the Acquisition on the Group***

This section sets out various analyses on the potential financial effects of the Acquisition on the Group, which were prepared based on the audited financial statements of the Group extracted from the 2014 Annual Report, and audited financial information of Hubei Power Generation for the two years ended 31 December 2014. It should be noted that the figures and financial impact shown in this section are for illustrative purposes only.

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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### *Consolidation of financial statements*

Before the Acquisition, the accounts of Hubei Power Generation were not consolidated into the consolidated accounts of the Group, while upon the completion of the Acquisition, Hubei Power Generation will become subsidiary of the Company, and the results and assets and liabilities of Hubei Power Generation will be included in the consolidated financial statements of the Group. The actual effect on earnings or losses of the Company will depend on future financial performance of Hubei Power Generation.

### *Earnings*

Based on the audited consolidated financial information of Hubei Power Generation for the two year ended 31 December 2014, the total net profits of Hubei Power Generation were approximately RMB965.94 million. As set out in the Letter from the Board, the Hubei Power Generation had controlled generating capacity of 5,120 MW, which contributed to an increase of 13.44% to the Group total controlled generating capacity. It is expected that the Acquisition would bring positive impact to the performance of the Group.

### *Net asset value*

As at 31 December 2014, the consolidated net asset of the Group was approximately RMB42,936.46 million. The Group will consolidate the asset and liabilities of Hubei Power Generation into accounts of the Group and the net asset value is expected to increase.

### *Cash and cash equivalents*

Based on the 2014 Annual Report of the Group, the cash and cash equivalents of the Group amounted to approximately RMB5,204.96 million as at 31 December 2014. Based on the audited consolidated financial information of Hubei Power Generation as at 31 December 2014, the total cash and cash equivalents of Hubei Power Generation was approximately RMB660.62 million. As set out in the Letter from the Board, the consideration of the Acquisition of approximately RMB3,845.21 million will be satisfied by the payment of cash from the internal resources of the Company on completion. Since the Group have sufficient cash and cash equivalents to settle the consideration, we consider that the entry into the Acquisition Agreement will have no material adverse impact on the Group's cash and cash equivalents position.

### *Gearing*

As mentioned in the above paragraph, since the payment for the consideration of approximately RMB3,845.21 million will be satisfied by internal resources of the Group, there will be no material effect on the gearing ratio (calculated as total liabilities divided by total assets) of the Group as a result of the Acquisition Agreement.

#### **IV. The Existing Financial Services Agreement and the Supplemental Agreement to Financial Services Agreement**

##### ***1. The Existing Financial Services Agreement***

On 6 November 2014, the Company entered into the Existing Financial Services Agreement with Huadian Finance for the provision of certain financial services by Huadian Finance to the Group on a non-exclusive basis. The Existing Financial Services Agreement was for a term of three years from 1 January 2015 to 31 December 2017.

##### ***2. The Supplemental Agreement to Financial Services Agreement***

As set out in the Letter from the Board, on 15 May 2015, the Group and Huadian Finance conditionally entered into the Supplemental Agreement to Financial Services Agreement to (i) extend the services to be provided by Huadian Finance under the Existing Financial Services Agreement to all members of the Enlarged Group from time to time including the Target Group following completion of the Acquisition; and (ii) adjust the associated annual caps in respect of deposit services provided by Huadian Finance to the Enlarged Group as a result of the anticipated increase in transaction volume between the Enlarged Group and Huadian Finance after completion of the Acquisition until expiry of the Existing Finance Services Agreement as supplemented by the Supplemental Agreement to Financial Services Agreement.

##### ***3. Reasons for and benefits for entering into the Supplemental Agreement to the Financial Services Agreement and the adjustment of the Existing Annual Caps***

Upon completion of the Acquisition, Hubei Power Generation will become a subsidiary of the Company and the existing continuing transactions between the Target Group, which will form part of the Enlarged Group, and Huadian Finance relating to provision of financial services will constitute continuing connected transactions under the Existing Financial Services Agreement.



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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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Pursuant to the Existing Financial Services Agreement, the average daily deposit amount placed by the Group with Huadian Finance shall be no more than the average daily loan balance from Huadian Finance to the Group and shall not be more than RMB6 billion.

As set out in the Letter from the Board, the Company considers that the Supplemental Agreement to Financial Services Agreement and the Cap Increment are beneficial to the Enlarged Group that (i) it is administratively convenient to continue using the financial services provided by Huadian Finance to the Enlarged Group (including but not limited to the Target Group); (ii) it will also improve the efficiency of the Enlarged Group's capital; and (iii) it will continue to facilitate the operation and growth of the Enlarged Group's businesses, resulting from the anticipated increase in transaction volume between the Enlarged Group and Huadian Finance. Therefore, we are of the view that the terms of the Supplemental Agreement to Financial Services Agreement and the transactions contemplated thereunder together with the Cap Increment are ordinary and usual course of the business of the Company, and are on normal commercial terms, fair and reasonable and the entering into the Supplemental Agreement to Financial Services Agreement is in the interests of the Company and the Shareholders as a whole.

#### 4. *Basis of the Cap Increment*

##### *Deposit Services*

As set out in the Letter from the Board, the historical maximum daily balance of the deposits made by the Target Group with Huadian Finance are set out as follows:

	For the year ended 31 December 2012 Aggregate transaction amount (RMB million)	For the year ended 31 December 2013 Aggregate transaction amount (RMB million)	For the year ended 31 December 2014 Aggregate transaction amount (RMB million)	For the quarter ended 31 March 2015 Aggregate transaction amount (RMB million)
Transactions				
Target Group	687	629	1,275	891

For the quarter ended 31 March 2015, the maximum daily balance of the deposits made by the Group with Huadian Finance pursuant to the Existing Financial Services Agreement was approximately RMB4,842 million, representing a utilization rate of approximately 80.7% of the Existing Annual Cap for the year ending 31 December 2015 under the Existing Financial Services Agreement.

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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*Adjustment of the annual caps for the continuing connected transactions contemplated under the Supplemental Agreement to Financial Services Agreement for each of the three years ending 31 December 2017*

The Directors propose the following the Cap Increment for the financial services provided by Huadian Finance to the Enlarged Group under the Supplemental Agreement to Financial Services Agreement for the each of the three years ending 31 December 2017 as follows:

Transactions	For the financial year ending		For the financial year ending		For the financial year ending	
	31 December 2015		31 December 2016		31 December 2017	
	Original annual cap	Cap Increment	Original annual cap	Cap Increment	Original annual cap	Cap Increment
	<i>(RMB millions)</i>	<i>(RMB millions)</i>	<i>(RMB millions)</i>	<i>(RMB millions)</i>	<i>(RMB millions)</i>	<i>(RMB millions)</i>
Deposit Services	6,000	1,500	6,000	1,500	6,000	1,500

As set out in the Letter from the Board, the Cap Increment is intended to reflect the expected increase in the maximum daily balance deposits of the Enlarged Group, which is determined mainly based on the estimated maximum amount of deposits involved, with reference to the historical transaction volumes, being the maximum daily balance of the deposits made by the Target Group prior to the Acquisition and the estimated potential growth of the Target Group after the Acquisition.

The historical maximum daily balance of the Target Group with Huadian Finance had been increasing yearly from the year ended 31 December 2012 to the year ended 31 December 2014 and shows signs for a projected increase for the year ended 31 December 2015 based on the figures for the quarter ended 31 March 2015 due to (i) the continuous improvement of the business environment and (ii) the stable expansion of the scale of Target Group. The Company expects that the highest daily balance of deposits (including accrued interest) placed by the Enlarged Group with Huadian Finance pursuant to the Existing Financial Services Agreement and the Supplemental Agreement to the Financial Services Agreement will not exceed the average daily balance of the loan provided by Huadian Finance to the Enlarged Group or RMB7,500 million during the term of the Supplemental Agreement to the Financial Services Agreement. Therefore, the Company considers setting the Cap Increment based on the figures for the year ended 31 December 2014 reasonable and expects that the maximum daily balance would be less than RMB1,500 million in the next few years. The Company proposes to set the Cap Increment at RMB1,500 million taking into account the provision for buffer. The Directors consider the Cap Increment to be fair and reasonable.

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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In assessing the fairness and reasonableness of the Cap Increment given the below that:

- (i) during the three months ended 31 March 2015, the balance of cash and cash equivalent of the Enlarged Group at the end of each month ranged from RMB7,993.63 million to RMB9,369.70 million, with an average of RMB8,615.70 million. As discussed with the management of the Company, the cash and cash equivalent balances fluctuate significantly from time to time as a result of receipts of sales proceeds from grid companies and payments of operating expenses to service providers, both on a monthly basis. Accordingly, the Enlarged Group may have significant balances of cash and cash equivalents immediately after the receipts of sales proceeds, but the balances of cash and cash equivalents may decrease significantly immediately after the payments of operating expenses;
- (ii) during the three months ended 31 March 2015, the deposit balance placed with Huadian Finance by the Enlarged Group at the end of each month ranged from RMB4,888.54 million to RMB6,037.83 million. As discussed with the management of the Company, we noted that the Enlarged Group had high utilization level of the relevant deposit cap during the three months ended 31 March 2015;
- (iii) during the three months ended 31 March 2015, the percentage of deposit placed with Huadian Finance to the total cash and cash equivalent of the Enlarged Group at the end of each month ranged from 57.62% to 68.38%, with an average of 63.48%;
- (iv) it is expected that the amount of cash handled by the Enlarged Group would increase for the three years ending 31 December 2017 due to the expanding operating scale of the Enlarged Group upon and after the completion of the Acquisition;

Based on the above, we are of the view that the Cap Increment are ordinary and usual course of the business of the Company, and are on normal commercial terms, fair and reasonable as far as the Independent Shareholders are concerned.

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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### RECOMMENDATION AND CONCLUSION

Having considered the above principal factors and reasons, we are of the opinion that (i) the Acquisition Agreement and the transaction contemplated thereunder including the Acquisition are ordinary and usual course of the business of the Company, and are on normal commercial terms, fair and reasonable so far as the Independent Shareholders are concerned and is in the interests of the Company and the Shareholders as a whole; (ii) the Supplemental Agreement to Financial Services Agreement and the transactions contemplated thereunder together with the Cap Increment are ordinary and usual course of the business of the Company, and are on normal commercial terms, in the ordinary and usual course of business, fair and reasonable so far as the Independent Shareholders are concerned and are in the interests of the Company and the Shareholders as a whole. We therefore advise the Independent Shareholders to vote in favour of the proposed resolution to approve the Acquisition Agreement and the transaction contemplated thereunder including the Acquisition and the Supplemental Agreement to Financial Services Agreement and the transactions contemplated thereunder together with the Cap Increment.

Yours faithfully,

For and on behalf of

**China Investment Securities International Capital Limited**

**Tony Wu**

*Managing Director and*

*Head of Investment Banking Department*

\* *For identification purpose only*

*In this letter, the English names of the PRC Laws and entities are translations of their Chinese names and included herein for identification purpose only. In the event of any inconsistency, the Chinese names shall prevail.*

Proposed Transfer of Equity in

Huadian Hubei Power Generation Company Limited

Held by China Huadian Corporation to

Huadian Power International Corporation Limited

**Valuation Report**

**Zhong Qi Hua Ping Bao Zi (2015) No.1063**  
**(Volume 1 of one volume in total)**

**Beijing China Enterprise Appraisals Co., Ltd.**  
**(北京中企華資產評估有限責任公司)**

**8 May 2015**

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**STATEMENT OF CERTIFIED PUBLIC VALUER**

- I. In the course of this asset valuation, we complied with relevant laws and regulations as well as the standards of asset valuation on the principles of independence, objectiveness and fairness. Based on the information gathered by us during the valuation, the contents contained in the valuation report are objective. We assume relevant liabilities for the reasonableness of the conclusion of valuation.
- II. The lists of assets and liabilities of the subject under valuation were submitted by the entrusting party and the company under valuation with their respective signatures and chops affixed thereto. The entrusting party and relevant principals are responsible for ensuring the authenticity, legality and completeness of information provided as well as the proper use of the valuation report.
- III. We do not or are not expected to have any interest in the subject under valuation referred to in the valuation report or that with any relevant principals, and are free from bias against such principals.
- IV. We conducted on-site investigation into the subject under valuation referred to in the valuation report and the assets involved. Also, we paid necessary attention to, and verified the information on, the ownership of the subject under valuation and the assets involved, and we have made factual disclosure on issues identified and submitted the same to the entrusting party and relevant principals to perfect the ownership in order to fulfill the requirements of issuing valuation report.
- V. The analysis, judgments and conclusion contained in the valuation report issued by us are subject to the assumptions and limitations of the valuation report. Users of the valuation report should fully consider the assumptions, limitations, notes on special issues contained in the valuation report and their effects on the conclusion of valuation.

## SUMMARY OF VALUATION REPORT

**Important**

**This summary is extracted from the text of the valuation report. For details of this valuation project and reasonable understanding of the conclusion of valuation, please read the text of the valuation report carefully.**

Beijing China Enterprise Appraisals Co., Ltd. was jointly engaged by China Huadian Corporation and Huadian Power International Corporation Limited to appraise the market value of the total shareholders' equity of Huadian Hubei Power Generation Company Limited on the benchmark date through necessary valuation procedures in accordance with relevant laws, regulations, asset valuation standards pursuant to the principles of independence, objectiveness and fairness. The valuation report is hereby summarised as follows:

**Purpose of valuation:** China Huadian Corporation proposed to transfer its equity interest in Huadian Hubei Power Generation Company Limited to Huadian Power International Corporation Limited, and therefore it is required to appraise the total shareholders' equity of Huadian Hubei Power Generation Company Limited involved in such economic activity so as to provide basis of reference in respect of the value of the above-mentioned economic activity.

**Subject under valuation:** the value of total shareholders' equity of Huadian Hubei Power Generation Company Limited.

**Scope of valuation:** the scope of valuation is the total assets and liabilities of the company under valuation, including current assets, non-current assets, current liabilities and non-current liabilities.

**Valuation benchmark date:** 31 December 2014

**Type of value:** market value

**Valuation methods:** asset-based approach, income approach

**Conclusion of valuation:** the valuation results obtained by the adoption of the asset-based approach has been selected as the conclusion of valuation in this valuation report with details of conclusion as follows:

As at the valuation benchmark date, the carrying amount and the appraised value of total assets of Huadian Hubei Power Generation Company Limited were RMB5,311,049,000 and RMB6,569,507,100 respectively, representing an increase of RMB1,258,458,100 or 23.70%. The carrying amount and the appraised value of total liabilities were RMB1,912,180,700, and RMB1,912,180,700 respectively, representing no change in value. The carrying amount and the appraised value of net assets were RMB3,398,868,300, and RMB4,657,326,400 respectively, representing an increase of RMB1,258,458,100 or 37.03%.



The particulars of valuation results by the asset-based approach are detailed in the following valuation results table:

**Table of Valuation results by the Asset-based Approach**

Valuation benchmark date: 31 December 2014

Unit: RMB0'000

Item		Carrying	Appraised	Increase/	Appreciation
		amount	Value	Decrease	rate%
		A	B	C=B-A	D=C/A×100%
I. Current assets	1	78,694.50	78,712.92	18.42	0.02
II. Non-current assets	2	452,410.40	578,237.79	125,827.39	27.81
Of which: Long-term					
equity investment	3	301,707.29	400,703.74	98,996.45	32.81
Investment property	4	0.00	0.00	0.00	
Fixed assets	5	84,939.10	98,586.33	13,647.23	16.07
Construction in progress	6	5,779.93	5,769.16	-10.77	-0.19
Intangible assets	7	3,450.08	15,578.76	12,128.68	351.55
Of which: Land use rights	8	2,872.35	15,099.33	12,226.98	425.68
Other non-current assets	9	56,534.00	57,599.80	1,065.80	1.89
<b>Total assets</b>	10	<b>531,104.90</b>	<b>656,950.71</b>	<b>125,845.81</b>	<b>23.70</b>
III. Current liabilities	11	89,319.04	89,319.04	0.00	0.00
IV. Non-current liabilities	12	101,899.03	101,899.03	0.00	0.00
<b>Total liabilities</b>	13	<b>191,218.07</b>	<b>191,218.07</b>	<b>0.00</b>	<b>0.00</b>
<b>Net assets</b>	14	<b>339,886.83</b>	<b>465,732.64</b>	<b>125,845.81</b>	<b>37.03</b>

The appraised value of the total shareholders' equity of Huadian Hubei Power Generation Company Limited was RMB4,657,326,400.

This valuation report is for reference purpose in respect of the economic activity illustrated in the valuation report only. The effective period for the use of the conclusion of valuation shall be one year from 31 December 2014, the valuation benchmark date.

Users of the valuation report should give adequate consideration to the assumptions, limitations, special issues and their effect on the conclusion of valuation set out in the report.

**Proposed Transfer of Equity in  
Huadian Hubei Power Generation Company Limited  
Held by China Huadian Corporation to  
Huadian Power International Corporation Limited  
Text of Valuation Report**

**To China Huadian Corporation and Huadian Power International Corporation Limited:**

Beijing China Enterprise Appraisals Co., Ltd. accepted the engagement by your company to appraise the market value of the total shareholders' equity of Huadian Hubei Power Generation Company Limited as at 31 December 2014 involved in the proposed transfer by China Huadian Corporation. The valuation was conducted by using the asset-based approach and income approach, through necessary valuation procedures, in accordance with relevant laws, regulations, asset valuation standards pursuant to the principles of independence, objectiveness and fairness. The asset valuation is hereby reported as follows.

**I. ENTRUSTING PARTY, COMPANY UNDER VALUATION AND OTHER USERS OF THE VALUATION REPORT AS SPECIFIED IN THE ENGAGEMENT LETTER**

The entrusting party of this valuation is China Huadian Corporation and Huadian Power International Corporation Limited and the company under valuation is Huadian Hubei Power Generation Company Limited.

**(I) Profile of Entrusting Party I**

Company name:	China Huadian Corporation (“ <b>Huadian Group</b> ”)
Address:	No. 2, Xuanwumennei Street, Xicheng District, Beijing
Address of the principal place of business:	No. 2, Xuanwumennei Street, Xicheng District, Beijing
Legal representative:	Li Qingkui
Date of establishment:	1 April 2003
Registered capital:	RMB14,792,410,000
Company type:	Ownership by the whole people

Main scope of business: Deployment of labors for projects carried out overseas (valid period to 11 March 2014). Industrial investment, operation and management; development, investment, construction, operation and management of power supply; organisation of generation and sales of power (heat); construction and supervision of power engineering work and environmental power engineering work; technological development of power and related technologies; technical consultancy; manufacture and inspection of power equipment; economic information consultancy; property management; import and export business; development, investment, operation and management of coal and shale gas. (Projects subject to approval under the laws shall commence business activity only upon approval from relevant authorities).

## (II) Profile of Entrusting Party II

Company name: Huadian Power International Corporation Limited  
Address: No. 14800, Jingshi Road, Lixia District, Jinan City, Shandong Province  
Address of the principal  
place of business: No. 2, Xuanwumennei Street, Xicheng District, Beijing  
Legal representative: Li Qingkui  
Registered capital: RMB8,807,289,800  
Stock code: 600027  
Company type: Joint stock company (listed joint venture established by Taiwan, Hong Kong or Macao company with domestic company) (foreign-invested shareholding less than 25%)  
Main scope of business: Construction and operation of power plant and other power generating related industries; technical services and information consultancy in relation to power business.

**(III) Profile of the company under valuation****1. Company profile**

Company name:	Huadian Hubei Power Generation Company Limited (“ <b>Huadian Hubei Company</b> ”)
Legal address:	No. 526 Linjiang Road, Wuchang District, Wuhan City, Hubei
Place of business:	No. 526 Linjiang Road, Wuchang District, Wuhan City, Hubei
Legal representative:	Zhang Ming
Registered capital:	RMB1,492,012,075
Company type:	Limited liability
Main scope of business:	Development, investment, construction, operation and management of power, heat and new energy; processing and sales of power equipment and materials, power technology, management consultancy, integrated utilization of power resources, environment protection and other high and new technology.

**2. The company’s shareholding structure and relevant changes**

Huadian Hubei Power Generation Company Limited is a company established by China Huadian Corporation in Hubei to manage its assets invested in Hubei. It was formally known as Hubei Huadian Huangshi Power Generation Co., Ltd. and jointly established and invested by Huadian Group, Huangshi Power Group Co., Ltd. (黃石電能集團有限公司), Huanggang Power Development Company (黃岡市電力開發公司), SDIC Asset Management Co., Ltd., Huangshi Electric Power Group Co., Ltd. (黃石電力集團有限公司), Wuhan Iron and Steel (Group) Corp. Mining Co., Ltd., Huaxin Cement Company Limited, Hubei Electric Power Co., Ltd. (鄂州電力有限責任公司), Wuhan Iron and Steel Group Echeng Iron & Steel Co., Ltd., Qianjiang City Electric Power Development Company (潛江市電力開發公司), Hubei Minyuan Electric Power Industrial Development Co., Ltd., Jingmen Electric Power Development Company (荊門市電力開發公司), Xiaogan City Haoyuan Electric Power Industrial Co., Ltd. (孝感市浩源電力實業有限公司) and Chibi City Xinyuan Electricity Co., Ltd. (赤壁市新源電業有限責任公司). Huadian Group made its capital contribution by cash and its equity assets held in Hubei and other shareholders made their contribution by their respective equity assets held in the former Hubei Huadian Huangshi Power Generation Co., Ltd..

The former Hubei Huadian Huangshi Power Generation Co., Ltd. was established on 28 November 1995 and made registration of changes on 15 December 2009. Upon the registration of changes, it was renamed as Huadian Hubei Power Generation Company Limited with the registered address changing from Huangshi City to Wuhan City and the company type changing from joint stock company to limited liability company while maintaining the same shareholding structure. Meanwhile, Huangshi Power Plant of Huadian Hubei Power Generation Company Limited (華電湖北發電有限公司黃石熱電廠) (Internal Audit Division) was established as a non-legal person entity by the assets of the former Hubei Huadian Huangshi Power Generation Co., Ltd..

In March 2010, Huadian Group contributed all of its equity investments and partial cash in other eight companies (apart from the former Hubei Huadian Huangshi Power Generation Co., Ltd.) in Hubei into Huadian Hubei Power Generation Company Limited, which increased the shareholding of Huadian from 53.03% to 82.12%. All equity previously held by Huadian Group in power companies in Hubei were taken over and held by Huadian Hubei Power Generation Company Limited (“**Huadian Hubei Company**”).

On 29 March 2011, at the 2011 General Meeting and the 3rd Meeting of the 1st Session of the Board of Huadian Hubei Company, the disposal of equity held by Minyuan Company in the company by way of capital reduction pursuant to relevant national policies was considered and approved and Minyuan Company no longer holds the equity in the company. The shareholding of Huadian Group increased from 82.12% to 82.5627%.

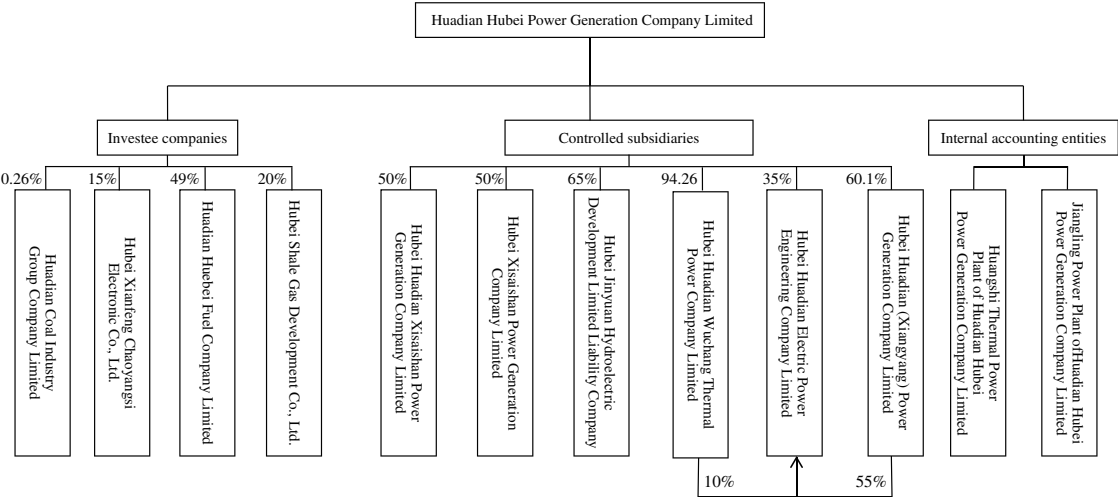
On 12 April 2013, at the 2013 General Meeting and the 5th Meeting of the 1st Session of the Board of Hubei Company, the transfer of all equity held by Hubei Electric Power Co., Ltd., a former shareholder, in Huadian Hubei Company to Ezhou Guangyuan Electric Power Asset Management Center (鄂州廣源電力資產管理中心), a controlling parent company, was considered and approved. Upon such transfer, Ezhou Guangyuan Electric Power Asset Management Center will hold 1.0283% and Huadian Group will continue to hold 82.5627%.

On the valuation benchmark date, shareholding structure of Huadian Hubei Company is set out as follows:

*Unit: RMB0'000*

No.	Investor	Shareholding (%)	Capital contribution
1	China Huadian Corporation	82.5627	123,184.577
2	Huangshi Power Group Co., Ltd.	3.1878	4,756.188
3	Huanggang Power Development Company	2.8569	4,262.5529
4	SDIC Asset Management Co., Ltd.	2.1143	3,154.5098
5	Huangshi Electric Power Group Co., Ltd.	1.7901	2,670.7703
6	Wuhan Iron and Steel (Group) Corp. Mining Co., Ltd.	1.6493	2,460.8162
7	Huaxin Cement Company Limited	1.4988	2,236.2466
8	Wuhan Iron and Steel Group Echeng Iron & Steel Co., Ltd.	1.0283	1,534.2846
9	Qianjiang City Electric Power Development Company	1.0283	1,534.2846
10	Ezhou Guangyuan Electric Power Asset Management Center	1.0283	1,534.2846
11	Jingmen Electric Power Development Company	0.5146	767.7423
12	Xiaogan City Haoyuan Electric Power Industrial Co., Ltd.	0.4824	719.6974
13	Chibi City Xinyuan Electricity Co., Ltd.	0.2582	385.2532
	Total	<u>100.00</u>	<u>149,201.2075</u>

3. Ownership and management structure of the companies



#### 4. Financial status for the last three years

The financial status of the company under valuation for the last three years (based on parent company's financial statements) is set out in the table below:

##### Balance sheet for the last three years up to the valuation benchmark date

Unit: RMB0'000

Item	31 December 2012	31 December 2013	31 December 2014
1. Total Current assets	41,828.18	25,752.81	78,694.50
2. Total Non-current assets	327,632.92	387,321.17	452,410.40
3. Total assets	369,461.09	413,073.98	531,104.90
4. Total Current liabilities	41,550.23	53,521.39	89,319.04
5. Total Non-current liabilities	67,391.48	56,994.60	101,899.03
6. Total Liabilities	108,941.71	110,516.00	191,218.07
7. Net assets (Owners' equity)	260,519.39	302,557.98	339,886.83

Income statement for the past three years of the company under valuation up to the valuation benchmark date (based on parent company's financial statements) is set out in the table below:

##### Income statement for the last three years up to the valuation benchmark date

Unit: RMB0'000

Item	2012	2013	2014
1. Operating revenue	98,739.90	87,548.32	78,047.66
less: Operating cost	94,568.24	71,133.30	62,514.74
Management cost	–	5,886.58	6,196.63
Financial costs	4,362.16	4,913.95	6,412.95
2. Operating Profit (loss shall be stated as “–”)	–3,845.61	22,074.20	55,705.88
3. Total profit (loss shall be stated as “–”)	1,350.85	22,188.47	55,045.92
less: Income tax expenses	–	–108.60	–83.87
4. Net profit (loss shall be stated as “–”)	1,350.85	22,297.07	55,129.79



The financial statements of the company under valuation as at the valuation benchmark date and for the year of 2013 were audited by KPMG Huazhen (Special General Partnership) and the financial statements for the year of 2012 were audited by BDO China Shu Lun Pan Certified Public Accounts LLP, all of which have expressed a standard unqualified opinion.

5. *The relationship between the Entrusting Party and the Company Under Valuation*

China Huadian Corporation, the Entrusting Party, is the controlling shareholder of Huadian Hubei Power Generation Co., Ltd., the company under valuation, which is also the Transferor of the Equity Transfer; Huadian Power International Corporation Limited, the Entrusting Party, is the Transferee of the Equity Transfer.

(IV) **Other Users of the valuation report as specified in the engagement letter**

This valuation report is solely for the use of entrusting party, other users of the valuation report as specified in the engagement letter and valuation report users as prescribed by PRC laws and regulations, and it shall not be used and relied upon by any other third parties.

**II. PURPOSE OF VALUATION**

In respect of proposed transfer by China Huadian Corporation of its equity interest in Huadian Hubei Power Generation Co., Ltd. to Huadian Power International Corporation Limited, and therefore it is required to appraise the total shareholders' equity of Huadian Hubei Power Generation Co., Ltd. involved in such economic activity so as to provide basis of reference in respect of the value of the above mentioned economic activity.

In this regard, China Huadian Corporation held a Chairman office meeting on 15 January 2015, and formulated the "Record of the Chairman Office Meeting of China Huadian Corporation (《中國華電集團公司董事長辦公會會議紀要》)" (the first issue of China Huadian).

**III. SUBJECT UNDER VALUATION AND SCOPE OF VALUATION****(I) Subject under Valuation**

According to the purpose of this valuation, the subject under valuation is the value of the total shareholders' equity of Huadian Hubei Power Generation Co., Ltd.

**(II) Scope of Valuation**

The scope of valuation is the total assets and liabilities of the company under valuation. As at the valuation benchmark date, the assets falling within the scope of valuation included current assets, financial assets available for sale, long-term receivables, long-term equity investment, fixed assets, construction in progress, intangible assets, long-term deferred expenses and deferred tax assets etc. The carrying amount of the total assets based on parent company's financial statements was RMB5,311,049,000. The liabilities included current liabilities and non-current liabilities, and the carrying amount of total liabilities was RMB1,912,180,700; carrying amount of net assets was RMB3,398,868,300.

The subject of valuation and the scope of valuation commissioned were the same as those involved in this economic activity. The carrying amount of assets and liabilities falling within the scope of valuation as at the valuation benchmark date was audited by KPMG Huazhen (Special General Partnership) which has expressed a standard unqualified opinion.

**IV. VALUATION BENCHMARK DATE**

The valuation benchmark date was 31 December 2014.

The valuation benchmark date was determined by the entrusting party.

**V. BASIS OF VALUATION****(I) Basis of Economic Activity**

“Record of the Chairman Office Meeting of China Huadian Corporation” (the first issue of China Huadian, 15 January 2015).

**(II) Basis of Laws and Regulations**

1. “Company Law of the People's Republic of China” (the 3rd amendment in accordance with the “Decision on Amending Seven Laws Including the Marine Environment Protection Law of the PRC” adopted at the 6th meeting of the 12th Session of Standing Committee of the National People's Congress on 28 December 2013);

2. “Securities Law of the People’s Republic of China” (amendment adopted at the 3rd meeting of the 12th Session of Standing Committee of the National People’s Congress on 29 June 2013);
3. “Urban Real Estate Administration Law of the People’s Republic of China” (adopted at the 29th meeting of the 10th Session of Standing Committee of the National People’s Congress on 30 August 2007);
4. “Land Administration Law of the People’s Republic of China” (adopted at the 11th meeting of the 10th session of Standing Committee of the National People’s Congress on 28 August 2004);
5. “Enterprise Income Tax Law of the People’s Republic of China” (adopted at the 5th meeting of the 10th Session of the National People’s Congress on 16 March 2007);
6. “Law of the People’s Republic of China on the State-Owned Assets of Enterprises” (adopted at the 5th meeting of the 11th Session of Standing Committee of the National People’s Congress of the People’s Republic of China on 28 October 2008);
7. “Interim Regulations on the Supervision and Administration of State-Owned Assets of Enterprises” (Order No. 378 of the State Council);
8. “Interim Measures for the Management of the Transfer of the State-owned Property Right of Enterprises” (State-owned Asset Supervision and Administration Commission of the State Council, Ministry of Finance Order No. 3);
9. “Notice on Relevant Issues Concerning State-owned Property Rights Transfer of Central Enterprises” (Guo Zi Fa Chan Quan [2006] No. 306);
10. “Administrative Measures for the Appraisal of State-owned Assets” (Order No. 91 of the State Council);
11. “Notice on relevant issues concerning Detailed Rules for the Implementation of Administrative Measures for the Appraisal of State-owned Assets” (Guo Zi Ban Fa [1992] No. 36);
12. “Interim Administrative Measures for the Appraisal of State-owned Assets of Enterprises” (Order No. 12 of the State-owned Assets Supervision and Administration Commission of the State Council);

13. “Circular on Strengthening the Administration of the Appraisal of State-owned Assets of Enterprises” (Guo Zi Wei Chan Quan [2006] No. 274);
14. “Circular on Matters concerning Verification of State-Owned Assets Valuation Report of Enterprises” (Guo Zi Chan Quan [2009] No. 941);
15. Notice on the publish of “Guidelines on Filing of State-owned Enterprise Assets Appraisal Projects” (Guo Zi Fa Chan Quan [2013] No. 64);
16. “Accounting Standards for Enterprises – Basic Standards” (Order No. 33 of the Ministry of Finance);
17. “Detailed Rules for Implementation of Interim Regulations on Value-Added Tax of the People’s Republic of China” (Order No. 50 of the Ministry of Finance and the State Administration of Taxation);
18. “Notice on Several Issues concerning the Implementation of Value-added Tax Reform in the PRC” (Cai Shui [2008] No. 170);
19. “Interim Regulations on Urban Land Use Tax of the People’s Republic of China” (adopted in the 163rd executive meeting of the State Council on 30 December 2006);
20. “Regulations for the Implementation of the Land Administration Law of the PRC” (amendment in 2011);
21. “Regulations on the Grant of State-Owned Land Use Rights by Agreement” (Decree No. 21 of Ministry of Land and Resources);
22. Notice on Measures for Reforming the Approval of Land Valuation Results Confirmation and Land Assets Disposal (Guo Tu Zi Fa [2001] No. 44);
23. “Regulations for Valuation of Urban Land” (GB/T 18508-2014);
24. “Regulations for Gradation and Classification of Urban Land” (GB/T18507-2014);
25. “Codes on Real Estate Appraisal” (GB/T50291-1999);
26. “Implementation Measures of Land Management in Hubei Province” (amendment in 2010);
27. Other relevant laws, regulations and circulars.

**(III) Basis of Valuation Standards**

1. “Asset Valuation Standards – Basic Standards” (Cai Qi [2004] No. 20);
2. “Professional Ethics Standards for Asset Valuation – Basic Standards” (Cai Qi [2004] No. 20);
3. “Guiding Opinions for Certified Public Valuers on Ownership of Subjects under Valuation of Chinese Institute of Certified Public Accountants” (Kuai Xie [2003] No. 18);
4. “Asset Valuation Standards – Valuation Procedures” (Zhong Ping Xie [2007] No. 189);
5. “Asset Valuation Standards – Working Papers” (Zhong Ping Xie [2007] No. 189);
6. “Asset Valuation Standards – Machinery and Equipment” (Zhong Ping Xie [2007] No. 189);
7. “Asset Valuation Standards – Immovable Properties” (Zhong Ping Xie [2007] No. 189);
8. “Guiding Opinions for Types of Value under Asset Valuation” (Zhong Ping Xie [2007] No. 189);
9. “Guidelines on Quality Control of Business Operations of Valuation Institutions” (Zhong Ping Xie [2010] No. 214);
10. “Asset Valuation Standards – Enterprise Value” (Zhong Ping Xie [2011] No. 227);
11. “Asset Valuation Standards – Valuation Report” (Zhong Ping Xie [2011] No. 230);
12. “Asset Valuation Standards – engagement letter” (Zhong Ping Xie [2011] No. 230);
13. “Guidelines on Valuation Report of State-Owned Assets of Enterprises” (Zhong Ping Xie [2011] No. 230);
14. “Asset Valuation Professional Ethnic Standards – Independency” (Zhong Ping Xie [2012] No. 248);
15. Other standards.

**(IV) Basis of Ownership**

1. State-owned land use right certificate;
2. Building ownership certificates;
3. Motor vehicle license;
4. Property rights transfer agreement;
5. Other relevant credentials for property rights.

**(V) Basis of Pricing**

1. “Rough Estimate Norm for Electric Power Construction Projects” (2013 Edition) of National Energy Administration;
2. “Regulations on Budget Preparation and Calculation of Coal-fired Power Generation Engineering Construction” of National Energy Administration (2013 Edition);
3. “Quota on Coal-fired Power Planning Engineering Benchmark Pricing Reference” (2013 Edition) of Electric Power Planning & Engineering Institute;
4. “Notice in Relation to the Announcement on Rough Estimate Norm for Electric Power Construction Projects (2013 Edition) and the Adjustment to Pricing Standard for 2014” by CECCPA (Ding’e [2014] No. 48);
5. “Notice in relation to the Promulgation of the Regulation on Calculation of the Quotas and Expenses of Electric Power Construction Projects (2013 Edition)” of National Energy Administration (Guo Neng Dian Li [2013] No. 289);
6. Circular of the State Planning Commission on Issuing of “Interim Regulations on the Consultation Fees for Preliminary Works of Construction Projects” (Ji Jia Ge [1999] No. 1283);
7. Circular of the State Planning Commission and Ministry of Construction on Issuing of “Regulations on the Administration of Charging of Construction Survey and Design Fees” (Ji Jia Ge [2002] No. 10);

8. Circular of the State Planning Commission and State Environmental Protection Administration on “Issues Concerning the Regulation of Consultation Fee on Environmental Impact” (Ji Jia Ge [2002] No. 125);
9. Circular of the State Planning Commission on Issuing of “Interim Regulations on the Charging Administration of Bidding Agency Services” (Ji Jia Ge [2002] No. 1980);
10. Circular of the Ministry of Finance on Issuing of “Regulations on Financial Administration of Basic Construction” (Cai Jian [2002] No. 394);
11. Circular of the National Development and Reform Commission and the Ministry of Construction on Issuing of “Regulations on the Administration of Construction Projects Supervision and Charging of Related Service Fees” (Fa Gai Jia Ge [2007] No. 670);
12. “Hubei Provincial People’s Government Announcement on Unified Annual Output Value Standard and District Integrated Land Price on the Province’s Land Acquisition” (E Zheng Han [2014] No. 12);
13. “Interim Regulations on the Receipt of Land Grant Premium of Huangshi City and the Compensation for Land Use Rights Resumption” (Huang Zheng Ban Fa [2004] No. 106);
14. “Notice in Relation to the Announcement on the Implementation of Urban and Rural Land Levels and Benchmark Land Price” (E Zhou Jia Fu (2014) No. 82);
15. “Provisions on the Standards for Compulsory Retirement of Motor Vehicles” (Order No. 12 in 2012 of the Ministry of Commerce, PRC National Development and Reform Commission, Ministry of Public Security and Ministry of Environmental Protection);
16. Benchmark interest rate of bank deposits and loans and exchange rate on valuation benchmark date;
17. “Housing Maintenance Grade and Evaluation Criteria (Trial)” (Cheng Zhu Zi [1984] No. 678);
18. “Information of Construction Engineering Costs of Xiangyang” issued by Xiangyang Municipal Construction Engineering Cost Management Station, “Information of Construction Engineering Costs of Huangshi” issued by Huangshi Municipal Engineering Constructions Standard Quote Station and Association of Costing of Construction Engineering of Huangshi City, etc.(6th issue, 2014);

19. “Manual of Quotation of Mechanical and Electrical Products” (2014);
20. Information such as the Project Investment Budget, Design Budget Provided by the Enterprise;
21. Information of Budget and Final Account of Relevant Construction Projects Provided by the Enterprise;
22. Engineering Contracts Entered into by the Enterprise and Relevant Companies;
23. Statistics of Payment Progress of Construction in Progress and Related Evidences of Payment Provided by the Enterprise;
24. Financial Statements and Audit Reports of Previous Years Provided by the Enterprise;
25. Future Operation Plans Provided by Related Departments of Enterprise;
26. Information of the principal products in current market and the estimation of the market in future years provided by the Enterprise;
27. Raw Material Purchase Contracts Entered into Between the Enterprise and Related Entities;
28. Other Related Valuation Information Recorded and Collected by Valuers from On-site Survey;
29. Other Information related to This Asset Valuation.

**(VI) Other Reference**

1. List of assets and valuation forms provided by the company under valuation;
2. Auditor’s report issued by KPMG Huazhen (Special General Partnership);
3. Data base of Beijing China Enterprise Appraisals Co., Ltd.

**VI. VALUATION APPROACHES**

Basic approaches for the valuation of an enterprise primarily include income approach, market approach and asset-based approach.



The income approach for the valuation of an enterprise refers to the valuation approach whereby the value of the subject under valuation is determined by capitalizing or discounting the projected income. The specific methods commonly adopted by the income approach include dividend discount method and discounted cash flow method.

The market approach for the valuation of an enterprise refers to the valuation approach whereby the value of the subject under valuation is determined by comparing the subject under valuation with comparable listed companies or comparable transaction cases. The two specific methods commonly adopted by the market approach are the listed company comparison method and the transaction case comparison method.

The asset-based approach for the valuation of an enterprise's value refers to the valuation approach whereby the value of the subject under valuation is determined by reasonable valuation of on and off-balance sheet assets and liabilities on the basis of the balance sheet of the company under valuation on the valuation benchmark date.

As prescribed under "Asset Valuation Standards – Enterprise Value", the Certified Public Valuer engaged in enterprise's value appraisal business shall properly select one or more basic asset valuation approaches by analyzing the applicability of the three basic approaches, namely, income approach, market approach and asset-based approach, of asset valuation in light of the relevant conditions, such as valuation purpose, subject under valuation, valuation type and information collection condition.

According to the relevant conditions, including valuation purpose, subject under valuation, valuation type and information collection condition, and the applicable conditions for such three basic valuation approaches, the valuation approaches selected for this valuation are: asset-based approach and income approach. The reasons of selection are set out as below:

Huadian Hubei Company was established in 2009, and currently has 6 holding subsidiaries (4 of which are power generation enterprises). Headquarter of Huadian Hubei Company is regarded as the management centre, and the core operation comprises 4 holding power generation enterprises and one internal accounting power plant. Headquarter of the Company and the subsidiaries are able to provide the information needed for the adoption of asset-based approach, and predict the future income, thereby being equipped with applicable conditions of asset-based approach and income approach. Therefore, asset-based approach and income approach were adopted for the valuation of the headquarter and holding subsidiaries.

As it was difficult to find out comparable listed companies or transaction cases and adequate data of comparison and amendment correspondingly carried out by adopting market approach to the valuation target, the valuation was not carried out by the adoption of market approach.

The details of income approach and asset-based approach are as follows:

**(I) Income approach**

This valuation report adopted the discounted free cash flow model of enterprise in the mode of discounted cash flow method. The discounted cash flow method is illustrated as follows:

Value of total shareholders' equity = overall value of enterprise – interest-bearing debts

**1. The overall value of enterprise**

The overall value of enterprise refers to the sum of overall value of shareholders' interests and the value of interest-bearing debts. The following is the calculation formula for the overall value of enterprise based on the asset allocation and the use of assets of the company under valuation:

Overall value of enterprise = value of operating assets + value of surplus assets + value of non-operating assets and liabilities + long-term equity investment

**(1) Value of operating assets**

Operating assets refers to assets and liabilities related to production and operation of the company under valuation and involved in the projected free cash flow of enterprise after the valuation benchmark date. The following is the calculation formula for operating assets value:

$$P = \sum_{i=1}^n \frac{F_i}{(1+r)^i} + \frac{F_{n+1}}{r \times (1+r)^n}$$

Where: P: Value of operating assets of the enterprise on the valuation benchmark date;

$F_i$ : Projected free cash flow of enterprise in the  $i$  year after the valuation benchmark date;

$F_{n+1}$ : Projected free cash flow of enterprise in the last year of the forecast period;

$r$ : Discount rate (herein referred to as weighted average capital cost, WACC);

$n$ : Forecast period;

$i$ : the  $i$  year of the forecast period;

Of which, the calculation formula for the free cash flow of enterprise is set out as below:

Free cash flow of enterprise = net profit + financial cost  $\times$  (1-income tax rate) + depreciation and amortization – capital expenditures – supplementary working capital + value of recoverable assets at the end of operating period

Of which, the calculation formula for the discount rate (weighted average capital cost, WACC) is set out as below:

$$WACC = K_e \times \frac{E}{E + D} + K_d \times (1 - t) \times \frac{D}{E + D}$$

Where:  $k_e$ : Cost of equity capital;  
 $k_d$ : Cost of interest bearing debt capital;  
 E: Market value of equity interest;  
 D: Market value of interest bearing debt;  
 t: Income tax rate.

In which, the calculation of the cost of equity capital adopted the capital asset pricing model (CAPM), the CAPM model may be expressed by the following calculation formula:

$$K_e = r_f + MRP \times \beta_L + r_c$$

Where:  $r_f$ : Risk-free interest rate;  
 MRP: Market risk premium;  
 $\beta_L$ : Coefficient of system risk of equity;  
 $r_c$ : Coefficient of adjustment for enterprise's specific risk.

(2) *Value of surplus assets*

Surplus assets refer to assets exceeding the production and operation requirements of the enterprise under valuation on the valuation benchmark date, which is not involved in the projected free cash flow of enterprise after the valuation benchmark date. This valuation is conducted by adopting the cost method.

(3) *Value of non-operating assets and liabilities*

Non-operating assets and liabilities refer to assets which are unrelated to the production and operation of the company under valuation, which is not involved in the projected free cash flow of enterprise after the valuation benchmark date. The analysis and valuation of non-operating assets and liabilities is carried out on a separate basis.

(4) *Value of long-term equity investment*

For the valuation method to determine the value of long-term equity investment, please refer to the part of long-term equity investment of asset-based approach under the valuation method in the VII session of the report.

2. *Value of interest-bearing debts*

Interest-bearing debts refer to debts of the company under valuation on the valuation benchmark date on which interests need to be paid. Interest-bearing debts use the verified carrying amount as the appraised value.

**(II) Asset-based approach**

1. *Current assets*

Current assets falling within the scope of valuation mainly include monetary funds, bills receivable, trade receivables, prepayments, interests receivable, dividends receivable and other receivables and inventory.

(1) **Monetary funds:** Monetary funds include cash and bank deposits, the appraised value of which is determined as the verified value which is arrived at after checking of cash inventory and the verification of bank reconciliation statements and bank confirmations.

(2) **All kinds of receivables:** The appraised value is determined according to the respective recoverable amount on verified basis; for the partial amount which is probably irrecoverable, in the event that it is difficult to confirm the amount of irrecoverable receivables, historical information and on-site investigation are used to familiarize the situation, specifically analyze the amount, time and reasons of loans, recovery of the amounts, as well as the capital, credit and current situation of operating management to estimate the partial amount which is probably irrecoverable in accordance with the aging analysis method as the

appraised value calculated after deduction of the loss from risk; the provision of impairment on the accounts shall be accounted for as zero.

- (3) Prepayments: The appraised value is determined in accordance with the value of recoverable assets or rights of the relevant goods. The appraised values for the relevant goods or rights which are recoverable are determined based on the book value after verification.
- (4) Inventories include raw materials procured externally, auxiliary material, fuels, external semi-finished products and low value perishable articles in stock. For normal stocks, the appraised value of various assets are determined in accordance with the inspected and verified amount times prevailing market procurement price, in addition to reasonable freight and miscellaneous fees, wastage, inspection and acceptance fee for admission into warehouse and other reasonable fee. The appraised value is determined based on the realizable value for inventories which are invalid, deteriorated, damaged, scrapped and useless.
- (5) Non-current assets due within one year are the entrusted loans provided by Huadian Hubei Company to Hubei Huadian (Xiangyang) Power Generation Company Limited. The valuers have studied the agreement of entrusted loans, and have verified the matters including the loan units, amounts, interest rates, terms and interests to determine the appraisal value based on the verified balance of book loan.

## 2. *Available-for-sale financial assets*

Available-for-sale financial assets of the company under valuation refer to the joint stock investment on other company. The valuation method of which is with reference to those for the joint stock long-term investment of long-term equity investment. The appraised value is determined in accordance with the multiplication of net book assets in the balance sheet of the company under valuation and the shareholding ratios on the valuation benchmark date.

## 3. *Long-term receivables*

Long-term receivables of the company under valuation refer to energy-saving and emission reduction capital appropriated to the subsidiary power plants of such company. In studying relevant evidence and entrusted loan agreement and on the basis of verification of the matters of loan units, amounts, interest rates, terms and interests, the appraised value is determined by the verified balance of long-term receivables.

#### 4. *Long-term Equity Investment*

Long-term equity investment included the investment in holding subsidiaries and joint stock company.

In respect of the long-term equity investment in the investees other than Hubei Huadian Wuchang Thermal Power Company Limited (湖北華電武昌熱電有限公司), an overall valuation for the investees was carried out. Among which, the valuation of the investees fulfilling the conditions for income approach was carried out by both asset-based approach and income approach. Upon analysis, the appraised values of the investees and the respective long-term investment were obtained using the selected valuation approach by multiplying the value of total shareholders' equity of the investees and shareholding ratio.

After the valuation benchmark date, Huadian Hubei Power Generation Company Limited. shall transfer its equity interest in Hubei Huadian Wuchang Thermal Power Company Limited to China Huadian Corporation. The appraised value of such long-term equity investment under this valuation was determined based on the appraised results in the corresponding evaluation reports multiplied by the shareholding ratio.

In respect of the joint stock long-term equity investment, the appraised value was determined by multiplying the net assets in the balance sheet at the valuation benchmark date and the shareholding ratio.

#### 5. *Machinery and Equipment*

The cost method was mainly adopted for the valuation of the machinery and equipment.

##### *Power generating equipment*

##### (1) Determination of Total Replacement Cost

Total replacement cost = equipment procurement price + comprehensive freight and miscellaneous charges + installation charges + other charges + capital cost – equipment procurement prices deductible for value-added tax and freight charges deductible for value-added tax

## ① Equipment Procurement Price

Prices of major equipment and main auxiliary equipment, including boiler, steam turbine, electric generator, transformer, feed pump, etc., is mainly determined by inquiring the manufactures about the market price on the valuation benchmark date, or searching for the prevailing market prices from the information in relation to quotation or making reference to the contract price of similar equipment procured lately.

## ② Comprehensive Freight and Miscellaneous Charges

The rate of freight and miscellaneous charges are determined according to relevant information in the “Budget Compilation and Calculation Standards in Coal-fired Electric Power Plant Construction Projects” (2013 Edition), with reference to the distance between the manufacturers of the equipment and the installation locations and the means of transportation, which includes loading and unloading, freight, procurement and custodian expenses incurred in the course of transportation from production plant to the site of installation. Specific calculation formula is set out as below:

Equipment freight and miscellaneous charges = equipment procurement prices × rate of freight and miscellaneous charges

## ③ Installation Charges

Such charges are determined by the calculation and adjustment made according to the “Budget Compilation and Calculation Standards in Electric Power Construction Projects” (2013 Edition) and the “Budget Compilation and Calculation Standards in Coal-fired Electric Power Plant Construction Projects” (2013 Edition).

## ④ Other Charges

Other charges are calculated according to the “Budget Compilation and Calculation Standards in Coal-fired Electric Power Plant Construction Projects” (2013 Edition). Included in other charges are management fees for project construction, technical service fees for project construction, production preparation charges and other charges.

No.	Name of costs	Calculation basis	Charging basis
I.	Project construction management charges		
1	Project legal person management charges	Installation charges	
2	Tender charges	Equipment procurement price + Installation charges	
3	Construction supervision charges	Installation charges	
4	Equipment manufacturing supervision charges	Equipment procurement price	
5	Audit charges for engineering settlement	Installation charges	
6	Engineering insurance charges	Installation charges	
II.	Technical services charges for project construction		
1	Preliminary work charges of projects	Installation charges	
2	Technical services charges for complete sets of equipment	Equipment procurement price	“Budget Compilation and Calculation Standards in Coal-fired Electric Power Plant Construction Projects” (2013 Edition)
3	Exploration and design charges		
(1)	Exploration charges	Installation charges + Equipment procurement price + Joint trial run charges	
(2)	Design charges	Installation charges + Equipment procurement price + Joint trial run charges	
4	Review charges for documents design	Design charges	
5	Post project evaluation charges	Installation charges	
6	Quality inspection charges of electrical power engineering	Installation charges	
7	Technical standard preparation and management charges of electrical power engineering	Installation charges	
III.	Subsystem commissioning and trial operation charges of complete set	Installation charges	
IV.	Production preparation charges		
1	Charges for production work force training and entering factory in advance	Installation charges	
V.	Heavy-cargo transportation methods charges	Installation charges	



## ⑤ Capital Cost

Capital cost was determined according to the reasonable construction period of the projects and the lending rate during the relevant period in which the valuation benchmark date falls within, and on the basis of the sum of equipment procurement price, installation charges and other charges.

For coal-fired generation units, capital interests are calculated respectively based on single electricity engineering unit completion settlement method. The calculation formula is set out as below:

Interest of loan during the construction period = interest of loan for the pre-generation construction period of the first unit + interest of loan for the post-generation construction period of the first unit

Where: interest of loan for the pre-generation construction period of the first unit =  $\sum [(Accumulated\ principal\ and\ interest\ at\ the\ beginning\ of\ the\ year + loans\ for\ the\ year/2) \times interest\ rate\ per\ annum]$

Interest of loan for the post-generation construction period of the first unit =  $\sum [(loans\ for\ the\ year/2) \times interest\ rate\ per\ annum]$

## ⑥ Value-added Tax Included in the Equipment Procurement Price

According to the document “Cai Shui (2008) No. 170”, for equipment that meet the value-added tax deduction criteria, the value-added tax as calculated accordingly is deducted from the total replacement cost. The calculation formula is set out as below:

Equipment input tax = equipment procurement prices/1.17×17% + transportation charges/1.11×11%

**Transportation Equipment**

Total replacement cost = procurement prices including taxes + procurement prices/(1 + value added tax rates) × vehicle procurement tax rates + other charges – procurement prices deductible for value-added tax

Vehicle procurement charge is mainly determined by searching for the vehicle quotation for same brand and same configurations on the valuation benchmark date. Tax surcharges for procurement of vehicles are calculated in accordance with the relevant regulations and other charges including license charge are analysed and determined in accordance with the local market condition.

#### **Other Machinery and Equipment**

Total replacement cost = equipment procurement prices + freight and miscellaneous charges + installation and commissioning charges + capital cost – equipment procurement prices deductible for value-added tax and freight charge deductible for value-added tax

It is determined mainly according to the “Handbook for Price Quotations of Mechanical and Electrical Products in China 2014” and the latest market transaction prices of the equipment. Regarding to equipment that does not require installation and that the freight charges of which have already been taken into account in the total replacement cost, the formula shall be simplified accordingly. According to the document “Cai Shui (2008) No. 170”, for equipment that meet the value-added tax deduction criteria, the value-added tax as calculated accordingly is deducted from the total replacement cost.

#### (2) Determination of Newness Rate

It can be determined through on-site survey for the usage situation of such equipment (instrument), engineering environment, maintenance, appearance, operation rate, completion rate, review of the necessary records for the equipment (instrument)’s operation, accident, inspection and evaluation of performance, and making amendments.

##### ① For Equipment Specially for Electricity Purpose and Equipment for Common Usage

The remaining useful life is determined according to the equipment’s economic life and past-service period and by conducting on-site inspection of the conditions of use and technical conditions of the equipment, and the integrated newness rate is determined according to the following formula.

Integrated newness rate = remaining useful life/(remaining useful life + past-service period) × 100%

- ② The integrated newness rate of small equipments including electronic equipment, air conditioning, etc. is determined mainly according to its economic life. The integrated newness rate of large electronic equipment is determined also by reference to its working environment and the operating condition of the equipment.
- ③ The newness rate of vehicles is determined according to the “Provisions on the Criteria for Compulsory Discard of Motor Vehicles” (2012 No.12) jointly issued by the Ministry of Commerce, National Development and Reform Commission, Ministry of Public Security, Ministry of Environmental Protection on 27 December 2012 and by the application of any of the two methods, namely the vehicle mileage method and the useful life method, whichever results in a lower rate, (among which, the remaining useful life method may be adopted for the vehicles without compulsory discard period) and adjusted based on the result of the on-site survey. The calculation formula is set out as below:

Newness rate under the useful life method (without compulsory discard period) = remaining useful life/(past-service period + remaining useful life) × 100%

Newness rate under the useful life method (with compulsory discard period) = (specified useful life – past-service period)/specified useful life × 100%

Newness rate under mileage method = (specified mileage – past-service mileage)/specified mileage × 100%

Integrated newness rate = theoretical newness rate × coefficient of adjustment

(3) Determination of the Appraised Value

Appraised value of equipment = total replacement cost for equipment × integrated newness rate

6. *Buildings and Structures*

The cost approach was mainly adopted for valuation of the buildings and structures.

Calculation formula: appraised value = total replacement cost × newness rate

(1) *Total replacement cost*

Total replacement cost = construction cost + other charges + capital cost

A. Determination of construction cost:

Large-scale, high-value and important buildings (structures) under valuation are classified according to their structural features into buildings (structures) with reinforced concrete framework structure, brick-concrete structure, reinforced concrete structures, brick structures etc. If typical buildings (structures) are selected, the basic direct expenses are calculated according to the rules of calculation as set out in the “Budget Compilation and Calculation Standards in Electric Power Construction Projects – Construction Projects” with reference to the preliminary design, budget estimate, working drawing and change of design. And the price differences of materials are determined on the basis of market price of local construction material on the benchmark date of calculation and price adjustment method of the Electric Power Industry. Then other direct expense, indirect expense, planned profit and tax are calculated according to “Budget Compilation and Calculation Standards in Coal-fired Power Generation Construction Projects” (2013 Edition).

The expenses for construction projects of (buildings) structures with low value and simple architecture are determined by using the approach of construction cost per square meter.

## B. Calculation of other charges:

Other charges are determined according to the provisions of the “Budget Compilation and Calculation Standards in Coal-fired Power Generation Construction Projects” (2013 Edition). Specific calculation is set out as below:

No.	Name of projects or costs	Calculation formula	Charging basis
I.	Project construction management charges		“Budget Compilation and Calculation Standards in Coal-fired Electric Power Plant Construction Projects” (2013 Edition)
1	Project legal person management charges	Construction cost × rate of charges	
2	Tender charges	Construction cost × rate of charges	
3	Construction supervision charges	Construction cost × rate of charges	
4	Audit charges for engineering settlement	Construction cost × rate of charges	
5	Engineering insurance charges	Construction cost × rate of charges	
II.	Technical services charges for project construction		
1	Preliminary work charges of projects	Construction cost × rate of charges	
2	Exploration and design charges		
(1)	Exploration charges	Construction cost × rate of charges	
(2)	Design charges	Construction cost × rate of charges	
3	Review charges for documents design		
(1)	Review charges for feasibility study design document	Charging by construction scale	
(2)	Review charges for preliminary document design	Charging by construction scale	
(3)	Review charges for working drawings document	Design charges × rate of charges	
4	Post project evaluation charges	Construction cost × rate of charges	

No.	Name of projects or costs	Calculation formula	Charging basis
5	Inspection charges of projects construction		
(1)	Quality inspection charges of electrical power engineering	Construction cost × rate of charges	
(2)	Inspection and acceptance charges for environmental monitoring		
(3)	Inspection, acceptance and compensation charges for water and soil conservation project		
(4)	Inspection charges for pile foundation		
6	Technical standard preparation and management charges of electrical power engineering	Exploration and design charges × rate of charges	
III.	Production preparation charges		
	Charges for production work force training and entering factory in advance	Construction cost × rate of charges	

### C. Calculation of capital cost

The capital cost represents the interest of loan accrued on capital invested in the construction period. In accordance with the single electricity engineering unit completion settlement method, the interest for the investment in the first unit and the utility system shall be accrued for the period until the operation of the first unit, while the interest for the investment in the second unit shall be accrued for the period until the operation of the second unit, i.e.:

Prior to the operation of the first unit, interest = (accumulated principal and interest of loan at the beginning of the year + loan for the year/2) × actual interest rate per annum

Upon the operation of the first unit, interest = (loan for the year/2) × actual interest rate per annum

The basis for the calculation is “construction cost + other charges”.

(2) *Determination of Integrated Newness Rate*

The newness rate of a building (structure) is calculated in a comprehensive manner by determining the remaining useful life of such building (structure) based on its actual conditions of use of all the parts such as the foundation, load bearing structure (beams, slabs, columns), wall framing, floor, roof, doors and windows, painting of interior and exterior walls, rooftop, water, sanitary, electrical and lighting systems.

Calculation formula:

Integrated newness rate = remaining useful life/(remaining useful life + past-service period).

(3) *Appraised value*

Appraised value = total replacement cost × newness rate

**7. *Construction in Progress***

The cost approach was adopted for the valuation of construction in progress. For the projects under construction that commence construction within 6 months after the benchmark date, the appraised value is measured at the residual value of the audited declared amount for the construction in progress after deducting any unreasonable expenses. For the projects under construction that have neither subsequent expenses nor corresponding material objects, the appraised value is zero.

**8. *Land use right***

The land valuation methods mainly include market comparison method, benchmark land premium coefficient correction method, residue method, income capitalization method and cost approximation method. Based on the valuation purpose of this project and the specific circumstance of the subject under valuation, the market comparison

method and the benchmark land premium coefficient correction method were selected for the valuation and summarized as below:

(1) *Market comparison method*

Based on the principle of substitution in the market, the market comparison method derives an objective and reasonable value of the land under valuation by comparing the land under valuation with three similar properties that were traded in the market within three years prior to the valuation date and making appropriate correction on the transaction price of such similar properties.

Formula:  $P = PB \times A \times B \times C \times D \times E$

Where:

P — Price of the land under valuation;

PB — Price of the comparables;

A — Trading index of the land under valuation/trading index of the comparables;

B — Land premium index of the land under valuation on the valuation date/land premium of the comparables on the valuation date;

C — Regional factors and conditions index of the land under valuation/regional factors and conditions index of the comparables;

D — Index of individual factors and conditions of the land under valuation/index of individual factors and conditions of the comparables;

E — Modified index for the term of the land under valuation/modified index for the term of the comparables

(2) *Benchmark land premium coefficient correction method*

Based on the principle of substitution, the benchmark land premium coefficient correction method derives the price of the land under valuation on the valuation date by referring to such assessment results as the urban benchmark land premium and the list of the benchmark land premium correction coefficients to compare the regional conditions and individual conditions of the land under the valuation with the average conditions of the region where such land is situated and modify the benchmark land premium by consulting the corresponding correction coefficient.



Pursuant to the Regulations for the Valuation of Urban Lands (《城鎮土地估價規程》), the calculation formula of benchmark land premium coefficient correction method is:

Land premium valued based on the benchmark land premium coefficient correction method (the land premium at the defined development level of the benchmark land premium) = benchmark land price  $\times$  K1  $\times$  (1+ $\Sigma$ K)  $\times$  K2  $\times$  K3  $\times$  K4  $\times$  K5  $\times$  K6  $\pm$  K7

Where:

- K1 — valuation date correction coefficient
- $\Sigma$ K — sum of regional factors that affect the land premium
- K2 — correction coefficient for the useful life of the land
- K3 — plot ratio correction coefficient
- K4 — parcel area correction coefficient
- K5 — land shape correction coefficient
- K6 — building orientation correction coefficient
- K7 — development level correction

#### 9. *Other intangible assets*

Different methods were adopted for the valuation of other intangible assets based on relevant conditions including their characteristics, the type of valuation and the status of data collection:

For externally procured software which is available in the market on the valuation benchmark date, the appraised value is determined as the market price of the same type of software on the valuation benchmark date.

For ERP financial software which is acquired by the Group by way of centralized procurement, each company should only assume part of the expense and the audited carrying value shall be regarded as the appraised value.

**10. Long-term deferred expenses**

The accounting items and the period of amortization of the long-term deferred expenses were audited by the valuers. The appraised value was measured at the number of the remaining months with benefits/number of months for amortization  $\times$  long-term deferred expenses incurred.

**11. Liabilities**

The liabilities of an enterprise comprise current liabilities and non-current liabilities. Current liabilities include short-term borrowings, accounts payable, amounts received in advance, employee remuneration payable, taxation payable, interest payable, dividends payable, other payables, non-current liabilities due within one year, etc. while non-current liabilities include long-term borrowings, bonds payable, long-term employee remuneration payable, deferred income, expected liabilities, deferred income tax liabilities, etc.. The valuers examine and verify the actual debtor and the amount of indebtedness of each liability upon achieving the purpose of valuation based on the breakdown of items provided by the enterprise, so as to determine the appraised value at the carrying value.

**VII. PROCESS AND CONDITIONS OF IMPLEMENTATION OF VALUATION PROCEDURES**

The valuers conducted a valuation on the assets and liabilities involving the subject under valuation from 20 January 2015 to 8 May 2015. The process and conditions of the implementation of the main valuation procedures were as follow:

**(I) Acceptance of Engagement**

On 21 January 2015, our company and the principal reached an agreement on the purpose of the valuation, the subject and the scope of valuation, the valuation benchmark date and other general matters involved in valuation business, as well as the rights and obligations of each party, and negotiated and developed relevant valuation plan.

**(II) Preliminary preparation**

1. *Developing the valuation plan*
2. *Establishing the valuation team*
3. *Carrying out project training*

- (1) *Training for the staff of the company under valuation*

In order to give the financial and assets management staff of the company under valuation an all-round understanding of assets valuation related materials and facilitate them to conduct the completion and submission of such materials so as to ensure the quality of declaration materials for the valuation, our company prepared the Training Materials for Enterprises under Assets Valuation (《資產評估企業培訓材料》) and assigned special staff to answer the questions arisen from completing and submitting assets valuation related materials.

- (2) *Training for the valuers*

In order to ensure the quality of the valuation project, improve the work efficiency and thoroughly implement the proposed Implementation Plan for Assets Valuation (《資產評估操作方案》), our company focused on the Implementation Plan for Assets Valuation and introduced the members of the project team to the background on the economic behavior of the project, the characteristics of the assets involved in the subject under valuation, the technological approach of the valuation, the specific requirements of implementations, etc..

**(III) On-site Investigation**

From 28 January 2015 to 14 February 2015, the valuers conducted the necessary inspection and verification for the assets and liabilities involved in the subject under valuation and performed the necessary due diligence on the operating and management positions of the company under valuation, etc..

*1. Asset verification*

- (1) *Guided the company under valuation to fill in the forms and prepare the information to be provided to the valuation institution*

On the basis of self-checking of assets, the valuers guided the financial and asset management staff of the company under valuation to thoroughly and accurately report the assets that fell within the scope of valuation in accordance with the “asset valuation declaration forms” and its filling-in requirements and the “asset list” provided by the valuation institution. Meanwhile, the valuers collected and prepared the supporting documents of ownership as well as documents and information showing the performance, status, economic and technical indicators of the assets, etc..

- (2) *Preliminary review and modification of the asset valuation declaration form filled in by the company under valuation*

Through inspecting the relevant information, the valuers understood the details of the specific assets that fell within the scope of valuation. Then, the valuers carefully reviewed different types of “asset valuation declaration forms” to check whether the forms were complete or correct and whether there was any ambiguity in the asset items. Also, they checked if there was any omission in the “asset valuation declaration forms” based on their experience and the relevant information on hand, and asked the company under valuation to modify the “asset valuation declaration forms”.

- (3) *Site reconnaissance*

Based on the type, quantity and distribution of the assets included in the scope of valuation, the valuers carried out site reconnaissance for various assets with the assistance of the relevant personnel of the company under valuation in accordance with the relevant requirements of the asset valuation standards. Given the different nature and characteristics of assets, various reconnaissance methods were adopted accordingly.

(4) *Supplementation, revision and modification of asset valuation declaration forms*

In accordance with the site reconnaissance results and through sufficient communication with the relevant personnel of the company under valuation, the valuers further modified the contents of the “asset valuation declaration forms” so as to match the accounts and the contents of the forms with the facts.

(5) *Inspection of supporting documents and information for title of ownership*

The valuers inspected the supporting documents and information for title of ownership of the assets included in the scope of valuation, including lands, buildings and vehicles. Incomplete and ambiguous information on title of ownership were drawn to the attention of the enterprise for verification or provision of relevant explanatory documents.

**2. *Due Diligence***

The valuers undertook the necessary due diligence to fully understand the operating and management status and the risks of the company under valuation. The main contents of the due diligence were as follows:

- (1) the history, substantial shareholders and shareholding, necessary title of ownership and operation and management structure of the company under valuation;
- (2) the assets and the financial, production, operation and management conditions of the company under valuation;
- (3) the operation plan, development plan and financial forecast of the company under valuation;
- (4) the subject under valuation, the historical valuation and transactions of the company under valuation;
- (5) such factors as macro and regional economy as well as market supply and demand affecting the production and operation of the company under valuation;
- (6) the development and prospects of the industry in which the company under valuation operates;
- (7) other relevant information.

**(IV) Information Collection**

The valuers collected valuation information based on the specific conditions of the valuation projects, such as information obtained independently and directly from channels including the market, information obtained from the related parties including the entrusting party and the holders of property titles and information obtained from government departments, various professional bodies and other relevant authorities. They also performed the necessary analysis, generalization and re-organization on the valuation information so collected to form the basis of the evaluation of estimates.

**(V) Evaluation of Estimates**

Taking into account the specific conditions of different types of assets, the valuers selected the corresponding formula and parameters to perform analysis, calculation and judgment according to the valuation method chosen, and formed the preliminary valuation conclusion. The person-in-charge of the project summed up the preliminary valuation conclusion of different types of assets, and compiled the draft of the valuation report.

**(VI) Internal Review**

According to the requirement of the Administrative Measures for Assets Valuation Procedure (《資產評估業務流程管理辦法》) of our company, upon the completion of the first review of the draft of the valuation report, the person-in-charge of the project formed and submitted the initial draft of the valuation report to the company for centralized review on large project. Upon the completion of the internal review, the person-in-charge of the project formed the draft for comments of the valuation report, which was submitted to the client for comments. After reasonable amendments based on the feedback, the official valuation report was formed and submitted to the entrusting party.

**VIII. ASSUMPTIONS OF VALUATION**

The assumption conditions adopted in the analysis and estimation as set out in this valuation report are as follows:

**(I) General Assumptions**

1. We assumed that there was no significant change in the political, economic and social conditions of the country and region in which the company under valuation is situated subsequent to the valuation benchmark date;
2. We assumed that there was no significant change in the national macroeconomic policy, industrial policy and regional development policy subsequent to the valuation benchmark date;
3. We assumed that the company under valuation continued to operate on a going concern basis subsequent to the valuation benchmark date;
4. We assumed that the accounting policies adopted by the company under valuation subsequent to the valuation benchmark date were consistent in material respects with the accounting policies adopted at the time of preparing this valuation report;
5. We assumed that there was no significant change in the interest rates, exchange rates, tax bases, tax rates and policy-based levies related to the company under valuation subsequent to the valuation benchmark date;
6. We assumed that the management of the company under valuation was responsible and stable and capable of fulfilling its duties subsequent to the valuation benchmark date;
7. We assumed that based on the existing management approaches and standards of the company under valuation, the business scope and approach subsequent to the valuation benchmark date were consistent with the current direction;
8. We assumed that the cash inflow and cash outflow of the company under valuation were both even subsequent to the valuation benchmark date;
9. We assumed that the company under valuation kept its current competitiveness in electricity market subsequent to the valuation benchmark date;

10. We assumed that the company under valuation fully complied with all relevant laws and regulations;
11. We assumed that there were no force majeure events that would pose material adverse impact on the company under valuation subsequent to the valuation benchmark date.

**(II) Special Assumptions**

1. We assumed that the electricity price under the revenue estimation from the valuation benchmark date to April 2015 was the same with the electricity on the valuation benchmark date, while the electricity price from May 2015 was determined according to the “Notice on Reducing the Feed-in Tariff for Coal-fired Power and Electricity Prices for Industrial and Commercial Use” (Fa Gai Jia Ge [2015] No. 748) from the National Development and Reform Commission, and was redeemed as a fixed price;
2. We assumed that the way of supplying main raw materials and auxiliary materials consumed in the operation of the Company have no significant change; and the control of cost and expenses can be implemented according to relevant plan;
3. Pursuant to the “Agreement on Sino-foreign Cooperation in Construction and Operation of the Technological Reforming Project of Hubei Huangshi Power Generation Company”, Huangshi Thermal Power Plant contributed to Xisaishan I with 50% equity assets of the Unit 209# with an installed capacity of 200,000 kW, therefore, Huangshi Thermal Power Plant and Xisaishan I enjoyed 50% of generation right of the Unit #209 with an installed capacity of 200,000 kW, respectively. According to the Power Purchase Agreement entered into by Xisaishan I and Hubei Electric Power Company in 2001, Xisaishan I is entitled to 2,961 million kWh of basic quantity target each year. We assumed that Xisaishan I will operate with the electricity price and electricity quantity agreed in the agreement up to the expiry of the Power Purchase Agreement, e.g. in 2023. Meanwhile, during the period, Unit 209# (1 × 200MW) of Huangshi Thermal Power Plant constantly has generation target within approved base quota, which was released by Unit 210# (1 × 300MW);
4. Pursuant to the “Agreement on Sino-foreign Cooperation in Construction and Operation of the Technological Reforming Project of Hubei Huangshi Power Generation Company” and the Articles of Association of Xisaishan I, there are still uncertainties as to whether Xisaishan I will be able to carry on its operations and whether its assets will be distributed in accordance with the capital contribution ratio upon the end of the cooperation. We assumed that the enterprise will operate till the end of economic life of units, and the equity value of Xisaishan I held by Huadian Hubei Company was determined in proportion to contribution;



5. As at the valuation benchmark date, Xisaishan II and Xisaishan I had common assets, including main workshop of Xisaishan II situating on land of Xisaishan I; and both parties did not enter into any assets lease or assets use agreement. We assumed that Xisaishan II would continue to use land of Xisaishan I without compensation in future years.

The conclusion of valuation of this valuation report was established on the valuation benchmark date under the above assumption conditions. If there is any material change in any of the above assumption conditions, the certified public valuers signing-off this report and the valuation institution will not be responsible for deriving a different conclusion of valuation due to the change in any assumption condition.

## **IX. CONCLUSION OF VALUATION**

### **(I) Valuation Results by Income Approach**

As at the valuation benchmark date, the carry amounts of the total assets, total liabilities and net assets of Huadian Hubei Power Generation Company Limited were RMB5,311,049,000, RMB1,912,180,700 and RMB3,398,868,300 respectively.

Total shareholders' equity after valuation by way of income approach amounted to RMB4,489,568,200, representing an increase of RMB1,090,699,800 or 32.09%.

### **(II) Valuation Results by Asset-based Approach**

As at the valuation benchmark date, the carrying amount and appraised value of the total assets of Huadian Hubei Power Generation Company Limited were RMB5,311,049,000 and RMB6,569,507,100 respectively, representing an increase of RMB1,258,458,100 or 23.70%; the carrying amount of the total liabilities and appraised value were both RMB1,912,180,700, indicating no changes between the appraised value and the carrying amount; the carrying amount and appraised value of the net assets were RMB3,398,868,300 and RMB4,657,326,400, representing an increase of RMB1,258,458,100 or 37.03%.

The particulars of valuation results by the asset-based approach are detailed in the following valuation results table:

**Table of Valuation Results by the Asset-based Approach**

Valuation benchmark date: 31 December 2014

Unit: RMB0'000

		Carrying amount	Appraised value	Increase/ decrease in value	Appreciation rate %
	Item	A	B	C=B-A	D=C/A×100%
1.	Current assets	78,694.50	78,712.92	18.42	0.02
2.	Non-current assets	452,410.40	578,237.79	125,827.39	27.81
	Of which: Long-term equity investment	301,707.29	400,703.74	98,996.45	32.81
	Investment property	0.00	0.00	0.00	
	Fixed assets	84,939.10	98,586.33	13,647.23	16.07
	Construction in progress	5,779.93	5,769.16	-10.77	-0.19
	Intangible assets	3,450.08	15,578.76	12,128.68	351.55
	Of which: Land use rights	2,872.35	15,099.33	12,226.98	425.68
	Other non-current assets	56,534.00	57,599.80	1,065.80	1.89
	<b>Total assets</b>	<b>531,104.90</b>	<b>656,950.71</b>	<b>125,845.81</b>	<b>23.70</b>
3.	Current liabilities	89,319.04	89,319.04	0.00	0.00
4.	Non-current liability	101,899.03	101,899.03	0.00	0.00
	<b>Total liabilities</b>	<b>191,218.07</b>	<b>191,218.07</b>	<b>0.00</b>	<b>0.00</b>
	<b>Net assets</b>	<b>339,886.83</b>	<b>465,732.64</b>	<b>125,845.81</b>	<b>37.03</b>

### (III) Conclusion of Valuation

The amounts of total shareholders' equity after valuations by way of asset-based approach and income approach were RMB4,657,326,400 and RMB4,489,568,200 respectively. The appraised value calculated using the income approach was lower than the one using the asset-based approach by RMB167,758,200 and a 3.60% rate of difference was recorded between the values.

The valuation results obtained by way of the asset-based approach have been selected as the conclusion of valuation (i.e. the total equity of Huadian Hubei Power Generation Company Limited from the valuation results amounting to RMB4,657,326,400) mainly due to the following reasons:

Huadian Hubei Parent comprises Huadian Hubei Company (the headquarters), Huangshi Thermal Power Plant and Jiangling Power Plant. The principal functions of the headquarters are operating and managing the subsidiaries and internal accounting power plants and investing in new power projects. Jiangling Power Plant is still in the early stage of development.

As an investment and management center, Huadian Hubei Parent takes on the tasks to develop and establish new power projects and also acts as a foundation and investment platform for the continuous development and growth of Huadian Hubei in the future. Due to the uncertainties with the future development projects of the company, the valuation results obtained by way of the asset-based approach are selected as the conclusion of valuation herein.

According to the above analyses, the valuation results obtained by way of the asset-based approach (i.e. the total equity of Huadian Hubei Power Generation Company Limited from the valuation results amounting to RMB4,657,326,400) have been adopted as the conclusion of valuation.

The effects of liquidity on the value of the subject under valuation have not been taken into account in this valuation report.

## **X. TYPE OF VALUE AND DEFINITION**

According to the purpose of this valuation, it was determined that the value type of the subject under valuation is market value.

Market value represents the estimated amount for which a subject under valuation should exchange, on the valuation benchmark date between a willing buyer and a willing seller in an arm's-length transaction wherein the parties had each acted rationally without compulsion.

## XI. NOTES ON SPECIAL ISSUES

There are relevant matters discovered during the course of the valuation process that may affect the conclusion of valuation but are beyond the valuers' qualifications and capability to evaluate and estimate, which are as follows:

## (I) Ownership of the Properties

1. No application for the Property Ownership Certificate has been filed for certain properties and the details are as follows:

No.	Name of the enterprise	No. of items	Floor area (sq m)	Carrying amount (RMB)
1	Xisaishan I	54	89,721.20	126,215,127.11
2	Xisaishan II	17	46,585.60	151,766,123.36
3	Huangshi Thermal Power Plant	52	46,590.66	70,493,616.53
4	Xiangyang Power Generation Company Limited	83	<u>295,399.40</u>	<u>484,720,264.77</u>
Total		206	<u><u>478,296.86</u></u>	<u><u>762,701,515.24</u></u>

2. The name of the person entitled to the rights under the Property Ownership Certificate is not consistent with that of the legal person as at the valuation benchmark date, mainly due to the fact that the person entitled to the rights under the Property Ownership Certificate was the predecessor of the company. Details are as follows:

No.	Name of the enterprise	No. of items	Floor area (sq m)	Carrying amount (RMB)
1	Huangshi Thermal Power Plant	24	13,033.02	40,238,802.25
2	Xiangyang Power Generation Company Limited	2	<u>652.75</u>	<u>2,223,177.00</u>
Total		26	<u><u>13,685.77</u></u>	<u><u>42,461,979.25</u></u>

- (II) The land occupied by certain companies under independent audit within the scope of this valuation was allotted. At present, the official reply for the approval of retaining the allocated land has been obtained. Details of the valuations on such allocated land are as follows:

No.	Name of the enterprise	No. of items	Floor area (sq m)	Carrying amount (RMB)
1	Huangshi Thermal Power Plant	5	552,153.00	28,723,475.00
2	Xiangyang Power Generation Company Limited	133	<u>2,440,896.00</u>	<u>62,478,083.00</u>
Total		138	<u><u>3,021,457.00</u></u>	<u><u>91,201,559.00</u></u>

- (III) As at the valuation benchmark date, Huadian Hubei Company had received the funding of RMB52,389,400 in aggregate under the national energy saving and emission reduction scheme from the Ministry of Finance; pursuant to the official documents from the Ministry of Finance, namely “Cai Qi [2011] No. 340” and “Cai Qi [2012] No. 390”, and the documents from Huadian Group, namely “Zhong Guo Hua Dian Cai Han [2011] No. 61” and “Zhong Guo Hua Dian Cai Han [2012] No. 93”, for the capital expenditure portion of the aforesaid funding, Huadian Hubei and its subsidiary power plants shall complete the gradual appropriation of state-owned capital within 5 years, and if the conditions for the capital contribution have not been finalized upon the end of the period, the funding shall be returned to Huadian Group in a lump sum. Since the time for the transfer to paid-in capital and the method of capital contribution have not been determined, carrying amounts have been used as the appraised value in this valuation.
- (IV) As at the date of the valuation report, the judgment of the second instance of the litigation in relation to amount of RMB39 million payable by the Shengli Street Branch of Bank of China to Xiangyang Power Generation had not been made by the High Court of Hubei Province. The company and the auditor had made provisions for bad debts for the amount. Risk losses regarding the amount have been taken into account in this valuation.
- (V) Pursuant to the “Agreement on Sino-foreign Cooperation in Construction and Operation of the Technological Reforming Project of Hubei Huangshi Power Generation Company” and the Articles of Association of Xisaishan I, there are still uncertainties as to whether Xisaishan I will be able to carry on its operations and whether its assets will be distributed in accordance with the capital contribution ratio upon the end of the cooperation. The valuations by way of asset-based approach and income approach have been made based on the economic life of the generation units and the equity value of Xisaishan I held by Huadian Hubei has been determined according to the capital contribution ratio.

- (VI) As at the valuation benchmark date, Xisaishan II and Xisaishan I had common assets, including main workshop of Xisaishan II situating on land of Xisaishan I; and both parties did not enter into any assets lease or assets use agreement. In the valuation using the income approach, the use of the assets of Xisaishan I by Xisaishan II was still considered as use without compensation.
- (VII) After the valuation benchmark date, Huadian Hubei Power Generation Company Limited will hold the equity interests of Hubei Huadian Wuchang Termal Power Company Limited, which have been agreed to be transferred to China Huadian Corporation. The appraised value of the long-term equity investee has been determined in accordance with the agreed transfer price of corresponding equity interests.
- (VIII) The Jiangling Power Plant Phase I project of Huadian Hubei Company is still in the early stage of development. As at the date of this valuation report, the approval from the Development and Reform Commission of Hubei Province had not been obtained.
- (IX) After the valuation benchmark date, the People's Bank of China lowered the lending and deposit benchmark rates. The loan interest rate as at the date of the issuance of the valuation report decreased by 0.25% as compared with that for the corresponding period of the benchmark date. The appraised value was still been determined using the cost method based on the loan interest rate in effect on the benchmark date, whilst the effects of the loan interest rate adjustment factors after the period on the appraised value were considered in the income approach.

The users of the valuation report shall pay heed to the effects of the above special issues on the conclusion of the valuation.

**XII. NOTES ON RESTRICTIONS ON THE USE OF VALUATION REPORT**

- (I) This valuation report shall only be used for the valuation objectives and purposes specified herein;
- (II) This valuation report shall only be used by the users of the valuation report specified herein;
- (III) Before any part or all of the contents of this valuation report is extracted, quoted or disclosed to the public media, the related content shall be reviewed by the valuation institution, unless required by the laws and regulations and otherwise agreed by the relevant parties;
- (IV) This valuation report, must be signed by the valuer and sealed by the valuation institution in order to be duly used;
- (V) This valuation report can only be duly used after being filed with the state-owned assets supervision and administration authorities or the enterprises invested by such authorities;
- (VI) The conclusion of valuation shown in the valuation report shall only be valid for the economic activity described herein. The validity period of the conclusion of valuation is one year commencing from the valuation benchmark date.

**XIII. VALUATION REPORT DATE**

This valuation report was put forward on 8 May 2015.

Legal representative: Sun Yuehuan  
Certified public valuer: Zhang Fujin  
Certified public valuer: Zhang Yuemei

**Beijing China Enterprise Appraisals Co., Ltd.**

8 May 2015

**ANNEXES TO THE VALUATION REPORT**

- Annex I. Economic activity documents;
- Annex II. Special audit report of the company under valuation;
- Annex III. Copies of the business license for the legal person of the entrusting party and the company under valuation;
- Annex IV. Major supporting information of ownership involving the subject under valuation;
- Annex V. Letters of undertaking of entrusting party and the company under valuation;
- Annex VI. Letters of undertaking of the valuers signing off this report;
- Annex VII. Copy of the asset valuation qualification certificate of Beijing China Enterprise Appraisals Co., Ltd.;
- Annex VIII. Copy of the qualification certificate of the securities industry of Beijing China Enterprise Appraisals Co., Ltd.;
- Annex IX. Copy of the business license of Beijing China Enterprise Appraisals Co., Ltd.;
- Annex X. Copies of qualification certificates of the valuers of Beijing China Enterprise Appraisals Co., Ltd.;
- Annex XI. Asset Valuation Engagement Agreement.



## 1. 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.

## 2. INTERESTS OF DIRECTORS, SUPERVISORS, CHIEF EXECUTIVE AND SENIOR MANAGEMENT

Name	Position In the Company	Number of A Shares of the Company held as personal interest	Capacity
Gou Wei	Non-executive Director	10,000 ( <i>Note</i> )	Beneficial owner

*Note:* Representing approximately 0.0001% of the total issued A Shares of the Company as at the Latest Practicable Date.

Save as disclosed above, as at the Latest Practicable Date, so far as the Company is aware, none of the Directors, supervisors, chief executive or members of the senior management of the Company and their respective associates had any interests or short positions in the shares, underlying shares and/or debentures (as the case may be) of the Company and/or any of its associated corporations (within the meaning of Part XV of the SFO) which was required to be notified to the Company and the Hong Kong Stock Exchange pursuant to the provisions of Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which any such Director, supervisor, chief executive or member of senior management was taken or deemed to have under such provisions of the SFO), or which are required, pursuant to section 352 of the SFO, to be entered in the register referred to therein, or which are required pursuant to the Model Code for Securities Transactions by Directors of Listed Companies as set out in appendix 10 to the Hong Kong Listing Rules to be notified to the Company and the Hong Kong Stock Exchange (which for this purpose shall be deemed to apply to the supervisors of the Company to the same extent as it applies to the Directors).

Four Directors, namely, Mr. Li Qingkui, Mr. Chen Jianhua, Mr. Gou Wei and Mr. Chu Yu, who hold positions in or are employees of China Huadian Corporation, have abstained from voting on the relevant Board resolutions approving the transactions relating to the Acquisition and the Supplemental Agreement to Financial Services Agreement together with the Cap Increment. One supervisor, namely, Mr. Peng Xingyu, is an employee of China Huadian. Save as disclosed above, as at the Latest Practicable Date, none of the Directors or supervisors of the Company was also a director or employee of a company which had an interest or short position in the shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Division 2 and 3 of Part XV of the SFO.

### 3. CONSENT AND QUALIFICATION OF EXPERTS

China Investment Securities has given and has not withdrawn its written consent to the issue of this circular with its letter of advice included in the form and context in which it appears.

The following sets out the qualifications of China Investment Securities:

<b>Name</b>	<b>Qualifications</b>
China Investment Securities	Type 6 (advising on corporate finance) regulated activity as defined under SFO

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

As at the Latest Practicable Date, China Investment Securities did not have any direct or indirect interest in any assets which had been, since 31 December 2014, 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.

### 4. NO MATERIAL ADVERSE CHANGE

As at the Latest Practicable Date, save as disclosed in the annual report of the Company for the year ended 31 December 2014 and in the previous announcements of the Company, the Directors were not aware of any material adverse change in the financial or trading position of the Group since 31 December 2014, being the date to which the latest published audited accounts of the Company were made up.

**5. SERVICE CONTRACTS**

As at the Latest Practicable Date, none of the Director or supervisor of the Company had entered into any service contract with any member of the Group (excluding contracts expiring or determinable by the relevant member of the Group within one year without payment of compensation (other than statutory compensation)).

**6. COMPETING INTERESTS**

Four Directors, namely, Mr. Li Qingkui, Mr. Chen Jianhua, Mr. Gou Wei and Mr. Chu Yu, hold positions in China Huadian Corporation. One supervisor, namely, Mr. Peng Xingyu is an employee of China Huadian Corporation.

As at the Latest Practicable Date, none of the Directors or the supervisors of the Company 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 as if each of them were treated as a controlling shareholder of the Company under Rule 8.10 of the Hong Kong Listing Rules.

**7. INTERESTS IN THE GROUP'S ASSETS OR CONTRACTS OR ARRANGEMENTS SIGNIFICANT TO THE GROUP**

As at the Latest Practicable Date, none of the Directors or supervisors of the Company had any direct or indirect interest in any assets which had been since 31 December 2014 (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.

As at the Latest Practicable Date, none of the Directors or supervisors of the Company was materially interested in any contract or arrangement entered into by any member of the Group which was subsisting as at the Latest Practicable Date and which was significant in relation to the business of the Group.

**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. MISCELLANEOUS**

- (a) The registered office of the Company is situated at No.14800, Jingshi Road, Jinan City, Shandong Province, the PRC.
- (b) The business office of the Company is situated at No. 2 Xuanwumennei Street, Xicheng District, Beijing, the PRC.
- (c) The Hong Kong H share registrar and H share transfer office of the Company is Hong Kong Registrars Limited situated at Rooms 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong.
- (d) The English text of this circular (except for the valuation report of the Target Company contained in appendix I) shall prevail over its Chinese text in the case of inconsistency. In respect of the valuation report of Target Company prepared by the Valuer, the full text of which is reproduced in appendix I to this circular, it is so included herein for the purpose of information only, and whose Chinese text shall prevail over the English translation in the case of inconsistency.

**10. DOCUMENTS AVAILABLE FOR INSPECTION**

A copy of each of the (i) the Acquisition Agreement, and (ii) the Supplemental Agreement to Financial Services Agreement; (iii) the letter from the Board, the text of which is set out on pages 1 to 29 of this circular; (iv) the letter from the Independent Board Committee, the text of which is set out on pages 30 to 31 of this circular and (v) the letter from the Independent Financial Adviser, the text of which is set out on pages 32 to 59 of this circular will be available for inspection at the offices of Wonderful Sky Financial Group Holdings Limited, 6th Floor, Nexxus Building, 41 Connaught Road, Central, Hong Kong during normal business hours on any weekday (except public holidays) from the date of this circular up to and including 23 June 2015.



華電國際電力股份有限公司

**Huadian Power International Corporation Limited\***

*(A Sino-foreign investment joint stock company limited by shares incorporated in the People's Republic of China (the "PRC"))*

(Stock Code: 1071)

**NOTICE OF EXTRAORDINARY GENERAL MEETING**

**NOTICE IS HEREBY GIVEN THAT** an extraordinary general meeting (the "EGM") of Huadian Power International Corporation Limited\* (the "**Company**") will be held at 2:00 p.m. on Tuesday, 30 June 2015 at Huabin International Hotel, No. 4 Xuanwumennei Street, Xicheng District, Beijing, the PRC for the purpose of considering and, if appropriate, by way of polls, approving the following resolutions. Unless the context otherwise requires, capitalised terms used in this notice shall have the meanings as those defined in the announcement of the Company dated 15 May 2015 (the "**Announcement**"). A circular containing, among other things, details of the transactions referred to in the Announcement, a letter from the independent financial adviser containing its advice to the independent Board committee and the independent Shareholders on relevant matters and the recommendation of the independent Board committee regarding relevant matters to the independent Shareholders, is expected to be despatched to the Shareholders in accordance with the Hong Kong Listing Rules on or around 8 June 2015.

**AS ORDINARY RESOLUTIONS**

1. To consider and approve the entering into by the Company of the acquisition agreement dated 15 May 2015 in relation to its proposed acquisition of equity interest in Hubei Power Generation ("**Acquisition Agreement**") with China Huadian and the Acquisition and the transactions contemplated thereunder; and to authorise the general manager of the Company or his authorised person(s) to make amendments to the Acquisition Agreement and/or do such acts and things as they consider necessary or desirable in connection with the Acquisition Agreement and/or the Acquisition.

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## NOTICE OF EGM

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2. To consider and approve the entering into by the Company of the Supplemental Agreement to Financial Services Agreement with Huadian Finance and the continuing connected transactions contemplated thereunder together with the Cap Increment as a result of the entering into of the Acquisition Agreement; and to authorise the general manager of the Company or his authorised person(s) to make amendments to the Supplemental Agreement to Financial Services Agreement and/or do such acts and things as they consider necessary or desirable in connection with the Supplemental Agreement to Financial Services Agreement and/or the transactions contemplated thereunder.

By order of the Board

**Huadian Power International Corporation Limited\***

**Zhou Lianqing**

*Secretary to the Board*

As at the date of this notice, the Board comprises:

*Li Qingkui (Chairman, Non-executive Director), Chen Jianhua (Vice Chairman, Non-executive Director), Chen Dianlu (Vice Chairman, Non-executive Director), Chen Bin (Executive Director), Geng Yuanzhu (Executive Director), Wang Yingli (Non-executive Director), Gou Wei (Non-executive Director), Chu Yu (Non-executive Director), Wang Yuesheng (Independent Non-executive Director), Ning Jiming (Independent Non-executive Director), Yang Jinguan (Independent Non-executive Director), and Ding Huiping (Independent Non-executive Director).*

Beijing, the PRC

15 May 2015

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## NOTICE OF EGM

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*Notes:*

### 1. Eligibility of attending the EGM and closure of register of members of H Shares

Shareholders of the Company's H Shares whose names appear on the Company's register of members at the close of business on Friday, 29 May 2015 (the "**Registered Shareholder(s)**") are entitled to attend the EGM conditional upon completion of the necessary registration procedures. The register of members of H Shares will be closed from Monday, 1 June 2015 to Tuesday, 30 June 2015, both days inclusive, for the purpose of determining H Shareholders' entitlement to attend the EGM, during which period no transfer of the H Shares will be registered.

In order to be entitled to attend the EGM, Shareholders of H Shares whose transfer documents have not been registered are required to deposit their respective instrument(s) of transfer and the relevant share certificate(s) with the H Share registrar, Hong Kong Registrars Limited, at Rooms 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong, no later than 4:30 p.m. on Friday, 29 May 2015.

### 2. Registration procedures for attending the EGM

- (1) Registered Shareholders who intend to attend the EGM are required to deliver the completed and signed written reply slip to the Secretarial Office of the Board of the Company on or before Tuesday, 9 June 2015. Please use the "Reply Slip for Attendance", or a duplicate copy thereof to reply. In addition to the requirements mentioned above, Registered Shareholders who intend to attend the EGM shall, if applicable, also deliver copies of their instrument(s) of transfer and the relevant share certificate(s) to the Secretarial Office of the Board of the Company on or before Tuesday, 9 June 2015.
- (2) Registered Shareholders may deliver the necessary registration documents to the Company in person, by post or by facsimile. Upon receipt of the above documents, the Company shall complete the registration procedures in respect of attending the EGM, and shall issue copies or facsimile copies of admission cards for attending the EGM by post or by facsimile. Shareholders or their proxies may produce such copies of the admission cards at the time of attending the EGM in exchange for the original of the admission cards of EGM.

### 3. Proxies

Any Registered Shareholder is entitled to appoint one or more proxies to attend and vote at the EGM on his/her behalf by completing the "Proxy Form for Use at the Extraordinary General Meeting" (the "**Proxy Form**") or by completing a duplicate copy thereof. A proxy need not be a shareholder of the Company. Should more than one proxy be appointed, such proxies shall only exercise his/her voting rights on a poll. The Proxy Form shall be signed by a Registered Shareholder or his/her attorney duly authorised in writing. If the Proxy Form is signed by the attorney of a Registered Shareholder, the power of attorney or other documents of authorisation authorising the attorney to appoint the proxy shall be notarised. If the Registered Shareholder is a corporation, the Proxy Form shall be executed under seal or shall be executed by its director or a duly authorised person. The notarised power of attorney or other authorisation documents and the completed Proxy Form shall be delivered to Hong Kong Registrars Limited not less than 24 hours before the time designated for convening the EGM or any adjournment thereof (as the case may be).

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## NOTICE OF EGM

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### 4. Miscellaneous

- (1) Each of the Shareholders (or his/her proxy) shall exercise his/her voting rights according to the number of shares with voting rights represented by him/her and shall be entitled to one vote for each share held.
- (2) The EGM is expected to take about half a day. Shareholders who attend the EGM shall be responsible for their own travel and accommodation expenses.
- (3) The office address of the Company and the contact details of the Secretarial Office of the Board are as follows:

No. 2 Xuanwumennei Street Xicheng District, Beijing, the People's Republic of China  
Tel No.: (86) 10 8356 7903  
Fax No.: (86) 10 8356 7963

- (4) The address and contact details of Hong Kong Registrars Limited are as follows:

Rooms 1712-1716, 17th floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong  
Tel No.: (852) 2862 8628  
Fax No.: (852) 2865 0990/2529 6087

### 5. Abstention from voting

China Huadian and China Huadian Hong Kong Company Limited and all other Shareholders (if any) who are interested or involved in the Acquisition, the Supplemental Agreement to Financial Services Agreement and the Cap Increment shall abstain from voting in respect of Resolutions Nos. 1 and 2 at the EGM.

\* *For identification purpose only*