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

**If you are in any doubt** as to any aspect of the Merger, this document or as to the action to be taken, you should consult a licensed securities dealer or other registered institution in securities, a bank manager, solicitor, professional accountant or other professional adviser.

**If you have sold or transferred** all your shares in the Company, you should at once hand this document and the accompanying forms of proxy to the purchaser(s) or the transferee(s), or to the bank, licensed securities dealer or registered institution in securities, or other agent through whom the sale or the transfer was effected for transmission to the purchaser(s) or the transferee(s).



**Fujian Huadian Furui Energy Development Co., Ltd.***

*(a company incorporated in the People's Republic of China with limited liability)*

華電福新能源股份有限公司
HUADIAN FUXIN ENERGY CORPORATION LIMITED

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

**(Stock code: 00816)**

# (1) PROPOSED PRE-CONDITIONAL PRIVATISATION OF HUADIAN FUXIN BY FUJIAN HUADIAN FURUI BY WAY OF MERGER BY ABSORPTION OF HUADIAN FUXIN (2) PROPOSED WITHDRAWAL OF LISTING (3) NOTICE OF THE EXTRAORDINARY GENERAL MEETING AND (4) NOTICE OF THE H SHAREHOLDERS' CLASS MEETING

**Financial adviser to the Offeror**

CICC
中金公司

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

SOMERLEY CAPITAL LIMITED

Capitalised terms used on this cover page shall have the same meanings as those defined in the section headed "Definitions" in this document.

A letter from the Board is set out on pages 7 to 21 of this document. A letter from the Independent Board Committee to the Independent H Shareholders is set out on pages 22 to 23 of this document. A letter from Somerley Capital Limited, the Independent Financial Adviser, containing its advice to the Independent Board Committee, is set out on pages 24 to 66 of this document.

The notices convening the EGM and the H Shareholders' Class Meeting to be held at Conference Room, 5/F, Huabin International Hotel Beijing, No.4 Xuanwumennei Street, Xicheng District, Beijing, the PRC on Wednesday, 16 September 2020 (i) in relation to the EGM, 9:00 a.m., and (ii) in relation to the H Shareholders' Class Meeting, 9:00 a.m., or immediately following the conclusion of the EGM or any adjournment thereof are contained in this document. Shareholders are advised to read the notices and to complete and return the enclosed forms of proxy for use at the EGM and the H Shareholders' Class Meeting in accordance with the instructions printed thereon. If you intend to attend the EGM and H Shareholders' Class Meeting, please complete and return the appropriate reply slip in accordance with the instructions printed thereon as soon as possible and in any event by no later than Tuesday, 8 September 2020.

Whether or not you are able to attend and vote at the EGM and H Shareholders' Class Meeting or any adjournment thereof in person, you are requested to complete and return the accompanying forms of proxy in accordance with the instructions printed thereon and return them to the H Share registrar of the Company, Computershare Hong Kong Investor Services Limited (for holders of H Shares) or the Board office of the Company in the PRC (for holders of Domestic Shares), together with the power of attorney or other authority (if any) under which it is signed (or a notarially certified copy thereof), as soon as possible and in any event not later than 24 hours before the time appointed for holding the EGM and the H Shareholders' Class Meeting or any adjournment thereof (as the case may be).

Completion and return of the forms of proxy will not preclude you from attending and voting in person at the EGM, the H Shareholders' Class Meeting or any adjournment thereof should you so wish and in such event, the forms of proxy shall be deemed to be revoked.

This document is jointly issued by the Offeror and the Company.

* *For identification purpose only*

26 August 2020

# CONTENTS

*The expected timetable set out below is indicative only and may be subject to change. Further announcement(s) will be made as and when appropriate.*

***Unless otherwise expressly stated, references to times and dates in this document are to Hong Kong times and dates.***

| | |
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| Latest date for receiving reply slips for the EGM and the H Shareholders' Class Meeting | Tuesday, 8 September 2020 |
| Latest time for lodging transfers of H Shares in order to be entitled to attend and vote at the EGM and the H Shareholders' Class Meeting | 4:30 p.m. on Thursday, 10 September 2020 |
| Closure of registers for transfers of Shares for determination of the Shareholders entitled to attend and vote at the EGM and the H Shareholders' Class Meeting | Friday, 11 September 2020 to Wednesday, 16 September 2020 (both dates inclusive) |
| Latest time for lodging proxy forms in respect of the EGM | 9:00 a.m. on Tuesday, 15 September 2020 |
| Latest time for lodging proxy forms in respect of the H Shareholders' Class Meeting | 9:00 a.m. on Tuesday, 15 September 2020 |
| Record date for Shareholders for the EGM and the H Shareholders for the H Shareholders' Class Meeting | Wednesday, 16 September 2020 |
| EGM | 9:00 a.m. on Wednesday, 16 September 2020 |
| H Shareholders' Class Meeting | 9:00 a.m. on Wednesday, 16 September 2020, or immediately following the conclusion of the EGM or any adjournment thereof on Wednesday, 16 September 2020 |

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| Announcement of the results of the EGM and the H Shareholders' Class Meeting | by 7:00 p.m. on Wednesday, 16 September 2020 |
| Expected date for all Conditions to effectiveness to be satisfied | Wednesday, 16 September 2020 |
| Announcement of the satisfaction of all Conditions to effectiveness, last day for dealings in H Shares and expected date of withdrawal of listing of H Shares | Wednesday, 16 September 2020 |
| Resumption of registers for transfer of Shares | Thursday, 17 September 2020 |
| Each of the Offeror and the Company notifies its creditors and makes a public announcement of the Merger pursuant to the PRC Company Law | Within 10 days (for the notice to creditors) and 30 days (for the announcement) following the EGM and the H Shareholders' Class Meeting |
| Last day for dealings in H Shares | Monday, 21 September 2020 |
| Latest time for lodging transfers of H Shares in order to be entitled to receive the Cancellation Price | 4:30 p.m. on Thursday, 24 September 2020 |
| Closure of registers of members of the Company (until the Company's deregistration occurs) | From Friday, 25 September 2020 |
| Expected date and time of withdrawal of listing of H Shares | 9:00 a.m. on Tuesday, 29 September 2020 |
| Announcement that all the Conditions to implementation are satisfied (or waived, as applicable) | Tuesday, 29 September 2020 |
| Latest date for payment of the Cancellation Price | Monday, 12 October 2020 |

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| End of the period during which creditors may request the Offeror and the Company to pay off their respective indebtedness or provide guarantees | Within 30 days after the receipt of notice by creditors or 45 days after the issue of announcement to creditors (whichever is the latest) |

The Offeror and the Company will jointly publish announcement(s) when or as soon as reasonably practicable after all Conditions to effectiveness of the Merger Agreement have been satisfied and the Conditions to implementation of the Merger have been satisfied or waived, as appropriate.

**The Shareholders and potential investors in the securities of the Company should be aware that the Merger is subject to the conditions set out in this document being satisfied or waived, as applicable, and neither the Offeror nor the Company provides any assurance that any or all of the conditions can be satisfied, and thus the Merger Agreement may or may not become effective or, if effective, may or may not be implemented or completed. The Shareholders and potential investors in the securities of the Company should therefore exercise caution when dealing in the Shares. Persons who are in doubt as to the action they should take should consult their stockbroker, bank manager, solicitor or other professional advisers.**

## NOTICE TO U.S. HOLDERS OF SHARES

**IMPORTANT:** You must read the following disclaimer before continuing. The following disclaimer applies to this document following this disclaimer page and you are therefore advised to read this disclaimer page carefully before accessing, reading or making any other use of this document. In, and as a result of, accessing this document you agree, and you are deemed to agree, to be bound by the following terms and conditions.

The Merger will involve the cancellation of the securities of a company incorporated in the PRC with limited liability by means of a merger by absorption provided for under the laws of the PRC. The Merger is subject to Hong Kong disclosure requirements, which are different from those of the United States. The financial information included in this document has been prepared in accordance with International Financial Reporting Standards and thus may not be comparable to financial information of U.S. companies or companies whose financial statements are prepared in accordance with generally accepted accounting principles in the United States.

The receipt of cash pursuant to the Merger by a U.S. holder of Shares as consideration for the cancellation of its Shares pursuant to the Merger may be a taxable transaction for U.S. federal income tax purposes and under applicable state and local, as well as foreign and other tax laws. Each holder of Shares is urged to consult his/her/its independent professional advisor immediately regarding the tax consequences of the implementation of the Merger.

U.S. holders of Shares may encounter difficulty enforcing their rights and any claims arising out of the U.S. federal securities laws, as the Offeror and the Company are located in a country outside the United States and some or all of their respective officers and directors may be residents of a country other than the United States. U.S. holders of Shares may not be able to sue a non-U.S. company or its officers or directors in a non-U.S. court for violations of the U.S. securities laws. Further, U.S. holders of Shares may encounter difficulty compelling a non-U.S. company and its affiliates to subject themselves to a U.S. court's judgment.

In accordance with normal Hong Kong practice, the Offeror hereby discloses that it or its affiliates, or its nominees, or their respective brokers (acting as agents) may from time to time make certain purchases of, or arrangements to purchase, Shares outside of the United States, before or during the Offer Period. In accordance with the Takeovers Code and Rule 14e-5(b) of the U.S. Exchange Act, CICC and its affiliates may continue to act as exempt principal traders in the Shares on the Stock Exchange. These purchases may occur either in the open market at prevailing prices or in private transactions at negotiated prices, provided that any such purchase or arrangement complies with applicable law, including but not limited to the Takeovers Code, and is made outside the United States. Any information about such purchases will be reported to the SFC in accordance with the requirements of the Takeovers Code and, to the extent made public by the SFC, will be available on the website of the SFC at http://www.sfc.hk.

Whether or not they are able to attend the EGM or the H Shareholders' Class Meeting (where applicable) in person, the Shareholders are strongly urged to complete and sign the enclosed form of proxy in respect of the EGM in accordance with the instructions printed thereon and the H Shareholders are strongly urged to complete and sign the enclosed form of proxy in respect of the H Shareholders' Class Meeting in accordance with the instructions printed thereon as soon as possible, but in any case not later than the following respective times:

(1) in the case of the form of proxy for use at the EGM, the Shareholders are requested to deposit such form of proxy no later than 9:00 a.m. on Tuesday, 15 September 2020 at the Company's registrar for H Shares (in respect of H Shareholders) at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong or at the Board office of the Company (in respect of Domestic Shareholders) at 9/F, Building B, Huadian Plaza, No. 2 Xuanwumennei Street, Xicheng District, Beijing, the PRC; and

(2) in the case of the form of proxy for use at the H Shareholders' Class Meeting, the H Shareholders are requested to deposit such form of proxy no later than 9:00 a.m. on Tuesday, 15 September 2020 at the Company's registrar for H Shares at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong.

The completion and return of a form of proxy for any of the meetings will not preclude you from attending and voting in person at the relevant meetings or any adjournment thereof, should you so wish. In the event that you attend and vote at any of the meetings or any adjournment thereof after having deposited the relevant form of proxy, that form of proxy will be deemed to have been revoked.

If you are eligible and intend to attend the relevant meetings, please complete and return the relevant reply slips in accordance with the instructions printed thereon. Reply slips should be returned as soon as possible (but in any event not later than 8 days before the scheduled date for holding the relevant meetings or any adjournment thereof).

For the purpose of determining the entitlements of the Shareholders to attend and vote at the EGM and the H Shareholders to attend and vote at the H Shareholders' Class Meeting, the Company's registers of members will be closed from Friday, 11 September 2020 to Wednesday, 16 September 2020 (both dates inclusive). During such period, no transfer of Shares will be effected.

Only Shareholders whose names are on the Company's registers of members on Wednesday, 16 September 2020 are entitled to vote at the relevant meetings. Each Shareholder on the Company's registers of members on Wednesday, 16 September 2020 is entitled to cast one vote per Share in respect of the Merger in the EGM. Each H Shareholder on the Company's registers of members on Wednesday, 16 September 2020 is entitled to cast one vote per H Share in respect of the Merger in the H Shareholders' Class Meeting.

An announcement will be made by the Company in relation to the result of EGM and the H Shareholders' Class Meeting. Further announcement(s) will be made before/after the satisfaction or waiver, as appropriate, of the Conditions to effectiveness of the Merger Agreement and Conditions to implementation of the Merger.

*In this document, the following expressions have the meanings set out below, unless the context requires otherwise:*

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| "Articles" | the articles of association of the Company (including the rules of procedures for shareholders' general meetings and the rules of procedures for board meetings); |
| "Board" | board of Directors; |
| "business day" | a day on which the Stock Exchange is open for the transaction of business; |
| "Cancellation Price" | the cancellation price of HK$2.50 per H Share and RMB2.29995 per Domestic Share payable in cash by the Offeror to the Shareholders (other than Huadian and Huadian Engineering as described in the section headed "3. PRINCIPAL TERMS OF THE MERGER AGREEMENT" in the "LETTER FROM THE BOARD" in this document); |
| "CICC" | China International Capital Corporation Hong Kong Securities Limited, the financial adviser to the Offeror. CICC is a licensed corporation under the SFO, licensed to carry out Type 1 (dealing in securities), Type 2 (dealing in futures contracts), Type 4 (advising on securities), Type 5 (advising on futures contracts) and Type 6 (advising on corporate finance) regulated activities; |
| "Company" or "Huadian Fuxin" | Huadian Fuxin Energy Corporation Limited (華電福新能源股份有限公司), a joint stock limited company incorporated in the PRC with limited liability, whose H Shares are listed and traded on the Stock Exchange (Stock Code: 816); |
| "Conditions" | has the meaning given to it in the section headed "3. PRINCIPAL TERMS OF THE MERGER AGREEMENT" in the "LETTER FROM THE BOARD" in this document; |
| "Conditions to effectiveness" | has the meaning given to it in the section headed "3. PRINCIPAL TERMS OF THE MERGER AGREEMENT" in the "LETTER FROM THE BOARD" in this document; |

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| "Conditions to implementation" | has the meaning given to it in the section headed "3. PRINCIPAL TERMS OF THE MERGER AGREEMENT" in the "LETTER FROM THE BOARD" in this document; |
| "Consenting Shareholders" | has the meaning given to it in the section headed "3. PRINCIPAL TERMS OF THE MERGER AGREEMENT" in the "LETTER FROM THE BOARD" in this document; |
| "Declaration Period" | a period commencing on the Delisting Date and expiring on the fifth (5th) business day from (and including) the Delisting Date, during which any Dissenting Shareholder may declare to exercise its right; |
| "Delisting Date" | the date on which the listing of the Company on the Stock Exchange has been withdrawn; |
| "Director(s)" | director(s) of the Company; |
| "Dissenting Shareholder" | a Shareholder who has validly voted against the resolutions in respect of the Merger at the EGM and (if applicable) the H Shareholders' Class Meeting and has requested the Company or the Consenting Shareholders to acquire its Shares at a "fair price"; |
| "Domestic Share(s)" | the domestic shares of the Company, with a RMB denominated par value of RMB1.00 each, representing approximately 69.43% of the issued share capital of the Company as at the Latest Practicable Date; |
| "Domestic Shareholder(s)" | the holder(s) of Domestic Share(s); |
| "EGM" | the extraordinary general meeting of the Company to be convened, or any adjournment thereof, to consider and, if thought fit, approve the Merger Agreement, the Merger and relevant arrangements; |
| "Exchange Rate" | the exchange rate of HK$1: RMB0.91998, which is the central parity rate of RMB to Hong Kong Dollar as at the date of the Joint Announcement as announced by the People's Bank of China; |
| "Executive" | the Executive Director of the Corporate Finance Division of the SFC or any delegate of the Executive Director; |

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| "Exercise Date" | the date on which the Company and/or the Consenting Shareholders (or the Offeror, if so elected by the Company and/or the Consenting Shareholders) pays cash consideration to Dissenting Shareholders who exercise their right to acquire the Shares held and effectively declared by them at "fair price", which will be decided and announced by the Company; |
| "Group" | the Company and its subsidiaries; |
| "H Share(s)" | the ordinary shares issued by the Company, with a RMB denominated par value of RMB1.00 each, which are subscribed for and paid up in Hong Kong dollars and are listed and traded on the Stock Exchange, representing approximately 30.57% of the issued share capital of the Company as at the Latest Practicable Date; |
| "H Shareholder(s)" | the holder(s) of H Shares; |
| "H Shareholders' Class Meeting" | class meeting of the Company to be convened for H Shareholders, or any adjournment thereof, to consider and, if thought fit, approve the Merger Agreement, the Merger and relevant arrangements; |
| "HK$" or "Hong Kong Dollar" | Hong Kong dollars, the lawful currency of Hong Kong; |
| "Hong Kong" | the Hong Kong Special Administrative Region of the People's Republic of China; |
| "Huadian" | China Huadian Corporation Ltd. (中國華電集團有限公司), a state-owned enterprise controlled by the SASAC, which directly and indirectly held (i) 100% of the shares of the Offeror and (ii) approximately 62.76% of the Company's issued share capital as at the Latest Practicable Date; |
| "Huadian Engineering" | China Huadian Engineering Co., Ltd. (中國華電科工集團有限公司), a company incorporated in the PRC with limited liability and a wholly-owned subsidiary of Huadian, which directly held approximately 0.94% of the Company's issued share capital as at the Latest Practicable Date; |

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| "Huadian Overseas" | China Huadian Overseas Asset Management Company Limited (中國華電海外資產管理有限公司), a wholly-owned subsidiary of Huadian; |
| "Independent Board Committee" | the independent board committee established by the Company for the purposes of considering the Merger, which comprises all of the non-executive Directors (except Mr. TAO Yunpeng who is nominated by Huadian), being Mr. SHI Chongguang and Mr. WANG Bangyi and all of the independent non-executive Directors, being Mr. ZHANG Bai, Mr. TAO Zhigang and Mr. WU Yiqiang; |
| "Independent Financial Adviser" | Somerley Capital Limited, the independent financial adviser appointed by the Independent Board Committee to advise the Independent Board Committee and the Independent Shareholders in respect of (among others) the Merger; |
| "Independent H Shareholders" | H Shareholders other than the Offeror, Huadian and their respective concert parties (including Huadian, Wujiang Hydropower and Huadian Engineering); |
| "Independent Shareholders" | Shareholders other than the Offeror, Huadian and their respective concert parties (including Huadian, Wujiang Hydropower and Huadian Engineering); |
| "Joint Announcement" | the announcement jointly published by the Offeror and the Company dated 1 June 2020, which states, amongst other things, the proposal of the Merger of the Offeror and the Company in accordance with the Merger Agreement; |
| "Last Trading Date" | 27 May 2020, the last trading day prior to the suspension of trading in the H Shares on the Stock Exchange respectively pending the issue of the Joint Announcement; |
| "Latest Practicable Date" | 21 August 2020, being the latest practicable date prior to the printing of this document for the purpose of ascertaining certain information contained therein; |
| "Listing Rules" | the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited; |

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| "Long-stop Date" | 1 June 2021, being the last date the Pre-Condition, the Conditions to effectiveness and the Conditions to implementation can be satisfied, unless the Offeror and the Company otherwise agree, subject to the consent of the SFC; |
| "Merger" | the proposed merger by absorption of the Company by the Offeror in accordance with the PRC Company Law and other applicable PRC Laws as contemplated under the Merger Agreement; |
| "Merger Agreement" | the merger agreement entered into between the Offeror and the Company on 1 June 2020 in relation to the Merger; |
| "Offer Period" | has the meaning ascribed to it under the Takeovers Code, being the period commencing on 1 June 2020 (the date of the Joint Announcement) and ending on the Delisting Date; |
| "Offeror" or "Fujian Huadian Furui" | 福建華電福瑞能源發展有限公司 (Fujian Huadian Furui Energy Development Co., Ltd.*), a company incorporated in the PRC with limited liability which is wholly-owned by Huadian; |
| "PRC" or "China" | the People's Republic of China, which for the purposes of this document does not include Hong Kong, the Macau Special Administrative Region and Taiwan unless the context otherwise specifies; |
| "PRC Company Law" | the Company Law of the PRC, as amended, supplemented or otherwise modified from time to time; |
| "PRC GAAP" | the generally accepted accounting principles in the PRC; |
| "PRC Laws" | any and all laws, regulations, statutes, rules, decrees, notices, and supreme court's judicial interpretations as may be in force and publicly available in the PRC from time to time; |
| "Pre-Condition" | has the meaning given to it in the section headed "3. PRINCIPAL TERMS OF THE MERGER AGREEMENT" in the "LETTER FROM THE BOARD" in this document; |

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| "Relevant Period" | the period commencing from 1 December 2019 (i.e. the date that is six months prior to the publishing date of the Joint Announcement) and ending on the Latest Practicable Date; |
| "RMB" | Renminbi, the lawful currency of the PRC; |
| "SASAC" | the State-owned Assets Supervision and Administration Commission of the State Council; |
| "SFC" | the Securities and Futures Commission of Hong Kong; |
| "SFO" | the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) (as revised, supplemented or otherwise modified from time to time); |
| "Shareholders" | H Shareholders and Domestic Shareholders; |
| "Shares" | collectively, H Shares and Domestic Shares; |
| "Stock Exchange" | The Stock Exchange of Hong Kong Limited; |
| "Takeovers Code" | the Codes on Takeovers and Mergers published by the SFC (as revised, supplemented or otherwise modified from time to time); |
| "trading day" | a day on which the Stock Exchange is open for dealing or trading in securities; |
| "United States" or "U.S." | the United States of America, its territories and possessions, any State of the United States and the District of Columbia; |
| "U.S. Exchange Act" | the U.S. Securities Exchange Act of 1934, as amended; |
| "Wujiang Hydropower" | Guizhou Wujiang Hydropower Development Co., Ltd. (貴州烏江水電開發有限責任公司), a company incorporated in the PRC with limited liability and a subsidiary of Huadian, which directly held approximately 2.25% of the Company's issued share capital as at the Latest Practicable Date; and |
| "%" | per cent. |

** For identification purpose only*

華電福新能源股份有限公司
HUADIAN FUXIN ENERGY CORPORATION LIMITED

*(a joint stock limited company incorporated in the People's Republic of China with limited liability)*
**(Stock code: 00816)**

*Executive Directors:*
Mr. Huang Shaoxiong *(Chairman)*
Mr. Wu Jianchun
Mr. Du Jiangwu

*Non-executive Directors:*
Mr. Tao Yunpeng
Mr. Shi Chongguang
Mr. Wang Bangyi

*Independent non-executive Directors:*
Mr. Zhang Bai
Mr. Tao Zhigang
Mr. Wu Yiqiang

*Registered office:*
20th Floor
Qiantian Mansion
231 Hudong Road
Gulou District
Fuzhou
Fujian Province
PRC

*Principal place of business in Hong Kong:*
31/F, Tower Two
Times Square
1 Matheson Street
Causeway Bay
Hong Kong

26 August 2020

Dear Shareholders,

**PROPOSED PRE-CONDITIONAL PRIVATISATION OF HUADIAN FUXIN BY THE OFFEROR BY WAY OF MERGER OF ABSORPTION OF HUADIAN FUXIN**

## 1. INTRODUCTION

On 1 June 2020, the Offeror and the Company published the Joint Announcement to announce that the two companies have entered into the Merger Agreement with respect to the Merger. After the Merger, the Company will be merged into and absorbed by the Offeror in accordance with the PRC Company Law and other applicable PRC Laws.

## 2. PROPOSED MERGER

Pursuant to the Merger Agreement, conditional upon, among others, the fulfilment (or waiver, as applicable) of the Pre-Condition and the Conditions set out in the section headed "3. PRINCIPAL TERMS OF THE MERGER AGREEMENT" below, the Offeror will pay the Cancellation Price in the amount of:

(a) HK$2.50 per H Share to the H Shareholders; and

(b) RMB2.29995 per Domestic Share, which is equivalent of the Cancellation Price of each H Share based on the Exchange Rate, to the Domestic Shareholders (other than Huadian and Huadian Engineering, being the parent of the Offeror and one of the parent's subsidiaries, respectively, as described in the section headed "3. PRINCIPAL TERMS OF THE MERGER AGREEMENT" below).

The amount of aggregate Cancellation Price required to be paid by the Offeror to cancel (i) the H Shares held by H Shareholders and (ii) the Domestic Shares held by the Domestic Shareholders (other than Huadian and Huadian Engineering as described in the section headed "3. PRINCIPAL TERMS OF THE MERGER AGREEMENT" below) is HK$6,425.56 million and RMB1,725.18 million respectively.

After the completion of the Merger, the Offeror will assume all assets, liabilities, interests, businesses, employees, contracts and all other rights and obligations of the Company and the Company will be eventually deregistered.

## 3. PRINCIPAL TERMS OF THE MERGER AGREEMENT

The principal terms and conditions of the Merger Agreement include:

**Parties**

(1) The Offeror; and
(2) the Company.

**Overview of the Merger**

Subject to the terms and conditions of the Merger Agreement, the Merger will be implemented by the Offeror merging the Company by way of merger by absorption.

After the completion of the Merger, the Offeror will assume all assets, liabilities, interests, businesses, employees, contracts and all other rights and obligations of the Company and the Company will be eventually deregistered.

**Consideration**

Pursuant to the Merger Agreement, conditional upon, among others, the fulfilment (or waiver, as applicable) of the Pre-Condition, the Conditions to effectiveness and the Conditions to implementation set out in the paragraphs headed "*Pre-Condition to the Merger Agreement becoming effective*", "*Conditions to effectiveness*" and "*Conditions to implementation*" below, the Offeror will pay the Cancellation Price in the amount of (a) HK$2.50 per H Share to the H Shareholders and (b) RMB2.29995 per Domestic Share, which is equivalent of the Cancellation Price of each H Share based on the Exchange Rate, to the Domestic Shareholders (other than Huadian and Huadian Engineering, being the parent of the Offeror and one of the parent's subsidiaries, as to which see below).

Pursuant to the Merger Agreement and subject to the same conditions as stated above, in consideration for the cancellation of their Domestic Shares:

(1) Huadian will be issued with RMB2.29995 registered capital of the Offeror for each Domestic Share, which is equivalent to the Cancellation Price for each Domestic Share, subject to such adjustment which may arise from any difference between the Offeror's net asset value (to be audited) and registered capital in order to ensure that for each Domestic Share it owns, it will receive an equivalent value to the Cancellation Price for each Domestic Share; and

(2) Huadian Engineering will receive the consideration for the cancellation of its Domestic Shares in the same way as Huadian as described above.

**Pre-Condition to the Merger Agreement becoming effective**

The Merger Agreement is subject to the satisfaction of a pre-condition, being the filing, registration or approval, as applicable, with or by (a) the National Development and Reform Commission of the PRC, (b) Ministry of Commerce of the PRC and (c) the State Administration of Foreign Exchange of the PRC, or their respective local authorities, and such other applicable governmental approvals in respect of the Merger having been obtained or completed (the "**Pre-Condition**"). Save for the governmental approvals as mentioned in (a), (b) and (c) above, the Offeror is not currently aware of any other applicable governmental approvals which are required in respect of the Merger.

**Conditions to effectiveness**

After the Pre-Condition is satisfied, the Merger Agreement shall become effective upon satisfaction of all of the following conditions (none of which is capable of being waived) (the "**Conditions to effectiveness**"):

(1) the passing of special resolution(s) by a majority of not less than two-thirds of the votes cast by way of poll by the Shareholders present and voting in person or by proxy at the EGM to approve the Merger under the Merger Agreement in accordance with the Articles and the PRC Laws;

(2) the passing of special resolution(s) by way of poll approving the Merger under the Merger Agreement at the H Shareholders' Class Meeting to be convened for this purpose, provided that: (a) approval is given by at least 75% of the votes attaching to the H Shares held by the Independent H Shareholders that are cast either in person or by proxy; and (b) the number of votes cast against the resolution is not more than 10% of the votes attaching to all H Shares held by the Independent H Shareholders.

If the above Conditions to effectiveness are not satisfied by the Long-stop Date, the Merger Agreement may be terminated by either party. Please also refer to the paragraph headed 'Termination' in this section.

**Conditions to implementation**

After the Merger Agreement becomes effective upon satisfaction of the Pre-Condition and all the Conditions to effectiveness, the implementation of the Merger shall be subject to the following conditions being satisfied (the "**Conditions to implementation**", together with the Conditions to effectiveness, collectively, the "**Conditions**"):

(1) there being no material breach of the representations, warranties or undertakings given by the Offeror in the Merger Agreement on the Delisting Date which has a material adverse impact on the Merger;

(2) there being no material breach of the representations, warranties or undertakings given by the Company in the Merger Agreement on the Delisting Date which has a material adverse impact on the Merger; and

(3) there being no law, restriction or prohibition of any governmental authority or any judgment, decision or adjudication of any court on the Delisting Date which restricts, prohibits or terminates the Merger.

The Company shall be entitled to waive Condition (1) above and the Offeror shall be entitled to waive Condition (2) above. Condition (3) above is not capable of being waived. If the above Conditions to implementation are not satisfied or if applicable, waived, by the Long-stop Date, the Merger Agreement will be automatically terminated.

As at the Latest Practicable Date, the Pre-Condition had been fulfilled (as stated in the joint announcement dated 21 August 2020 made by the Offeror and the Company) and none of the Conditions had been fulfilled or waived.

**Payment of consideration**

The Offeror shall, as soon as possible and in any event no later than seven (7) business days after fulfilment (or waiver, if applicable) of the Pre-Condition and all the Conditions (being the Conditions to effectiveness and the Conditions to implementation), pay the Cancellation Price to all H Shareholders and all Domestic Shareholders (other than Huadian and Huadian Engineering, being the parent of the Offeror and one of the parent's subsidiaries respectively, as to which see the section headed "Consideration" above).

After payment of consideration is made to the H Shareholders and the Domestic Shareholders by or on behalf of the Offeror, all rights attaching to such Shares shall cease to have effect and the relevant Shares shall be cancelled. The share certificates for H Shares and Domestic Shares will cease to have effect as documents or evidence of title.

**Dividend**

Unless with the prior written consent of the Offeror, the Company shall not declare, make or pay any dividend or other distribution (whether in cash or in kind) to the Shareholders since the date of the Merger Agreement (other than the final dividend of RMB0.540 per 10 Shares (tax inclusive) in cash to the Shareholders as declared by the Company on 20 March 2020, in respect of which no adjustment will be made to the Cancellation Price).

**Right of a Dissenting Shareholder**

According to the Articles, any Dissenting Shareholder may by written notice request the Company and/or other Shareholders who have approved the Merger (collectively, the "**Consenting Shareholders**") to acquire its Shares at a "fair price".

If any Dissenting Shareholder exercises its right, the Offeror will assume the obligation which the Company and/or the Consenting Shareholders may have towards such Dissenting Shareholder to acquire the Shares held by that Dissenting Shareholder at a "fair price".

The exercise of its right by a Dissenting Shareholder is subject to the following criteria:

(1) such Dissenting Shareholder having validly voted against the resolutions in respect of the Merger at the EGM and (if applicable) the H Shareholders' Class Meeting;

(2) such Dissenting Shareholder having been validly registered as a shareholder on the share register of the Company since the record date for the EGM and (if applicable) the H Shareholders' Class Meeting, and having held such Share(s) in respect of which it intends to exercise its right until the Exercise Date; and

(3) such Dissenting Shareholder having exercised its right during the Declaration Period.

A Shareholder is not entitled to exercise its right in respect of such Share(s) held by it if:–

(1) such Shareholder has undertaken to the Company to waive its right;

(2) such Shareholder is prohibited from exercising its right in accordance with applicable laws; or

(3) any Share held by such Shareholder is subject to pledge, other third-party rights or judicial moratorium, without having legally obtained written consent or approval obtained from the relevant pledgee, third party or competent authority.

Further announcement(s) will be made by the Offeror and the Company in relation to the exercise of the right of Dissenting Shareholders.

**Termination**

The Merger Agreement may be terminated in any of the following circumstances:

(1) by either the Offeror or the Company, if

(i) any competent governmental authority issues any order, decree, ruling or take any other actions which permanently restricts, impedes or otherwise prohibits the Merger and which is final, binding and not capable of being appealed (both the Offeror and the Company shall use reasonable endeavours to procure the withdrawal of such order, decree, ruling or action prior to exercising any right of termination);

(ii) the Conditions to effectiveness not having been satisfied on or before the Long-stop Date; or

(iii) the Conditions to implementation not having been satisfied or if applicable waived on or before the Long-stop Date;

(2) by the Offeror, if the Company commits a material breach of the representations, warranties and undertakings under the Merger Agreement or any other agreement related to the Merger Agreement which has a material impact on the Merger and such breach is not remedied by the Company within 30 days following written notice from the Offeror; or

(3) by the Company, if the Offeror commits a material breach of the representations, warranties and undertakings under the Merger Agreement or any other agreement related to the Merger Agreement which has a material impact on the Merger and such breach is not remedied by the Offeror within 30 days following written notice from the Company.

**4. CANCELLATION PRICE**

**(1) Comparison of value**

The Cancellation Price is HK$2.50 per H Share and RMB2.29995 per Domestic Share (equivalent to the Cancellation Price of HK$2.50 per H Share based on the Exchange Rate).

The Cancellation Price per H Share represents:

(a) a premium of approximately 65.56% over the closing price of HK$1.51 per H Share on the Stock Exchange on the Last Trading Date;

(b) a premium of approximately 82.22% over the average closing price of HK$1.37 per H Share based on the daily closing prices of H Shares as quoted on the Stock Exchange for the five consecutive trading days immediately prior to and including the Last Trading Date;

(c) a premium of approximately 85.87% over the average closing price of HK$1.35 per H Share based on the daily closing prices of H Shares as quoted on the Stock Exchange for the ten consecutive trading days immediately prior to and including the Last Trading Date;

(d) a premium of approximately 87.92% over the average closing price of HK$1.33 per H Share based on the daily closing prices of H Shares as quoted on the Stock Exchange for the 30 trading days immediately prior to and including the Last Trading Date;

(e) a premium of approximately 89.27% over the average closing price of HK$1.32 per H Share based on the daily closing prices of H Shares as quoted on the Stock Exchange for the 60 trading days immediately prior to and including the Last Trading Date;

(f) a premium of approximately 85.34% over the average closing price of HK$1.35 per H Share based on the average closing price of H Shares on the Stock Exchange for the 90 trading days immediately prior to and including the Last Trading Date;

(g) a premium of approximately 2.04% over the closing price of HK$2.45 per H Share on the Stock Exchange on the Latest Practicable Date; and

(h) a discount of approximately 14.03% to the Company's net assets value (excluding the perpetual medium-term notes and renewable corporate bonds) of approximately RMB2.68 (equivalent to approximately HK$2.91) per Share as of 31 December 2019 as set out in the annual results of the Company for the year ended 31 December 2019.

For the purpose of this document, unless the context requires otherwise, amounts denominated in RMB have been translated into HK$ at an exchange rate of HK$1: RMB0.91998 which is the parity rate of RMB to Hong Kong Dollar as at the date of the Joint Announcement.

The Cancellation Price has been determined on a commercial basis after taking into account, among other things, the prices of the Shares traded on the Stock Exchange and with reference to other privatisation transactions in Hong Kong in recent years.

**The Cancellation Price will not be increased and the Offeror does not reserve the right to do so.**

**(2) Highest and lowest prices**

During the Relevant Period, the highest closing price of the H Shares as quoted on the Stock Exchange was HK$2.49 on 18 June 2020, 26 June 2020 and 29 June 2020 and the lowest closing price of the H Shares as quoted on the Stock Exchange was HK$1.19 on 24 March 2020.

**(3) Funding for the Merger**

On the basis of (i) the Cancellation Price of HK$2.50 per H Share and RMB2.29995 per Domestic Share (equivalent to the Cancellation Price of HK$2.50 per H Share based on the Exchange Rate), (ii) 2,570,223,120 H Shares and 5,837,738,400 Domestic Shares in issue as at the Latest Practicable Date, and (iii) the Cancellation Price for 5,008,785,336 Domestic Shares held directly by Huadian and 78,859,501 Domestic Shares held directly by Huadian Engineering is to be satisfied through the issuance of the registered capital of the Offeror as described in the section headed "3. PRINCIPAL TERMS OF THE MERGER AGREEMENT" above, the amount of aggregate Cancellation Price required to be paid by the Offeror to cancel (i) the H Shares held by H Shareholders and (ii) the Domestic Shares held by the Domestic Shareholders (other than Huadian and Huadian Engineering as discussed above) is HK$6,425.56 million and RMB1,725.18 million respectively.

Huadian Overseas and Huadian have undertaken with the Offeror to pay on its behalf the total consideration for cancellation of the H Shares and the Domestic Shares (excluding those held by Huadian and Huadian Engineering as described in the section headed "3. PRINCIPAL TERMS OF THE MERGER AGREEMENT" above) respectively.

The payment of the total consideration will be financed by external and/or intra-group borrowings from Huadian and its subsidiaries.

Settlement of the consideration to which any Shareholder is entitled will be implemented in full in accordance with the terms of the Merger Agreement without regard to any lien, right of set-off, counterclaim or other analogous right to which the Offeror may otherwise be, or claim to be, entitled against such Shareholder.

The Offeror has appointed CICC as its financial adviser in connection with the Merger. CICC, being the financial adviser to the Offeror, is satisfied that sufficient financial resources are available to the Offeror for the satisfaction of the Offeror's obligations in respect of the full implementation of the Merger (excluding the Cancellation Price payable to Huadian and Huadian Engineering in the form of registered capital of the Offeror).

## 5. REASONS AND BENEFITS OF THE MERGER

The reasons and benefits of the Merger include:

(1) Equity financing is of great significance for the Company to maintain its market competitiveness and achieve long-term strategic goals, while the Company has not been able to access capital through equity financing. Without external equity financing capability, the Company has lost the main advantage of a listing platform.

(2) Huadian is of the view that the privatisation of the Company will help enhance the flexibility and efficiency of the Company's future business development, and facilitate the integration of the business of the Company and Huadian.

(3) During the period from 1 December 2019 (i.e. six months preceding the commencement of the Offer Period) up to and including 27 May 2020 (i.e. the Last Trading Date), the highest closing price of the H Shares as quoted on the Stock Exchange was HK$1.63 on 7 January 2020 and the lowest closing price of the H Shares as quoted on the Stock Exchange was HK$1.19 on 24 March 2020. The average daily trading volume of the Shares for the 180 trading days up to and including the Last Trading Date represents only approximately 0.33% of the issued H Shares. Huadian is of the view that the Merger, if implemented, offers all Shareholders (excluding Huadian and Huadian Engineering) an excellent opportunity to realise their investments in the Company with relatively low liquidity at a cash consideration which represents an attractive premium over the market price of H Shares.

## 6. FUTURE INTENTION OF THE OFFEROR

After the Merger, the Company will merge into the Offeror, with the Offeror as the surviving entity, and will cease to exist as a separate legal entity. It is the intention of the Offeror that it will continue to carry on its current business as stated in the paragraph headed "Information on the Offeror and Huadian" in the section headed "7. INFORMATION OF THE OFFEROR AND THE COMPANY" below).

While the Offeror does not intend to introduce any major changes to the existing business of the Company (including any redeployment of the fixed assets of the Company) after the Merger, the Offeror does not rule out the possibility of any changes in the future if and when it thinks needed in order to benefit the Offeror.

The Offeror does not intend to make any significant changes to the continued employment of the employees of the Company. Following completion of the Merger, the employment contracts of all employees of the Company will continue with the Offeror as the surviving corporation. The Board is willing to cooperate with the Offeror and act in the best interests of the Company and the Shareholders as a whole.

## 7. INFORMATION OF THE OFFEROR AND THE COMPANY

### (1) Information on the Offeror and Huadian

The Offeror is a company incorporated in the PRC with limited liability on 18 May 2020. The Offeror is newly incorporated by Huadian for the purpose of the Merger and is mainly engaged in thermal power generation; hydropower generation; combined heat and power generation; wind power generation; solar power generation; other power production; power supply; power consulting services; investment in electricity, heat, gas and water production and supply; engineering supervision; environmental technology promotion services; environmental protection consulting; wholesale of coal and products (excluding hazardous chemicals).

The Offeror is wholly owned by Huadian which is in turn controlled by the SASAC.

**(2) Information on the Company**

The Company, a state-owned enterprise, is a joint stock company incorporated in the PRC with limited liability. The Group is primarily engaged in the development, management and operation of hydropower projects and coal-fired power plants in Fujian province and wind power and other clean energy projects throughout China.

The Company is owned directly and indirectly as to approximately 62.76% by Huadian, among which, approximately 59.57% is held by Huadian directly and approximately 2.25% by Wujiang Hydropower and approximately 0.94% by Huadian Engineering, both being subsidiaries of Huadian.

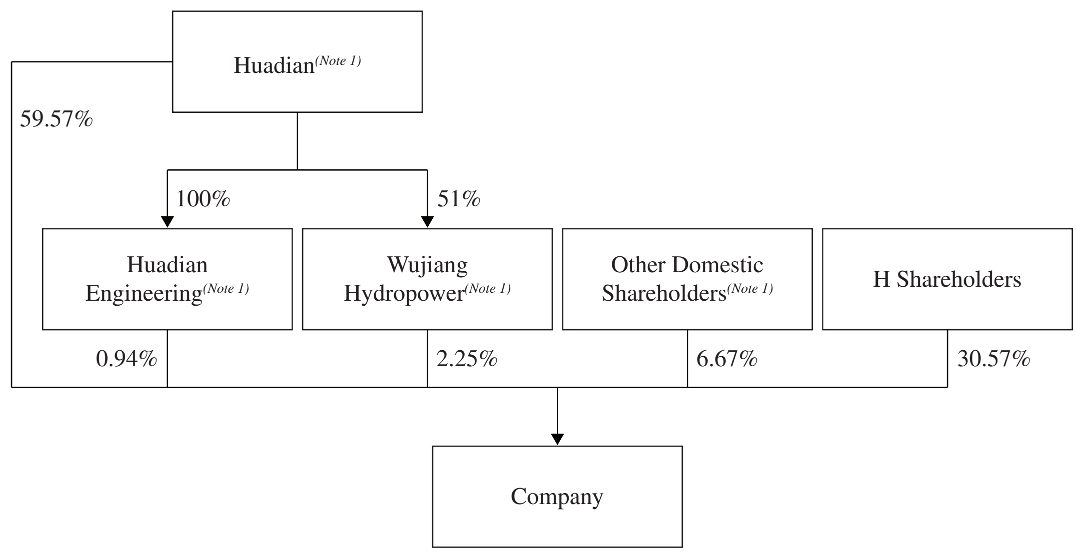
Set out below is the financial information of the Group (as extracted from the published financial statements of the Company prepared in accordance with International Financial Reporting Standards) for the two financial years ended 31 December 2018 and 2019.

| | **For the year ended 31 December 2019** *(RMB'000)* *(audited)* | **For the year ended 31 December 2018** *(RMB'000)* *(audited)* |
|---|---|---|
| Total assets | 112,210,643 | 108,303,575 |
| Revenue | 19,775,911 | 18,329,707 |
| Profit for the year | 2,691,496 | 2,472,716 |

**(3) Shareholding in the Company**

As at the Latest Practicable Date, the relevant securities of the Company in issue comprised 8,407,961,520 Shares, of which there were 2,570,223,120 H Shares and 5,837,738,400 Domestic Shares.

Set out below is the shareholding structure of the Company as at the Latest Practicable Date:




*Notes:*

1. The Shares held by Huadian, Huadian Engineering, Wujiang Hydropower and other Domestic Shareholders are Domestic Shares.

2. The percentages in the diagram above are expressed as percentages of the total issued Shares of the Company.

As at the Latest Practicable Date, the Offeror did not own any Share. Huadian, which directly and beneficially owns the entire equity interest of the Offeror, owns 5,008,785,336 Domestic Shares directly in the Company, 78,859,501 Domestic Shares through Huadian Engineering and 189,262,801 Domestic Shares through Wujiang Hydropower, representing approximately 59.57%, 0.94% and 2.25% of the voting interests in the Company respectively, and together representing approximately 62.76% of the voting interests in the Company.

As at the Latest Practicable Date, there were no outstanding options, warrants or convertible securities issued by the Company.

## 8. ARRANGEMENTS FOR IMPLEMENTATION OF THE MERGER AGREEMENT

The Pre-Condition has been fulfilled. Upon satisfaction of all the Conditions to effectiveness, the Company does not intend to retain its listing on the Stock Exchange and will apply to the Stock Exchange for voluntary withdrawal of the listing of the H Shares from the Stock Exchange in accordance with Rule 6.15(2) of the Listing Rules.

The Company will issue separate announcement(s) notifying H Shareholders of the proposed withdrawal of listing and the exact dates and relevant arrangements for the last day for dealing in H Shares on the Stock Exchange as well as when the formal delisting of the H Shares will become effective.

The listing of the H Shares on the Stock Exchange will not be withdrawn if the Merger is not approved or lapses or does not become unconditional for any reason.

## 9. INDEPENDENT BOARD COMMITTEE AND INDEPENDENT FINANCIAL ADVISER

The Board has established the Independent Board Committee, consisting of all of the non-executive Directors (except Mr. TAO Yunpeng who is nominated by Huadian), being Mr. SHI Chongguang and Mr. WANG Bangyi and all of the independent non-executive Directors, being Mr. ZHANG Bai, Mr. TAO Zhigang and Mr. WU Yiqiang. Such committee will advise the Independent H Shareholders as to: (a) whether the terms of the Merger are fair and reasonable for the purpose of the Takeovers Code; and (b) whether to vote in favour of the Merger at the EGM and the H Shareholders' Class Meeting.

The Independent Board Committee has appointed Somerley Capital Limited as its Independent Financial Adviser to provide advice to the Independent Board Committee in respect of the Merger. For the opinions and advice of the Independent Financial Adviser, please refer to section headed "Letter from the Independent Financial Adviser" in this document.

## 10. EGM AND H SHAREHOLDERS' CLASS MEETING

The Company will convene the EGM and the H Shareholders' Class Meeting for the Shareholders to consider and, if thought fit, approve matters including the Merger.

In compliance with Rule 2.10 of the Takeovers Code, which is applicable to the Merger, the Merger Agreement and the Merger are conditional on (i) the approval by way of poll by at least 75% of the votes attaching to the H Shares held by the Independent H Shareholders that are cast either in person or by proxy at the H Shareholders' Class Meeting; and (ii) the number of votes cast against the resolution at the H Shareholders' Class Meeting is not more than 10% of the votes attaching to all the H Shares held by the Independent H Shareholders.

The H Shareholders who have been registered as holders of H Shares on the register of members of the Company kept by the registrar of H Shares, Computershare Hong Kong Investor Services Limited, on Wednesday, 16 September 2020 and who have completed all necessary registration procedures will be entitled to attend the EGM and the H Shareholders' Class Meeting.

### (1) Suspension of registration of Share transfers

The register of members of the Company will be closed from Friday, 11 September 2020 to Wednesday, 16 September 2020, during which no registration of transfers of Shares will be processed. If applicable, the Shareholders and the H Shareholders intending to attend the EGM and the H Shareholders' Class Meeting respectively must lodge their respective transfer documents and relevant share certificates with the Company's H Share registrar, Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17/F, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong (for H Shareholders) or the Board office of the Company at 9/F, Building B, Huadian Plaza, No. 2 Xuanwumennei Street, Xicheng District, Beijing, the PRC (for Domestic Shareholders) no later than 4:30 p.m. on Thursday, 10 September 2020.

### (2) Proxy forms and reply slips

Whether or not you intend to attend the EGM or the H Shareholders' Class Meeting, you are strongly urged to complete and return the proxy forms in accordance with the instructions printed thereon. The proxy forms should be returned as soon as possible (but in any event not less than 24 hours before the appointed time for holding the relevant meeting or any adjournment thereof). After completion and return of the proxy forms, you may still attend and vote at the relevant meetings should you so wish.

If you are eligible and intend to attend the relevant meetings, please complete and return the relevant reply slips in accordance with the instructions printed thereon. Reply slips should be returned as soon as possible (but in any event not later than 8 days before the scheduled date for holding the relevant meetings or any adjournment thereof).

### (3) Voting at the EGM and the H Shareholders' Class Meeting

Pursuant to Rule 13.39(4) of the Listing Rules, all resolutions will be passed by way of poll at the EGM and the H Shareholders' Class Meeting.

## 11. TAXATION

### (1) Non-tax advice

You should consult with your professional adviser to understand the possible tax implications of the Merger or the exercise of the Dissenting Shareholders' rights. None of the Company, the Offeror, CICC or the Independent Financial Adviser, nor their respective directors or any person participating in the Merger, assume any liability in respect of any tax incurred or other implication of any exercise of the Dissenting Shareholders' rights.

**(2) Hong Kong stamp duty**

When the Cancellation Price is paid, the corresponding H Shares will be cancelled. Therefore, the implementation of the Merger does not involve the sale and purchase of Hong Kong stock, and in this respect only, no stamp duty will be payable pursuant to the Stamp Duty Ordinance, Chapter 117 of the Laws of Hong Kong.

For the Dissenting Shareholders who exercise their right to require acquisition of their H Shares, Hong Kong stamp duty is payable at the rate of 0.1% of the consideration by each of the seller and the buyer. The stamp duty payable will be deducted from the cash received by the relevant Dissenting Shareholders who exercise such right.

## 12. RECOMMENDATION OF THE BOARD

The Board (other than members of the Independent Board Committee, whose views are given in the section headed "LETTER FROM THE INDEPENDENT BOARD COMMITTEE" in this document) is of the view that the terms of the Merger Agreement and the proposed Merger are fair and reasonable and in the interests of the Company and the Shareholders as a whole. Having considered the terms of the Merger Agreement and taken into account the advice from the Independent Financial Adviser, the Independent Board Committee is of the view that the terms of the Merger Agreement and the proposed Merger are fair and reasonable so far as the Independent H Shareholders are concerned. Therefore, the Board recommends that the Shareholders vote in favour of the resolutions in relation to the Merger at the EGM and (if applicable) the H Shareholders' Class Meeting.

## 13. OTHER INFORMATION

Your attention is drawn to other information set out in the appendices to this document.

By order of the Board
**Huadian Fuxin Energy Corporation Limited**
**Huang Shaoxiong**
*Chairman of the Board*

華電福新能源股份有限公司
HUADIAN FUXIN ENERGY CORPORATION LIMITED

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

**(Stock code: 00816)**

26 August 2020

*To the Shareholders*

Dear Sir or Madam,

**(1) PROPOSED PRE-CONDITIONAL PRIVATISATION OF HUADIAN FUXIN BY FUJIAN HUADIAN FURUI BY WAY OF MERGER BY ABSORPTION OF HUADIAN FUXIN**
**(2) PROPOSED WITHDRAWAL OF LISTING**
**(3) NOTICE OF THE EXTRAORDINARY GENERAL MEETING AND**
**(4) NOTICE OF THE H SHAREHOLDERS' CLASS MEETING**

## INTRODUCTION

We refer to the composite document dated 26 August 2020 jointly issued by the Company and the Offeror (the "Composite Document"), of which this letter forms part. Unless the context otherwise requires, terms defined in the Composite Document shall have the same meaning when used in this letter.

We have been appointed by the Board to form the Independent Board Committee to consider and to advise the Independent H Shareholders as to whether the terms of the Merger are, or are not, fair and reasonable as to acceptance and voting.

Somerley Capital Limited has been appointed as the Independent Financial Adviser to advise us as to whether or not the terms of the Merger are fair and reasonable so far as the Shareholders are concerned. Details of its advice and the principal factors taken into consideration in arriving at its recommendation are set out in the letter from the Independent Financial Adviser on pages 24 to 66 of the Composite Document. We also wish to draw your attention to, and advise you to read, the letter from the Board on pages 7 to 21 of the Composite Document, the letter from Independent Financial Adviser on pages 24 to 66 of the Composite Document and the appendices to the Composite Document.

We, being the members of the Independent Board Committee, have declared that, as disclosed in Appendix II to the Composite Document, we are independent and do not have any conflict of interest in respect of the Merger and are therefore able to consider the terms of the Merger and to make recommendations to the Independent H Shareholders.

**RECOMMENDATION**

Having considered the principal factors and reasons considered by, and the advice of the Independent Financial Adviser as set out in its letter, we concur with the view of the Independent Financial Adviser and consider the terms of Merger to be fair and reasonable so far as the Independent H Shareholders are concerned.

Accordingly, we concur with the recommendation of the Independent Financial Adviser, and would recommend the Independent H Shareholders to accept and vote in favour of the Merger.

Notwithstanding our views and recommendation in respect of the terms of the Merger, the Shareholders are strongly advised that their decision to realise or to hold their investment in the Company depends on their own individual circumstances and investment objectives. If in doubt, the Shareholders should consult their own professional advisers for professional advice.

Yours faithfully
For and on behalf of
**THE INDEPENDENT BOARD COMMITTEE**

**Mr. SHI Chongguang**
*Non-Executive Director*

**Mr. WANG Bangyi**
*Non-Executive Director*

**Mr. ZHANG Bai**
*Independent Non-Executive Director*

**Mr. TAO Zhigang**
*Independent Non-Executive Director*

**Mr. WU Yiqiang**
*Independent Non-Executive Director*

*Set out below is the letter of advice from Somerley Capital Limited, to the Independent Board Committee, which has been prepared for the purpose of inclusion in this document.*

**SOMERLEY CAPITAL LIMITED**

20th Floor
China Building
29 Queen's Road Central
Hong Kong

26 August 2020

*To: the Independent Board Committee*

Dear Sirs,

**(1) PROPOSED PRE-CONDITIONAL PRIVATISATION OF HUADIAN FUXIN BY FUJIAN HUADIAN FURUI BY WAY OF MERGER BY ABSORPTION OF HUADIAN FUXIN; AND (2) PROPOSED WITHDRAWAL OF LISTING**

## I. INTRODUCTION

We refer to our appointment to advise the Independent Board Committee in connection with the Merger. Details of the Merger Agreement and the Merger are set out in the composite document jointly issued by the Offeror and the Company (the "**Composite Document**") dated 26 August 2020, of which this letter forms part. Capitalised terms used in this letter shall have the same meanings as those defined in the Composite Document unless the context otherwise requires.

On 1 June 2020, the Offeror and the Company entered into the Merger Agreement pursuant to which the Offeror and the Company will implement the Merger subject to the terms and conditions of the Merger Agreement, including the Pre-Condition and the Conditions. After the Merger, the Company will be merged into and absorbed by the Offeror in accordance with the PRC Company Law and other applicable PRC Laws.

The Independent Board Committee comprising all the non-executive Directors (except Mr. TAO Yunpeng who is nominated by Huadian), being Mr. SHI Chongguang and Mr. WANG Bangyi and all of the independent non-executive Directors, being Mr. ZHANG Bai, Mr. TAO Zhigang and Mr. WU Yiqiang, has been established to advise the Independent H Shareholders as to: (a) whether the terms of the Merger are fair and reasonable for the purpose of the Takeovers Code; and (b) whether to vote in favour of the Merger at the EGM and the H Shareholders' Class Meeting.

We are not associated with the Company, the Offeror, Huadian or their respective substantial shareholders or any party acting, or presumed to be acting, in concert with any of them and, accordingly, are considered eligible to give independent advice on the Merger. Apart from normal professional fees paid or payable to us in connection with this appointment, no arrangement exists whereby we will receive any fees or benefits from the Company, the Offeror and Huadian, their respective substantial shareholders or any party acting, or presumed to be acting, in concert with any of them.

In formulating our opinion, we have reviewed, among other things, (i) the Composite Document; (ii) the Merger Agreement; (iii) the annual reports of the Company for the years ended 31 December 2017, 2018 and 2019; and (iv) the material change statement set out in Appendix I to the Composite Document, together with the future prospects of the Group, which we have discussed with the management of the Group (the "**Management**").

We have relied on the information and facts supplied by the Company and the opinions expressed by the Directors, and have assumed that the information and facts provided and opinions expressed to us are true, accurate and complete in all material aspects as at the Latest Practicable Date. We have further assumed that all representations contained or referred to in the Composite Document were true at the time they were made and at the date of the Composite Document and will continue to be true until the date of the EGM and the H Shareholders' Class Meeting. Shareholders will be informed as soon as reasonably practicable if we become aware of any material change to such representations during the Offer Period. We have sought and received confirmation from the Directors that no material facts have been omitted from the information supplied and opinions expressed to us. We consider that the information we have received is sufficient for us to reach our opinion and give the advice and recommendation set out in this letter. We have no reason to believe that any material information has been omitted or withheld, or to doubt the truth or accuracy of the information provided. We have, however, not conducted any independent investigation into the business and affairs of the Group, the Offeror, Huadian or any of their respective associates or any party acting, or presumed to be acting, in concert with any of them, nor have we carried out any independent verification of the information supplied.

We have not considered the tax and regulatory implications on the Independent Shareholders of acceptances of the Merger since these are particular to their individual circumstances. In particular, the Independent Shareholders who are overseas residents or subject to overseas taxation or to Hong Kong taxation on security dealings should consider their own tax position and, if in any doubt, should consult their own professional advisers.

For the purpose of illustration only and unless otherwise stated, amounts denominated in RMB in this letter have been translated into HK$ at the rate of RMB1.00 = approximately HK$1.0870 (which is equivalent to the exchange rate adopted for the Cancellation Price for the H Shares and the Domestic Shares).

## II. PRINCIPAL TERMS OF THE MERGER AGREEMENT

The proposed Merger will be implemented by the Offeror and the Company pursuant to the terms and conditions of the Merger Agreement, the major terms of which are set out as follows:

**Date**

1 June 2020

**Parties**

(1) the Offeror; and

(2) the Company

**Overview of the Merger**

Subject to the terms and conditions of the Merger Agreement, the Merger will be implemented by the Offeror merging the Company by way of merger by absorption.

After the completion of the Merger, the Offeror will assume all assets, liabilities, interests, businesses, employees, contracts and all other rights and obligations of the Company and the Company will be eventually deregistered.

**Consideration**

(1) **HK$2.50 per H Share** to the H Shareholders

(2) **RMB2.29995 per Domestic Share**, which is equivalent of the Cancellation Price of each H Share based on the Exchange Rate, to the Domestic Shareholders (other than Huadian and Huadian Engineering, being the parent of the Offeror and one of the parent's subsidiaries)

**As set out in the letter from Board contained in the Composite Document, the Cancellation Price will not be increased and the Offeror does not reserve the right to do so.**

**Pre-Condition to the Merger Agreement becoming effective**

The filing, registration or approval, as applicable, with or by

(1) the National Development and Reform Commission of the PRC,

(2) Ministry of Commerce of the PRC; and

(3) the State Administration of Foreign Exchange of the PRC, or their respective local authorities, and such other applicable governmental approvals in respect of the Merger having been obtained or completed (collectively, the "**Pre-Condition**")

**Conditions to effectiveness**

(1) the passing of special resolution(s) by a majority of not less than two-thirds of the votes cast by way of poll by the Shareholders present and voting in person or by proxy at the EGM to approve the Merger under the Merger Agreement in accordance with the Articles and the PRC Laws; and

(2) the passing of special resolution(s) by way of poll approving the Merger under the Merger Agreement at the H Shareholders' Class Meeting to be convened for this purpose, provided that: (a) approval is given by at least 75% of the votes attaching to the H Shares held by the Independent H Shareholders that are cast either in person or by proxy; and (b) the number of votes cast against the resolution is not more than 10% of the votes attaching to all H Shares held by the Independent H Shareholders (collectively, the "**Conditions to effectiveness**").

None of the above is capable of being waived. If the above Conditions to effectiveness are not satisfied by 1 June 2021, the Merger Agreement may be terminated by either party.

**Conditions to implementation**

(1) there being no material breach of the representations, warranties or undertakings given by the Offeror in the Merger Agreement on the Delisting Date which has a material adverse impact on the Merger;

(2) there being no material breach of the representations, warranties or undertakings given by the Company in the Merger Agreement on the Delisting Date which has a material adverse impact on the Merger; and

(3) there being no law, restriction or prohibition of any governmental authority or any judgment, decision or adjudication of any court on the Delisting Date which restricts, prohibits or terminates the Merger (collectively, the "**Conditions to implementation**", and together with Conditions to effectiveness, the "**Conditions**").

The Company shall be entitled to waive condition (1) above and the Offeror shall be entitled to waive condition (2) above. Condition (3) above is not capable of being waived. If the above Conditions to implementation are not satisfied or if applicable, waived, by the Long-stop Date, the Merger Agreement will be automatically terminated.

**Payment of consideration**

The Offeror shall, as soon as possible and in any event no later than **seven (7) business days** after fulfilment (or waiver, if applicable) of the Pre-Condition and all the Conditions (being the Conditions to effectiveness and the Conditions to implementation), pay the Cancellation Price to all H Shareholders and all Domestic Shareholders (other than Huadian and Huadian Engineering).

After payment of consideration is made to the H Shareholders and the Domestic Shareholders by or on behalf of the Offeror, all rights attaching to such Shares shall cease to have effect and the relevant Shares shall be cancelled. The share certificates for H Shares and Domestic Shares will cease to have effect as documents or evidence of title.

**Dividend**

Unless with the prior written consent of the Offeror, the Company shall not declare, make or pay any dividend or other distribution (whether in cash or in kind) to the Shareholders since the date of the Merger Agreement (other than the final dividend of RMB0.540 per 10 Shares (tax inclusive) in cash to the Shareholders as declared by the Company on 20 March 2020, in respect of which no adjustment will be made to the Cancellation Price).

**Right of a Dissenting Shareholder**

According to the Articles, any Dissenting Shareholder may by written notice request the Company and/or other Shareholders who have approved the Merger (collectively, the "**Consenting Shareholders**") to acquire its Shares at a "fair price".

If any Dissenting Shareholder exercises its right, the Offeror will assume the obligation which the Company and/or the Consenting Shareholders may have towards such Dissenting Shareholder to acquire the Shares held by that Dissenting Shareholder at a "fair price".

The exercise of its right by a Dissenting Shareholder is subject to the following criteria:

(1) such Dissenting Shareholder having validly voted against the resolutions in respect of the Merger at the EGM and (if applicable) the H Shareholders' Class Meeting;

(2) such Dissenting Shareholder having been validly registered as a shareholder on the share register of the Company since the record date for the EGM and (if applicable) the H Shareholders' Class Meeting, and having held such Share(s) in respect of which it intends to exercise its right until the Exercise Date; and

(3) such Dissenting Shareholder having exercised its right during the Declaration Period.

A Shareholder is not entitled to exercise its right in respect of such Share(s) held by it if:–

(1) such Shareholder has undertaken to the Company to waive its right;

(2) such Shareholder is prohibited from exercising its right in accordance with applicable laws; or

(3) any Share held by such Shareholder is subject to pledge, other third-party rights or judicial moratorium, without having legally obtained written consent or approval obtained from the relevant pledgee, third party or competent authority.

Details of the terms and conditions of the Merger Agreement are set out in the letter from the Board.

As at the Latest Practicable Date, the Pre-condition had been fulfilled. Save as disclosed above, none of the Conditions have been fulfilled or waived (as applicable) as at the Latest Practicable Date. The Conditions shall be fulfilled or waived (as applicable) on or before the Long-stop Date, being 1 June 2021, otherwise the Merger will lapse.

The Independent H Shareholders should note that there is no administrative guidance on the substantive as well as procedural rules as to how the "fair price" will be determined under the PRC Laws. Thus, no assurance can be given as to (i) the time required for the process to take; (ii) any favourable results to be granted to the Dissenting H Shareholders; and (iii) the cost may be incurred by the Dissenting H Shareholders in such process for determining the "fair price".

For the avoidance of doubt, if the Merger does not proceed as a result of the Conditions not being fulfilled in full or waived (if applicable) or the Merger Agreement being terminated, the Dissenting H Shareholders (if any) shall not be entitled to exercise their right as described above.

## III. PRINCIPAL FACTORS AND REASONS CONSIDERED

In formulating our opinion and recommendation with regard to the Merger, we have taken into account the following principal factors and reasons:

### 1. Background information of the Group

The Company, a state-owned enterprise, is a joint stock company incorporated in the PRC with limited liability. The Group possesses a diversified portfolio of power generation business covering wind power, photovoltaic, hydropower, coal-fired power, natural gas-fired (distributed) power, nuclear power, biomass power, etc. All coal-fired power and hydropower generating assets are located in Fujian, while wind and solar power and other new energy projects are distributed across 27 provinces, cities and autonomous regions in China and Europe. Set out below is a breakdown of revenue and profit for the year ended 31 December 2019 as extracted from the Company's annual report for the year ended 31 December 2019:

**Figure 1: Breakdown of revenue by business segments for the year ended 31 December 2019**

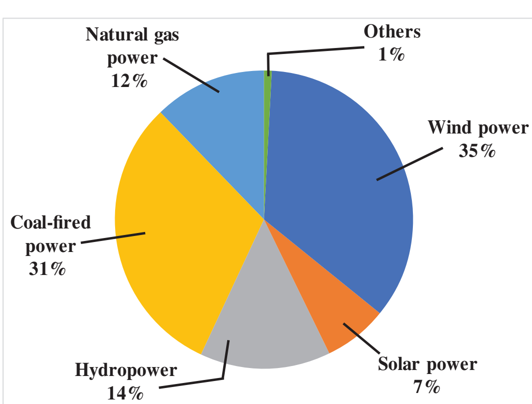
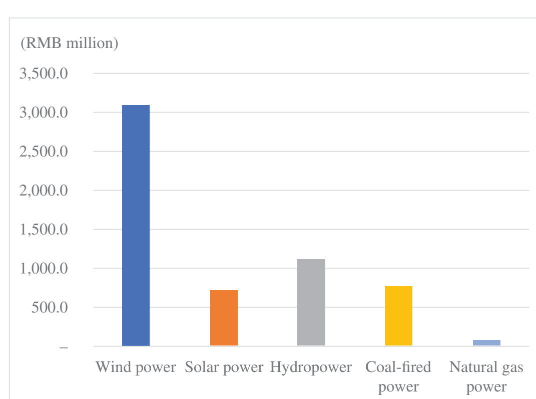



**Figure 2: Profit for the year ended 31 December 2019**



***Wind power business***

As of 31 December 2019, the Group had consolidated wind power installed capacity of 8,035.2 MW. During the period from 1 January 2019 to 31 December 2019, the consolidated installed capacity of the Group's new wind power projects which had commenced operation was 91.7 MW. The gross wind power generation was 16,913,424.4 Megawatt hour ("**MWh**") and the average on-grid tariff (tax exclusive) was RMB419.59/MWh. In 2019, the average utilisation time of the wind power generation units of the Group was 2,099 hours. The Group has focused on improving the reliability and efficiency of wind power equipment and continued to carry out comprehensive improvement of generator sets and wind power sets with poor power generating performance. As a result, the utilisation ratio of wind turbines reached 98.81% in 2019. On the other hand, the Group actively developed wind power projects such as offshore wind power projects in Fuqing Haitan Strait, Fujian and in Yuhuan Zhejiang and the wind power external transmission projects in Inner Mongolia, Xinjiang, Shaanxi, Jilin.

***Solar power business***

As of 31 December 2019, the Group had consolidated solar power installed capacity of 1,214.7 MW. In 2019, the Group's total solar power output was 1,724,094.8 MWh, and the average on-grid tariff (tax exclusive) was RMB807.59/MWh. The average utilisation time of the solar power generation units was 1,419 hours.

***Hydropower business***

As of 31 December 2019, the Group had consolidated hydropower installed capacity of 2,607.9 MW, and had capacity under construction of 1,200 MW. In 2019, the gross hydropower generation of the Group was 9,461,387.0 MWh and the average on-grid tariff (tax exclusive) was RMB287.57/MWh. The Group has strived to enhance efficiency and actively carried out the optimization of watershed reservoir management with a view to improve the power generation efficiency of watershed power stations. The average annual utilisation time of the hydropower generation units was 3,631 hours in 2019.

***Coal-fired power business***

As at 31 December 2019, the Group had consolidated coal-fired power installed capacity of 3,600.0 MW, with one project under construction. In 2019, the gross coal-fired power generation of the Group was 16,032,179.8 MWh. The average utilisation time of the coal-fired power generation units was 4,453 hours. The average on-grid tariff (tax exclusive) was RMB343.96/MWh. The Group has strived to increase the blending proportion of high-quality and premium priced imported coal in order to achieve cost saving.

***Natural gas-fired power (distributed) business and other business***

As at 31 December 2019, the consolidated installed capacity put into operation of natural gas-fired power (distributed) projects of the Group amounted to 970.0 MW, with two projects under construction. In 2019, the Group put into operation of new natural gas-fired power (distributed) projects with an increase of 67.4 MW in its consolidated installed capacity.

As of 31 December 2019, the Group invested in two nuclear power projects which were under operation and held two biomass power projects with consolidated installed capacity of 25.3 MW.

*Comment*

The Company, listed in June 2012, has been engaging in development, management and operation of power projects in the PRC and one of a few clean power players listed on the Stock Exchange. In 2019, the clean power contributed 87% of the Group's total operating profit, out of which wind power is the largest contributor accounting for about 62% of the clean power's total operating profit. The traditional coal-fired power accounted for 13% of the Group's operating profit. The on-grid tariffs of the clean power (except for hydropower) are higher than that of coal-fired power and their profit margins (except for natural gas-fired power (distributed)) are significantly higher than that of coal-fired power. Coal and natural gas prices, which are subject to change from time to time, while on-grid tariffs could not timely and sufficiently adjust accordingly, are the key factors affecting the profit margins of the Group's coal-fired and natural gas-fired power. Therefore, the Group's profitability is dependent on the splits of the power generation between (i) wind, solar and hydro power and (ii) coal-fired and natural gas-fired power and coal and natural gas prices. The power generation of wind, solar and hydro power have been affected by natural operating environment such as hydrological, wind and sunlight conditions, while those of coal-fired and natural gas-fired power are highly dependent on demand for the electricity in the region where the Group's power generation units are located.

## 2. Industry overview and prospects of the Group's businesses

### *PRC economy and electricity consumption*

According to the statistics published by the National Bureau of Statistics of the PRC (中國國家統計局) and the annual electricity industry statistics reports published by the China Electricity Council (中國電力企業聯合會) ("**CEC**"), the PRC nominal gross domestic product ("**GDP**") increased from RMB68,886 billion to RMB99,087 billion and the PRC electricity consumption increased from 5,693 billion kilowatt-hours ("**KWh**") to 7,226 billion KWh in the past five years, representing compound annual growth rates of 9.5% and 6.1% respectively, details of which are shown in the following figures:

**Figure 3: PRC Nominal GDP and its annual growth rate**

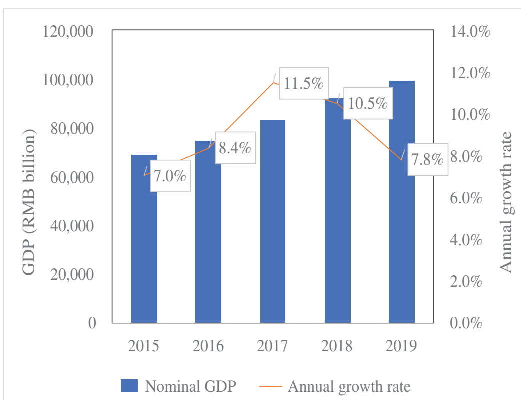
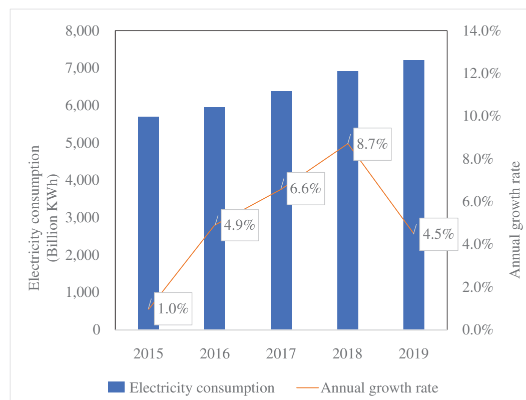



**Figure 4: PRC electricity consumption and its annual growth rate**




*Source: the National Bureau of Statistics of the PRC (中國國家統計局) and CEC*

As shown in the above figures, the PRC electricity consumption volume is closely related to the PRC economy. Both the PRC nominal GDP and the PRC electricity consumption have seen an increasing trend from 2015 to 2019. Furthermore, both the PRC nominal GDP and the PRC electricity consumption exhibited similar trends in terms of year-on-year growth rate. From 2015 to 2017, the PRC nominal GDP growth accelerated from 7.0% in 2015 to 11.5% in 2017, then it shrank from its peak in 2017 to 7.8% in 2019. Similarly, the PRC electricity consumption growth speeded up starting from 2016, reached its peak of 8.7% in 2018 and then slowed down to 4.5% in 2019.

The recent outbreak of COVID-19 has weakened the PRC's economic performance in first half of 2020. To prevent the spread of the outbreak and its possible subsequent waves, the PRC government has taken stringent measures such as city lockdowns and restrictions on unnecessary business activities. The business resumption took place in March 2020. According to CEC, the electricity consumption rebounded to a year-on-year increases of 4.6% in May 2020, 6.1% in June 2020 and 2.3% in July 2020, and the decline in electricity consumption compared to corresponding period of the previous year narrowed from 2.8% for the first 5 months of 2020 to 1.3% for the first 6 months of 2020 and further to 0.7% for the first 7 months of 2020.

***PRC power generation***

**Figure 5: PRC major power generation growth rates**

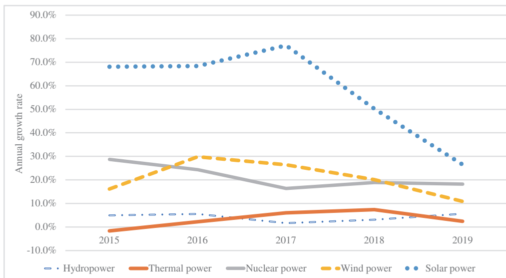



**Figure 6: Weights of major power generation**

| Year | Hydropower | Thermal power | Nuclear power | Wind power | Solar power |
|---|---|---|---|---|---|
| 2015 | 19.4% | 73.7% | 3.0% | 3.2% | 0.7% |
| 2016 | 19.5% | 71.8% | 3.5% | 4.0% | 1.1% |
| 2017 | 18.5% | 71.1% | 3.8% | 4.7% | 1.8% |
| 2018 | 17.6% | 70.4% | 4.2% | 5.2% | 2.5% |
| 2019 | 17.8% | 68.9% | 4.8% | 5.5% | 3.1% |

*Source: CEC*

*Note: The thermal power includes coal-fired power, gas-fired power, fuel oil-fired power and biomass power, among which the coal-fired power generation accounts for more than 90% of the thermal power generation in the PRC.*

As shown in the Figure 5, majority of the clean power generation has generally exhibited high growth with fluctuations in 2015-2019. Solar power generation was the highest growth segment. It achieved 68.1%-77.1% positive growth in 2015-2017 before it declined to 26.5% in 2019. The growth of wind power generation had been fluctuated in a relatively narrow range of 16.1%-29.8% in 2015-2018 before it slowed down to 10.9% in 2019. The nuclear power exhibited high positive growth during 2015-2016, with 28.7% in 2015 and 24.4% in 2016, and then its growth managed to stabilise at between 16.0% and 19.0% in the following three years. Both thermal power generation and hydropower generation demonstrated slow growth over the past five years.

As shown in the Figure 6, despite thermal power's contribution to the total power generation in the PRC has been decreasing, it remains the largest contributor to the power generation in the PRC accounting for 68.9% in 2019. The total contribution from clean energy including hydropower, nuclear power, wind power and solar power has been increasing gradually from 26.3% in 2015 to 31.1% in 2019.

***Relevant government policies***

It is reported that the clean energy industry in the PRC is a new and capital-intensive industry and the PRC government's support has played an important role in its increasing contribution in recent years. We have discussed with the Management on the relevant government policies. According to the Management and "Notice on Active Promotion of the Work on Grid Parity of Wind Power and Photovoltaic Power Generation without Subsidies" (關於積極推進風電、光伏發電無補貼平價上網有關工作的通知), "Notice on Regulating the Management for Planning Prioritised Power Generation and Purchase" (關於規範優先發電優先購電計劃管理的通知) and "Notice on Matters relating to the 2020 Wind Power and Solar Power Construction Projects" (關於2020年風電、光伏發電項目建

設有關事項的通知), we noted that the government has (i) proactively promoted the establishment of clean energy projects; (ii) gradually reduced the subsidies on renewable energies; and (iii) advocated market-oriented tariff; which has effectively restrained the blind development of renewable energy projects and facilitated the long-term sustainable development of renewable energy to certain level.

*Comment*

The PRC electricity consumption is closely related to the PRC nominal GDP as evidenced by their similar growth trends in the past years. As the national economy has entered into a continuous and stable economic development stage after decades of fast growth, the electricity consumption growth shrank from 8.7% in 2018 to 4.5% in 2019. The Group's total gross power generation amounted to 47.7 million MWh in 2019, accounting for about 0.7% of the total consumption of electricity in the PRC in the same year. The Group's gross power generation grew at 1.8%, 11.1%, 3.1%, 4.7% and 7% in 2015 to 2019, respectively, which was affected by both the PRC electricity market demand, natural operating environment and the development of the Group's installed capacity. The significant increase in the Group's gross power generation in 2016 and 2019 was mainly because of positive growth in the Group's installed capacity and favourable natural operating environment in those years. The slowing PRC economic growth combined with the recent outbreak of COVID-19 virus may bring some challenges to the power generation enterprises in short term. However, with the PRC government's efforts in containing the spread of the COVID-19 virus, the PRC economy started to recover as evidenced by positive year-on-year growth in electricity consumption in May, June and July 2020. The possible impact of COVID-19 virus is considered to be insignificant for the Group from the long-term perspective.

The PRC power generation structure has improved in recent years, despite the fact that the traditional thermal power still possesses a dominant position in the total national power generation volume. We noted (i) relatively stable and slow growth of traditional thermal power and rapid growth of clean energy such as wind power and solar power; and (ii) a slow but gradual decline in the contribution from traditional thermal power but gradual increases in the contributions from clean power such as wind power and solar power to the total national power generation from 2015 to 2019. Despite the Group has strived to increase the gross power generation scale from wind, solar and hydro power, their performance would be highly dependent on the natural operating environment. The Group has timely adjusted the thermal power generation strategy to make up for the decrease in renewable power generation due to unfavourable weather conditions and thus satisfy the local electricity demand. As a result, fluctuations of its coal-fired power generation are seen over the past 5 years.

Although the PRC government continues to support the development of clean energy industry by encouraging local governments to actively support the clean energy construction plans and increase the renewable energy consumption, it is noted that the PRC government has gradually reduced the national subsidies for the clean energy industry and made efforts to encourage the clean energy enterprises to participate in the market competition without subsidies and manage their new power construction projects in a pragmatic manner. According to the Group's annual reports, it is noted that (i) it usually takes a relatively long time to settle the government subsidies in the form of tariff premium; and (ii) the on-grid tariffs of wind power and solar power decreased in the past three years in response to the states policies. Based on the current state policies, the on-grid tariffs of wind and solar power are likely to continue to be under pressure going forward. As advised by the Management, although renewable energy projects are facing the downward pressure on the tariff, the Group will continue to improve the efficiency of the equipment, take advantage of the decreasing construction costs of the new renewable energy projects and strengthen its market competitiveness. We concur with the Management that the Group needs to take some measures including conducting control over costs in order to enhance its competitiveness in the market.

**3. Reasons for and benefits of the Merger**

The Company is owned directly and indirectly as to approximately 62.76% by Huadian, among which, approximately 59.57% is held by Huadian directly and approximately 2.25% by Wujiang Hydropower and approximately 0.94% by Huadian Engineering, both being subsidiaries of Huadian. As at the Latest Practicable Date, relevant securities of the Company in issue comprised 8,407,961,520 Shares, of which there were 2,570,223,120 H Shares and 5,837,738,400 Domestic Shares.

The following reasons for and benefits of the Merger have been extracted from the letter from the Board:

(1) equity financing is of great significance for the Company to maintain its market competitiveness and achieve long-term strategic goals, while the Company has not been able to access capital through equity financing. Without external equity financing capability, the Company has lost the main advantage of a listing platform.

(2) Huadian is of the view that the privatisation of the Company will help enhance the flexibility and efficiency of the Company's future business development, and facilitate the integration of the business of the Company and Huadian.

(3) during the period from 1 December 2019 (i.e. six months preceding the commencement of the Offer Period) up to and including 27 May 2020 (i.e. the Last Trading Date), the highest closing price of the H Shares as quoted on the Stock Exchange was HK$1.63 on 7 January 2020 and the lowest closing price of the H Shares as quoted on the Stock Exchange was HK$1.19 on 24 March 2020. The average daily trading volume of the Shares for the 180 trading days up to and including the Last Trading Date represents only approximately 0.33% of the issued H Shares. Huadian is of the view that the Merger, if implemented, offers all

Shareholders (excluding Huadian and Huadian Engineering) an excellent opportunity to realise their investments in the Company with relatively low liquidity at a cash consideration which represents an attractive premium over the market price of H Shares.

***Comment***

The limited usefulness of a listed platform to raise funds for financing business development has been a common reason for the recent privatisation proposals in Hong Kong, principally due to low liquidity of the shares and depressed valuations. Against this backdrop, listed companies (including the Company) are receiving proposals from their controlling shareholders at offer prices representing considerable premiums over the prevailing market prices in circumstances where the liquidity of the shares is generally low.

**4. Analysis of the financial information of the Group**

***(a) Income statement***

Set out below are the summarised consolidated statements of profit or loss of the Group and segment results for each of the three years ended 31 December 2019 as extracted from the annual reports of the Company for the years ended 31 December 2017, 2018 and 2019.

**Table 1: Summarised consolidated statements of profit or loss of the Group**

| | For the financial year ended 31 December | | |
|---|---|---|---|
| | **2019** | **2018** | **2017** |
| *(RMB'000)* | | | |
| **Revenue** | 19,775,911 | 18,329,707 | 16,812,679 |
| Other income and gains | 323,605 | 342,803 | 210,194 |
| **Operating Expenses** | (15,042,315) | (13,863,444) | (12,612,147) |
| • Cost of fuel | (5,244,180) | (5,876,957) | (4,601,058) |
| • Depreciation and amortisation | (4,781,338) | (4,570,318) | (4,354,148) |
| • Other operating expenses | (1,849,902) | (786,903) | (699,428) |
| • Personnel costs | (1,831,045) | (1,599,438) | (1,382,549) |
| • Repairs and maintenance | (650,028) | (527,468) | (462,350) |
| • Administrative expenses | (367,981) | (421,967) | (512,255) |
| • Service concession construction costs | (317,841) | (80,393) | (132,569) |
| • Cost of coal sold | – | – | (17,790) |

| | For the financial year ended 31 December | | |
|---|---|---|---|
| | **2019** | **2018** | **2017** |
| *(RMB'000)* | | | |
| **Operating profit** | 5,057,201 | 4,809,066 | 4,860,726 |
| **Profit before taxation** | 3,233,772 | 2,757,785 | 2,802,227 |
| **Profit for the year** | 2,691,496 | 2,472,716 | 2,465,504 |
| **Profit attributable to the equity holders of the Company** | 2,415,720 | 2,268,468 | 2,117,043 |
| Less: profit attributable/distribution to the holders of perpetual medium-term notes and renewable corporate bonds | 528,296 | 275,231 | 130,900 |
| **Net profit attributable to the Shareholders** | **1,887,424** | **1,993,237** | **1,986,143** |
| **Dividends per Share (RMB)** | 0.0540 | 0.0568 | 0.0556 |

*(i) Revenue*

Set out below is a summary of the Group's segmental revenue (from external customers) for each of the three years ended 31 December 2019.

**Table 2: Segmental revenue of the Group**

| | For the financial year ended 31 December | | |
|---|---|---|---|
| | **2019** | **2018** | **2017** |
| | *(RMB'000)* | *(RMB'000)* | *(RMB'000)* |
| • Wind power | 6,901,647 | 7,083,403 | 6,401,053 |
| • Solar Power | 1,361,585 | 1,232,070 | 1,093,240 |
| • Hydropower | 2,703,952 | 1,693,356 | 2,517,937 |
| • Coal-fired power | 6,022,742 | 6,116,007 | 4,896,385 |
| • Natural gas-fired power (distributed) | 2,313,516 | 1,963,550 | 1,583,370 |
| • Other business | 153,417 | 160,426 | 185,321 |
| **Reportable segment revenue** | 19,456,859 | 18,248,812 | 16,677,306 |

**Table 3: Gross power generation and average on-grid tariff (tax exclusive) of business segments of the Group**

| | For the financial year ended 31 December | | | | | |
|---|---|---|---|---|---|---|
| | 2019 | | 2018 | | 2017 | |
| | Gross power generation | On-grid tariff | Gross power generation | On-grid tariff | Gross power generation | On-grid tariff |
| | *(MWh)* | *(RMB/ MWh)* | *(MWh)* | *(RMB/ MWh)* | *(MWh)* | *(RMB/ MWh)* |
| • Wind power | 16,913,424 | 419.6 | 16,869,058 | 430.2 | 14,757,287 | 445.8 |
| • Solar Power | 1,724,095 | 807.6 | 1,613,383 | 804.3 | 1,345,482 | 837.3 |
| • Hydropower | 9,461,387 | 287.6 | 5,790,818 | 288.6 | 9,106,060 | 284.7 |
| • Coal-fired power | 16,032,180 | 344.0 | 17,513,698 | 343.3 | 15,016,454 | 326.4 |
| • Natural gas-fired power (distributed) | 3,422,776 | 651.0 | 2,620,625 | 665.0 | 2,167,345 | 692.0 |
| • Other business | 142,643 | 640.9 | 166,140 | 644.7 | 165,980 | 659.6 |

As shown in Table 1, the Group recorded revenue of RMB16.8 billion, RMB18.3 billion and RMB19.8 billion for the three years ended 31 December 2019, representing a year-on-year increase of 9.0% and 7.9%, respectively. For 2018, the increase was attributable to the increase in electricity sales of the Group's coal-fired power, wind power and natural gas-fired power (distributed) segments. Amongst the three segments, coal-fired electricity sales grew by 24.9% as compared to 2017 and hydropower power sales dropped by 32.7% as a result of dried up water flow in Fujian province. For 2019, the increase was attributable to the increase in electricity sales of the Group's hydropower, natural gas-fired power (distributed) and solar power segments. Amongst the three segments, hydropower electricity sales rose by 59.7% as compared to 2018, resulting from the increase in accumulated water inflow of seven leading reservoirs in Fujian province by 132.8% to 27,386 million cubic meter in 2019.

Furthermore, we noted from Table 3 that amongst the clean energy segments, being wind power, solar power, hydropower and natural gas-fired power, solar power has the highest average on-grid tariff (tax exclusive) which is about 20% higher than that of natural gas-fired power, nearly two times higher than that of hydropower and almost one time higher than that of wind power. In addition, the average on-grid tariff of coal-fired power is higher than that of hydropower but less than those of wind power, solar power and natural gas-fired power. From 2017 to 2019, the on-grid tariff (tax exclusive) of the clean energy segments generally decreased while that of coal-fired power increased. As advised by the Management, the on-grid tariffs of different power segments are determined with reference to government's benchmark on-grid tariffs and market conditions.

*(ii) Other income and gains*

For the three years ended 31 December 2019, other income and gains of the Group, which largely comprised of government grants amounted to RMB0.2 billion, RMB0.3 billion and RMB0.3 billion, respectively, representing an increase of 63.0% for 2018 and a decrease of 5.6% for 2019. The increase in 2018 was primarily due to the increase in (i) government grants received and (ii) default penalty income. For 2019, the decrease was principally due to the one-off loss on disposal of subsidiaries of RMB24.4 million and the decrease in default penalty income.

*(iii) Operating expenses*

The Group's operating expenses increased by 9.9% from RMB12.2 billion in 2017 to RMB13.9 billion in 2018 and further increased by 8.5% to reach RMB15.0 billion in 2019, which were largely due to the increases in fuel cost and other operating expenses, respectively.

Fuel cost and depreciation and amortisation expenses are the two largest expenses of the Group, accounting for, in an aggregate, 71.0%, 75.4% and 66.6% of the total operating expenses for each of the three years ended 31 December 2019. In 2018, the fuel cost increased by 27.7% to RMB5.9 billion, which was mainly attributable to the increase in fuel costs for coal-fired power segment as a result of the increase in coal price and power generation. Meanwhile, the Group's depreciation and amortisation expenses increased by 5.0% to RMB4.6 billion, which was primarily due to commencement of operation of the Group's new generating units. In 2019, as a result of the decrease in power generation of coal-fired power segment as well as the decrease in coal price, the Group's fuel cost decreased by 10.8% to RMB5.2 billion. However, the Group's depreciation and amortisation expenses increased by 4.6% to RMB4.8 billion, which were principally attributable to commencement of operation of the Group's new generating units.

As for personnel costs, the Group recorded a 15.7% year-on-year increase in 2018 to RMB1.6 billion, primarily due to additional staff required following the commencement of operation of the Group's new generating units and the additional staff recruited for business expansion. In 2019, the personnel costs increased by 14.5% to RMB1.8 billion primarily due to the increase of the Group's efficiency and given the fact that a portion of the personnel costs was expensed instead of being capitalized after the commencement of operation of the Group's new generating units.

The Group's repairs and maintenance costs increased by 14.1% to RMB0.5 billion in 2018 and 23.2% to RMB0.7 billion in 2019, which were largely due to the increase in repair costs driven by the heavier workload of coal-fired power and wind power generating units and the increase in the repair costs in hydropower segment and wind power segment, respectively.

In respect of other operating expenses, the Group recorded an increase of 12.5% to RMB0.8 billion in 2018 as compared to 2017, which was principally due to the transaction fee for power generating rights of wind power segment, assets retirement of coal-fired power segment and the increase in material costs of wind power segment, despite the decrease in the expenses of hydro-resources fee and reservoir maintenance fund. The Group's other operating expenses, which include impairment loss on assets and provision on financial guarantees and loans, further increased to RMB1.8 billion in 2019, representing a year-on-year increase of 135.1%. As stated in the annual report of the Company for 2019, the other operating expenses were mainly attributable to the increase in provision of impairment losses on certain power generating assets, the increase in the purchase of substituted electricity resulting from the transfer of planned power generation rights of coal-fired power segment and the increase in the hydro-resources fee and reservoir maintenance fund resulting from the increase in the power generation of hydropower segment.

*(iv) Operating profit*

Set out below is the operating profit of the Group for three years ended 31 December 2019.

**Table 4: Segmental operating profit and profit margins of the Group**

| | For the financial year ended 31 December | | | | | |
|---|---|---|---|---|---|---|
| | 2019 | | 2018 | | 2017 | |
| | Operating profit *(RMB'000)* | Profit margin *(Note)* | Operating profit *(RMB'000)* | Profit margin *(Note)* | Operating profit *(RMB'000)* | Profit margin *(Note)* |
| • Wind power | 3,101,738 | 44.9% | 3,639,648 | 51.4% | 3,065,599 | 47.9% |
| • Solar Power | 718,249 | 52.8% | 638,354 | 51.8% | 523,071 | 47.8% |
| • Hydropower | 1,119,612 | 41.4% | 447,969 | 26.5% | 1,201,532 | 47.7% |
| • Coal-fired power | 757,177 | 12.6% | 166,206 | 2.7% | 87,646 | 1.8% |
| • Natural gas-fired power (distributed) | 75,150 | 3.2% | 112,351 | 5.7% | 153,654 | 9.7% |
| • Other business | (165,720) | n.a. | 278 | 0.2% | (9,991) | n.a. |
| **Reportable segmental operating profit** | 5,606,206 | n.a. | 5,004,806 | n.a. | 5,021,511 | n.a. |

*Note:* Calculated based on the segmental operating profit of the Group over the segmental revenue of the Group

The Group's operating profit decreased by 1.1% to RMB4.8 billion in 2018 and increased by 5.2% to RMB5.1 billion in 2019, which was primarily due to the decrease in profits of hydropower segment and natural gas-fired power (distributed) segment and the increase in profits of hydropower segment and coal-fired power segment, respectively. As no fuel procurement is required for the renewable power segments, each of wind power, solar power and hydropower segment, maintains a high profit margin of above 40% for each of the three years ended 31 December 2019 (except for hydropower segment of 26.5% in 2018 due to drought in Fujian province). As shown in Table 4 above, the operating profit margin of coal-fired power segment increased from 1.8% in 2017 to 12.6% in 2019 due to the decrease in coal price whilst the natural gas-fired power (distributed) segment declined from 9.7% in 2017 to 3.2% in 2019 due to the increase in natural gas price.

*(v) Profit*

The profit attributable to equity holders increased by 7.2% to RMB2.3 billion in 2018 and increased by 6.5% to RMB2.4 billion in 2019. Such increases were mainly due to a significant increase in profit from wind and solar power business with low income tax burden and high shareholding percentages as well as an admirable increase in the profit from associates for 2018 and an increase in profit from hydropower and coal-fired power segment for 2019.

Due to the Company's accounting policy, perpetual medium-term notes and renewable corporate bonds have been accounted for as equity of the Company and the distribution (i.e. interests) of which have been included in the profit attributable to equity holders. As shown in Table 1, after subtracting the profit attributable/distribution to the holders of perpetual medium-term notes and renewable corporate bonds, the net profit attributable to the Shareholders increased by 0.4% to RMB2.0 billion in 2018 and decreased by 5.3% to RMB1.9 billion in 2019. The increase in 2018 was offset slightly by the increase in distribution to the perpetual medium-term noteholders and renewable corporate bonders of RMB144.3 million year-on-year. The decrease in 2019 was principally due to increase in distribution to the holders of perpetual medium-term notes and renewable corporate bonds of RMB253.1 million upon the issuance of two tranches of perpetual medium-term notes with a total amount of RMB3.6 billion in 2019.

*(vi) Dividends*

The Group paid dividends for each of the three years ended 31 December 2019. The total dividend payouts were RMB0.47 billion, RMB0.48 billion and RMB0.45 billion, accounting for 30% of the attributable profit to the Shareholders of the Company (having deducted the reserved fund withdrawn by the business units of the Group) of the respective year. We noted that the Group's dividend payout is quite stable in the past couple of years.

Comment

We have discussed the Company's historical operational and financial performance with the Management. The net profit margin of the Group (after the distribution to the holders of perpetual medium-term notes and renewable corporate bonds) gradually declined from 11.8% in 2017 to 10.9% in 2018 and further declined to 9.5% in 2019, which is in line with the fall in the operating profit margin for wind power and hydropower, the two largest contributors to the Group's total segmental revenue and segmental profit, for 2017-2019 as shown in Table 4. The wind power segment accounted for 35.5% of the total segmental revenue and 53.7% of the total segmental operating profit in 2019 and the hydropower power segment accounted for 13.9% of the total segmental revenue and 19.4% of the total segmental operating profit of the same year. Each of the renewable energy segments, being the wind power, solar power and hydropower segment, has substantial operating profit margins of over 40% (except for hydropower segment in 2018 due to draught in Fujian province) as no procurement of fuel is required. In addition, we observed that when the hydropower segment was subject to unstable power generation due to weather conditions, the coal-fired power generation would increase so as to satisfy local electricity demand and maintain stable income or power generation for the Group. In 2018, the gross power generation of the hydropower segment decreased from 9.1 million MWh in 2017 to 5.8 million MWh in 2018, representing a year-on-year decline of 36.4% in 2018, due to the draught in Fujian province but the coal-fired power generation increased by 16.6% from 15.0 million MWh in 2017 to 17.5 million MWh in 2018. We also noted that there has been improvement in operating profit margin of the coal-fired power segment due to drop in coal price in 2019. Nonetheless, given majority of the Group's operating profit derived from clean energy segments and its intention to continue to optimize its business structure to further expand its clean energy segments, combined with the PRC's recent policies and regulations regarding promoting subsidy-free clean energy projects and accelerating marketisation of clean energy industry as discussed in sub-section 2, more efforts may be required to improve the profit margin of the Group.

***(b) Financial position***

Set out below are the summarised consolidated statements of financial position of the Group as at 31 December 2017, 2018 and 2019 as extracted from the annual reports of the Company for the year ended 31 December 2017, 2018 and 2019:

**Table 5: Summarised consolidated statements of financial position of the Group**

| | **As at 31 December** | | |
|---|---|---|---|
| | **2019** | **2018** | **2017** |
| *(RMB'000)* | | | |
| **Total non-current assets** | **98,651,831** | **96,146,467** | **95,915,132** |
| Property, equipment and plant | 81,928,864 | 80,929,626 | 81,190,859 |

| | As at 31 December | | |
|---|---|---|---|
| | **2019** | **2018** | **2017** |
| *(RMB'000)* | | | |
| Interest in associates and joint venture | 10,066,458 | 8,984,570 | 8,190,052 |
| Right-of-use assets | 2,325,177 | – | – |
| Lease prepayments | – | 1,427,551 | 1,427,500 |
| Other non-current assets | 2,327,395 | 3,076,747 | 3,431,364 |
| Intangible assets | 1,641,426 | 1,358,927 | 1,298,844 |
| **Total current assets** | **13,558,812** | **12,157,108** | **11,324,726** |
| Trade and bills receivables | 9,515,174 | 5,969,777 | 6,991,918 |
| Cash and cash equivalents | 2,457,846 | 3,597,841 | 2,121,903 |
| Prepayments and other current assets | 1,280,890 | 2,153,514 | 1,918,518 |
| Inventories | 281,242 | 413,564 | 277,378 |
| **Total assets** | **112,210,643** | **108,303,575** | **107,239,858** |
| **Total current liabilities** | **22,274,509** | **19,344,763** | **25,366,382** |
| Borrowings | 13,579,188 | 10,868,084 | 15,382,347 |
| Other payables and accruals | 7,037,475 | 7,220,220 | 8,714,858 |
| Trade and bills payables | 1,449,140 | 1,103,681 | 1,081,089 |
| Obligations under finance leases | – | 25,810 | 25,530 |
| **Total non-current liabilities** | **51,584,794** | **55,856,905** | **55,406,378** |
| Borrowings | 49,466,337 | 54,096,269 | 53,779,291 |
| Deferred tax liabilities | 977,610 | 1,007,989 | 918,394 |
| Lease liabilities | 526,853 | – | – |
| Obligations under finance leases | – | 290,659 | 225,897 |
| Provision for guaranteed borrowings | 197,224 | – | – |
| **Total liabilities** | **73,859,303** | **75,201,668** | **80,772,760** |
| **Net current liabilities** | **(8,715,697)** | **(7,187,655)** | **(14,041,656)** |
| **Net asset attributable to equity holders of the Company** | **35,060,682** | **30,055,383** | **23,424,367** |
| Less: net asset attributable to perpetual medium-term notes and renewable corporate bonds | 12,566,547 | 8,969,842 | 3,988,340 |
| **Net asset attributable to Shareholders ("NAV")**(note) | **22,494,135** | **21,085,541** | **19,436,027** |

*Note:* NAV is calculated based on the net asset attributable to equity holders of the Company less the net asset attributable to perpetual medium-term notes and renewable corporate bonds.

*(i) Total assets*

As at 31 December 2017, 2018 and 2019, the Group's total assets was RMB107.2 billion, RMB108.3 billion and RMB112.2 billion, respectively, representing an increase of 1.0% and 3.6%. The total assets as at 31 December 2018 is about the same as that as at 31 December 2017. The increase of total assets as at 31 December 2019 as compared to 31 December 2018 was primarily due to the increase in trade and bills receivable from RMB6.0 billion in 2018 to RMB9.5 billion in 2019 as a result of the increase in the tariff premium of renewable energy to be collected from relevant government authorities, which offsets the decline in cash position from RMB3.6 billion in 2018 to RMB2.5 billion in 2019 due to the fall in cash generated from operations. In addition, we noted that the Group's lease prepayments as at 31 December 2017 and 31 December 2018 was RMB1.4 billion and RMB1.4 billion, respectively. Following the adoption of IFRS 16 in 2019, the Group recorded right-of-use assets of RMB2.3 billion.

*(ii) Total liabilities*

The total liabilities of the Group decreased from RMB80.8 billion as at 31 December 2017 to RMB75.2 billion as at 31 December 2018 and further to RMB73.9 billion as at 31 December 2019, representing a year-on-year decrease of 6.9% and 1.8%, respectively, which was mainly due to the decrease in bank borrowings. As at 31 December 2017, 2018 and 2019, the Group's bank borrowings was RMB69.2 billion, RMB65.0 billion and RMB63.0 billion, respectively. Furthermore, we observed that the Group's total obligations under finance leases as at 31 December 2017 and 31 December 2018 was RMB0.3 billion and RMB0.3 billion, respectively. Following the adoption of IFRS 16 in 2019, the Group's lease liabilities amounted to RMB5.3 billion.

*(iii) Net current liabilities*

The Group was in net current liabilities position for 2017-2019. The net current liabilities as at 31 December 2017, 2018 and 2019 was RMB14.0 billion, RMB7.2 billion and RMB8.7 billion, respectively, representing a decrease of 48.8% in 2018 and an increase of 21.3% in 2019. The decrease in 2018 was mainly due to the repayment of borrowings and increase in cash and cash equivalents resulting from the proceeds generated from the issuance of perpetual medium-term notes and renewable corporate bonds during the year. The increase in 2019 was principally due to the increase of 25.0% in borrowings to be repaid within a year. We have discussed with the Management regarding the Group's net current liabilities and are advised that the Group had approximately RMB20.2 billion of unutilized banking facilities as at 31 December 2019 and the issuance of perpetual medium-term notes and renewable corporate bonds in 2017-2019 has lowered the net gearing ratio (i.e. total borrowings less cash and cash equivalents divided by equity of the Group) of the Group from 253.3% as at 31 December 2017 to 185.4% as at 31 December 2018 and further to 158.0% as at 31 December 2019.

*(iv) Perpetual medium-term notes and renewable corporate bonds*

We noted that the Group issued three tranches of perpetual medium-term notes with a total amount of RMB3.0 billion and one tranche of renewable corporate bonds with a total amount of RMB2.0 billion in 2018 and two tranches of perpetual medium-term notes with a total amount of RMB3.6 billion in 2019. The aggregate amount of perpetual medium-term notes and renewable corporate bonds as at 31 December 2017, 2018 and 2019 was RMB4.0 billion, RMB9.0 billion and RMB12.6 billion, respectively. As advised by the Management, the issuance of the relevant notes and bonds can not only reduce the Group's financial burden but also enable the Group to optimise the capital structure and have the option to extend the relevant notes and bonds for an additional term or redeem the relevant notes and bonds in full at the end of each term (i.e. the first call date or any distribution payment date falling after the first call date), which is beneficial to the Group.

*(v) Net assets*

The net asset attributable to equity holders of the Company as at 31 December 2017, 2018 and 2019 was RMB23.4 billion, RMB30.1 billion and RMB35.1 billion, respectively, representing an increase of 28.3% and 16.7%. The increase in 2018 was principally due to repayment of certain borrowings by the proceeds raised from the issuance of three tranches of perpetual medium-term notes and one tranche of renewable corporate bonds during the year. The increase in 2019 was largely due to increase in tariff premium of renewable energy to be collected from the relevant government authorities. In addition, the issuance of two tranches of perpetual medium-term notes in 2019 helped the Group reduce its borrowings.

Having deducted the perpetual medium-term notes and renewable corporate bonds from the net asset attributable to equity holders of the Company, the Group's NAV as at 31 December 2017, 2018 and 2019 was RMB19.4 billion, RMB21.1 billion and RMB22.5 billion, representing an increase of 8.5% and 6.7%, respectively.

Comment

From our discussion with the Management, we learnt that the Group operates in the power generation industry with a focus on clean energy which requires huge capital investment. As such, the Group incurred high level of borrowings for development of the Group's clean energy business. Having considered the above, we are of the view that the financial condition of Group rests on the Management's ability in raising long-term debts at a reasonable cost for its further business development and refinance the borrowings as and when they fall due. The Group's perpetual bonds amounted to RMB4.0 billion, RMB9.0 billion and RMB12.6 billion as at 31 December 2017, 2018 and 2019, respectively. The issuance of the perpetual medium-term notes and renewable corporate bonds in 2018 and 2019 has lowered the gearing ratio from 253.3% as at 31 December 2017 to 158.0% as at 31 December 2019. Such gearing ratio, which has included the perpetual bonds in equity but excluded in total borrowings, is considered to be high. Despite the Management's effort in lowering the Group's borrowing cost through notes and bonds issuance, the Group had been in net current liabilities. We have discussed with the Management and reviewed the cash flow forecast of the Group which has taken into account the unutilised banking facilities, and noted that the Group will have the necessary liquid funds to finance its working capital and capital expenditure requirements in the next 12 months.

## 5. Analysis of price performance and trading liquidity of the H Shares

### *(i) Historical price performance of the H Shares*

The following figures set out the daily closing prices of the H Shares on the Stock Exchange for the period from 1 June 2017, being three years prior to the date of the Joint Announcement up to and including the Latest Practicable Date (the "**Review Period**"). The Share price movement during the Review Period, which is considered to be a fair market value of the Company having taken into account the latest financial position and performance of the Group and market sentiment, is useful and relevant for conducting a comparison between the historical closing prices of the H Shares and the Cancellation Price. The H Share price performance during the Review Period is illustrated as follows:

**Figure 7: Comparison between the H Share price and the Cancellation Price**

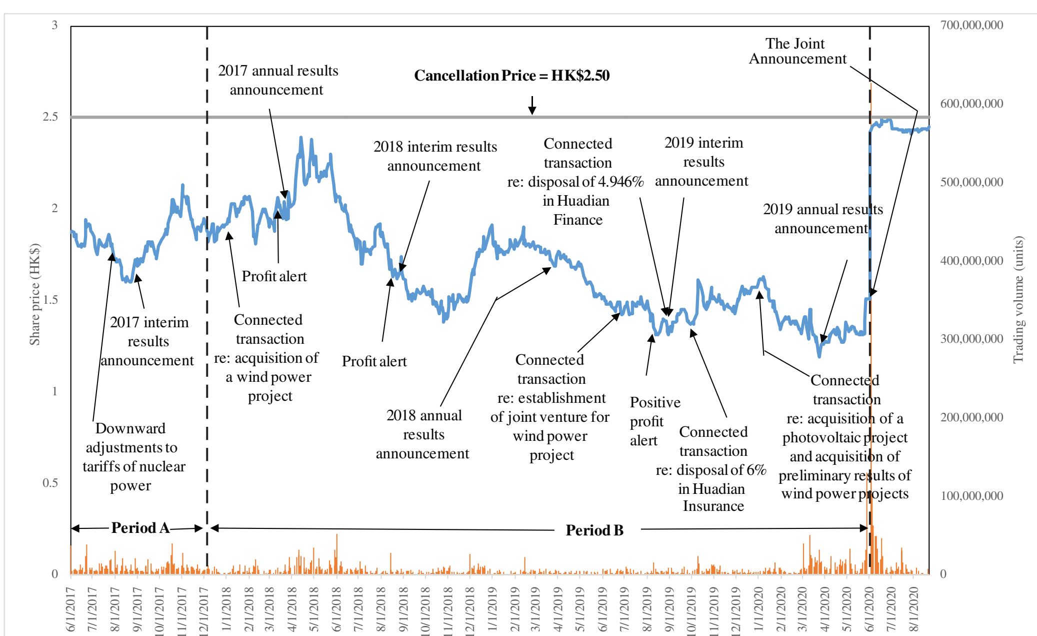
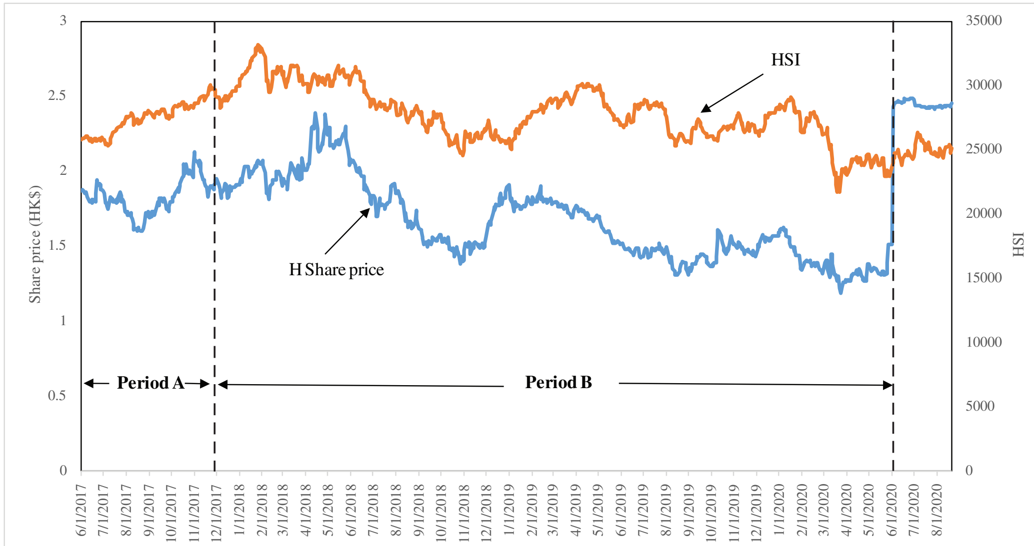


**Figure 8: Comparison between the H Share price and the Hang Seng Index ("HSI")**




*Source: Bloomberg*

As shown in the above Figure 7, the H Share price closed below the Cancellation Price of HK$2.50 per H Share all the time during the Review Period and within the range between HK$1.19 and HK$2.49 per H Share. As shown in the above Figure 8, it is observed that the H Share price seemed to be unrelated to the HSI during Period A, while it moved largely in line with HSI during Period B. We have discussed with the Management on the H Share price movement in Period A and B, and the Management are unaware of the reasons for the different patterns during the respective periods.

From 1 June 2017 to 20 November 2017 (i.e. Period A as shown in Figure 7 and 8 above), the H Shares closed between HK$1.60 and HK$2.13, with its highest recorded on 1 November 2017 and lowest recorded on 16, 21 and 22 August 2017. The H Share price fell to its lowest during Period A after announcement regarding the downward adjustment to the tariff of nuclear power was made and picked up its upward momentum after issuance of the 2017 interim results announcement. During Period A, no significant transaction announcement was made.

From 21 November 2017 to the date of the Joint Announcement (i.e. Period B as shown in Figure 7 and 8 above), the H Shares closed between HK$1.19 and HK$2.39, with its highest recorded on 13 April 2018 and lowest recorded on 24 March 2020. The H Share price rose sharply after the issue of the 2017 annual results announcement and reached its highest at HK$2.39 during Period B. The H Share price fell significantly starting from the second half of May 2018 and reached HK$1.38 on 26 October 2018. The Company has started to issue monthly business updates instead of quarterly business updates regarding the Group's power generation in May 2018. We noted that the Group's overall power generation had been fluctuated in a narrow range in April to December

2018 but its hydropower generation experienced year-on-year decreases of 40% – 70% in April to August 2018 due to extremely less incoming water in Fujian Province. The H Share price picked up its upward momentum in November 2018 while hydropower generation was seen a sharp year-on-year increase at almost the same time. The H Shares were traded between HK$1.45 and HK$1.91 during November 2018 to March 2019 and a narrower range of HK$1.19 – HK$1.77 from April 2019 to the date of the Joint Announcement. A few connected transactions have been announced by the Company relating to the acquisition of power projects and disposal of non-core investments and their impacts on the H Share price are considered to be minimal.

The trading in the H Shares was suspended from 9:00 a.m. on 28 May 2020 to 1 June 2020. The Joint Announcement was published on 1 June 2020 and trading in H Shares resumed on 2 June 2020. The H Shares closed at HK$2.42 per Share on 2 June 2020 (the first trading day after the release of the Joint Announcement), representing an increase of approximately 60.3% compared to the closing H Share price of HK$1.51 per H Share on the Last Trading Date.

Following the Joint Announcement, we consider the price of the H Shares has been largely influenced by the Cancellation Price of HK$2.50 per H Share. The H Share price closed between HK$2.40 and HK$2.50 subsequent to the publication of the Joint Announcement, while the HSI fluctuated between 23,777 and 26,339 during the same period. As shown in Figure 8, the H Share price no longer followed the movement of the HSI. The H Shares closed at HK$2.45 as at the Latest Practicable Date. The Cancellation Price of HK$2.50 per H Share represents a premium of approximately 2.04% over the closing H Share price on the Latest Practicable Date.

***(ii) Cancellation Price comparisons***

As set out in the letter from the Board, the Cancellation Price has been determined on a commercial basis after taking into account, among other things, the prices of the H Shares traded on the Stock Exchange and with reference to other privatisation transactions in Hong Kong in recent years. The Cancellation Price of HK$2.50 per H Share represents:

(a) a premium of approximately 65.56% over the closing price of HK$1.51 per H Share as quoted on the Stock Exchange on the Last Trading Date;

(b) a premium of approximately 82.22% over HK$1.37 which is the average closing price per H Share as quoted on the Stock Exchange for the five consecutive trading days up to and including the Last Trading Date;

(c) a premium of approximately 85.87% over HK$1.35 which is the average closing price per H Share as quoted on the Stock Exchange for the 10 consecutive trading days up to and including the Last Trading Date;

(d) a premium of approximately 87.92% over HK$1.33 which is the average closing price per H Share as quoted on the Stock Exchange for the 30 consecutive trading days up to and including the Last Trading Date;

(e) a premium of approximately 89.27% over HK$1.32 which is the average closing price per H Share as quoted on the Stock Exchange for the 60 consecutive trading days up to and including the Last Trading Date;

(f) a premium of approximately 75.82% over HK$1.42 which is the average closing price per H Share as quoted on the Stock Exchange for the 180 consecutive trading days up to and including the Last Trading Date; and

(g) a discount of 14.03% over the audited NAV (excluding the perpetual medium-term notes and renewable corporate bonds) of approximately RMB2.68 (equivalent to approximately HK$2.91) per Share as of 31 December 2019.

In summary, although the Cancellation Price represents a discount to the audited NAV per Share, the Cancellation Price of HK$2.50 per H Share represents premia in a range of approximately 65.56% to 89.27% over the closing H Share prices for different periods before the Last Trading Date. As at the Latest Practicable Date, the H Share price closed at HK$2.45 per Share, which in our view is mostly influenced by the Merger. The Cancellation Price represents a premium of approximately 2.04% over such closing price on the Latest Practicable Date.

***(iii) Trading liquidity***

As at the Latest Practicable Date, all the H Shares are held by the Independent H Shareholders. Set out in the table below are the monthly total trading volumes of the H Shares and the percentages of such monthly total trading volumes to total issued H Shares during the Review Period:

| | **Monthly total trading volume of the H Shares** | **Approximate percentage of the monthly total trading volume of the H Shares to the total issued H Shares*(Note 1)*** |
|---|---|---|
| **2017** | | |
| June | 234,469,160 | 9.12% |
| July | 218,232,967 | 8.49% |
| August | 199,311,117 | 7.75% |
| September | 140,193,773 | 5.45% |
| October | 256,104,567 | 9.96% |
| November | 192,583,961 | 7.49% |
| December | 92,168,945 | 3.59% |
| **2018** | | |
| January | 111,406,180 | 4.33% |
| February | 111,055,535 | 4.32% |
| March | 130,093,994 | 5.06% |
| April | 285,354,260 | 11.10% |
| May | 266,033,816 | 10.35% |
| June | 141,382,283 | 5.50% |
| July | 103,623,027 | 4.03% |
| August | 107,802,650 | 4.19% |
| September | 63,635,221 | 2.48% |
| October | 100,605,002 | 3.91% |
| November | 97,275,264 | 3.78% |
| December | 149,158,029 | 5.80% |

| | Monthly total trading volume of the H Shares | Approximate percentage of the monthly total trading volume of the H Shares to the total issued H Shares (Note 1) |
|---|---|---|
| **2019** | | |
| January | 59,778,447 | 2.33% |
| February | 86,199,336 | 3.35% |
| March | 73,039,926 | 2.84% |
| April | 61,347,920 | 2.39% |
| May | 50,296,240 | 1.96% |
| June | 87,579,222 | 3.41% |
| July | 78,440,704 | 3.05% |
| August | 105,433,863 | 4.10% |
| September | 78,027,500 | 3.04% |
| October | 169,952,959 | 6.61% |
| November | 91,069,285 | 3.54% |
| December | 67,488,393 | 2.63% |
| **2020** | | |
| January | 123,416,009 | 4.80% |
| February | 63,060,714 | 2.45% |
| March | 371,702,932 | 14.46% |
| April | 232,597,135 | 9.05% |
| May (Note 2) | 328,052,152 | 12.76% |
| June (Note 2) | 1,493,747,675 | 58.12% |
| July | 197,780,505 | 7.70% |
| From 1 August up to the Latest Practicable Date | 49,320,100 | 1.92% |

*Source: Bloomberg and the Stock Exchange website*

*Notes:*

1. The calculation is based on the monthly total trading volume of the H Shares divided by the total number of H Shares at the end of each month (or the end of the preceding month for the period up to the Latest Practicable Date).

2. Trading of the H Shares was suspended from 28 May 2020 to 1 June 2020.

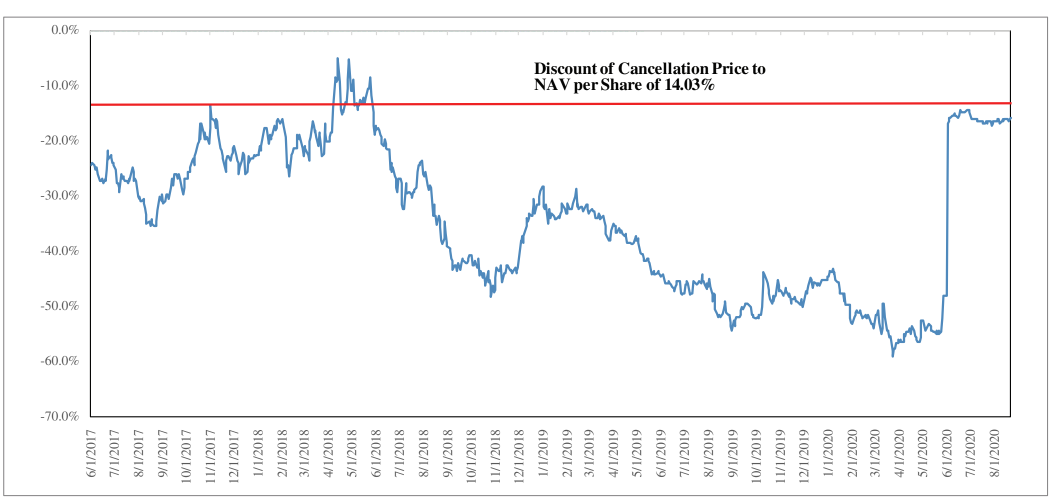
From the table above, in general, we noted that the monthly total trading volume of the H Shares (as a percentage to the total issued H Shares) has not been consistently active from 1 June 2017 up to the date of the Joint Announcement. The liquidity of the H Shares is seen to be fair from June to November 2017 ranging from 5% to 10% of the total issued H Shares. Starting from December 2017, the liquidity of the H Shares fell to below 5% of the total issued H Shares and stayed mostly below 5% during the remaining period under review. In April and May 2018 and March and May 2020, the monthly total trading volume of the H Shares (as a percentage to the total issued H Shares) was above 10%. The surge in turnover of the H Shares in April and May 2018 may be due to the significant changes in H Share price after the 2017 annual results announcement and monthly business updates were released, which has been discussed in (i) in this sub-section above. We have discussed with the surge in turnover of the H Share in March and May 2020 with the Management and they are unaware of the reasons for such fluctuation in the trading volume of the H Shares. Trading volume of the H Shares surged after publication of the Joint Announcement on 1 June 2020 with the total monthly trading volume of H Shares increasing to 1,493,747,675 H Shares in June 2020 (representing approximately 58.12% of the total issued H Shares in public float) but decreased to 197,780,505 H Shares in July 2020 (representing approximately 7.70% of the total issued H Shares in public float) and further to 49,320,100 H Shares for the period from 1 August 2020 up to the Latest Practicable Date (representing approximately 1.92% of the total issued H Shares in public float).

Although the average trading liquidity of the H Shares of 5.5% falls within the range (4.0% – 10.0%) of those of two Primary Comparable Companies (as defined in sub-section 6 below) prior to the publication of the Joint Announcement, if H Shareholders wish to sell a significant number of H Shares within a short period in the market, it is possible that a downward pressure would be exerted on the market price of the H Shares. The higher level of trading volume in June 2020 subsequent to the Joint Announcement may not, in our view, be sustained if the Merger lapses. Therefore, the Merger provides an opportunity for H Shareholders, especially those holding a large block of H Shares, to dispose of their holdings at a fixed cash price if they so wish.

***(iv) Discount of the H Share price to the NAV per Share***

We have reviewed, as set out in the figures below, the discounts of H Share price to the NAV per Share (based on the interim and annual results announcements and the monthly returns) from time to time, which is set out in the following figure:

**Figure 9: Movements of the discounts of the H Share price to the NAV per Share**



As set out in the Figure 9 above, the H Shares have been traded at a discount to NAV per Share (excluding the perpetual medium-term notes and renewable corporate bonds) throughout the Review Period, ranging from 4.88% to 59.08%.

As shown in Figure 9, the H Shares have been traded at discounts deeper than the discount of 14.03% as represented by the Cancellation Price in 749 trading days out of a total of 780 trading days during the period from 1 June 2017 to the Last Trading Date. The discounts have become deeper after the annual results of the Company was released on 22 March 2019 which has reported the increase in perpetual medium-term notes and renewable corporate bonds of about RMB5 billion during the second half of 2018.

Based on the Cancellation Price of HK$2.50 per H Share and the NAV per Share (excluding the perpetual medium-term notes and renewable corporate bonds) of approximately HK$2.91 as at 31 December 2019, the Cancellation Price represents a discount to the NAV per Share of approximately 14.03%, which is significantly less than the historical discounts of the H Shares for most of the time as shown in Figure 9 above.

*Comment*

As mentioned above, the H Shares closed lower than the Cancellation Price all the time during the Review Period. In addition, we are of the view that the H Shares have not been actively traded in the year before the release of the Joint Announcement and therefore the Merger provides an opportunity for the Independent H Shareholders to exit at a fixed cash. The recent over-performance of the H Shares is, in our opinion, due to the release of the Joint Announcement. Independent H Shareholders should therefore be aware that the current H Share price may not be sustainable if the Merger lapses and the H Share price may return to the level before the release of the Joint Announcement.

As discussed in sub-section 4, the perpetual medium-term notes and renewable corporate bonds, which have no fixed maturity dates and are callable at the Company's option in whole on the first call date or any distribution payment date falling after the first call date, have been accounted for as equity of the Company. Their interests are recorded as distribution, which are paid annually. Significant fluctuations in NAV per Share (including the perpetual medium-term notes and renewable corporate bonds) are seen. Perpetual bonds are normally adopted by capital intensive business but not all capital intensive business use them as their funding source. Only 2 out of 7 Comparable Companies (as defined hereinafter) recorded perpetual bonds as equity in their balance sheets as discussed in sub-section 6 below. On this basis and for comparison purpose, we tend to base on NAV per Share (excluding the perpetual medium-term notes and renewable corporate bonds) in our analysis. The Cancellation Price of HK$2.50 per H Share represents a discount to the NAV per Share (excluding the perpetual medium-term notes and renewable corporate bonds) of approximately 14.03%.

**6. Comparable companies analysis**

The Company is a diversified energy company in the PRC with a focus on clean energy. As discussed in the sub-section 1, the Group possesses a diversified portfolio of power generation businesses covering wind power, photovoltaic, hydropower, coal-fired power, natural gas-fired (distributed) power, nuclear power, biomass power, etc. According to its annual report for the year ended 31 December 2019, we noted that (i) clean energy including wind power, solar power, hydropower and natural gas-fired power contributed approximately 68.3% of the Group's total segmental revenue for the year ended 31 December 2019; and (ii) nearly 99.7% of the Group's revenue generated from the PRC.

We employed Bloomberg and AASTOCK's equity screening tools to identify companies listed on the Stock Exchange that (i) generate majority of their revenue from the PRC; as well as (ii) derive over 50% of their revenue from clean power generation business. A total of 7 comparable companies (the "**Comparable Companies**") have been identified based on the above criteria, among which 2 comparable companies have a diversified portfolio of power generation business (the "**Primary Comparable Companies**") and 5 comparable companies have single type of clean power generation business (the "**Secondary Comparable Companies**"). These Comparable Companies, based on the above selection criteria, so far as we are aware of, are exhaustive, and are considered to be fair and representative samples. Details of the Comparable Companies are set out in the table below:

**Table 6: Primary Comparable Companies and Secondary Comparable Companies**

| Company | Type of power | Market capitalisation as at the Last Trading Date(1) *(HK$ million)* | Price-to-equity ratio ("PER")(2) *(times)* | Price-to-book ratio ("PBR")(3) *(times)* |
|---|---|---|---|---|
| **Primary Comparable Companies:** | | | | |
| Beijing Jingneng Clean Energy Co., Limited (stock code: 579) | Natural gas-fired, wind power, photovoltaic and hydropower | 13,603.4 | 5.99 | 0.55 |
| China Longyuan Power Group Corporation Limited (stock code: 916)(4) | Wind power and coal-fired power | 29,252.5 | 6.22 | 0.56 |
| **Secondary Comparable Companies:** | | | | |
| Puxing Clean Energy Limited (stock code: 90) | Natural gas-fired power | 302.7 | 5.08 | 0.48 |

| Company | Type of power | Market capitalisation as at the Last Trading Date(1) (HK$ million) | Price-to-equity ratio ("PER")(2) (times) | Price-to-book ratio ("PBR")(3) (times) |
|---|---|---|---|---|
| GCL New Energy Holdings Limited (stock code: 451)(4) | Solar power | 1,888.3 | 5.90 | 0.27 |
| Sichuan Energy Investment Development Co., Ltd. (stock code: 1713) | Hydropower | 1,944.6 | 10.15 | 0.67 |
| CGN Power Co., Ltd. (stock code: 1816) | Nuclear power | 85,342.7 | 8.29 | 0.87 |
| China Datang Corporation Renewable Power (stock code: 1798) | Wind power | 4,073.3 | 4.00 | 0.34 |
| **Secondary Comparable companies** | | Mean | 6.68 | 0.53 |
| | | Minimum | 4.00 | 0.27 |
| | | Maximum | 10.15 | 0.87 |
| The Company(4) | | 12,696.0 | 6.19 | 0.52 |
| | | 21,019.9(5) | 10.25(5) | 0.86(5) |

*Source: Bloomberg and AASTOCKS, the Stock Exchange website and 2019 annual reports of the Comparable Companies.*

*Notes:*

(1) The market capitalisation of the Comparable Companies and the Company are calculated based on their respective closing share prices as at the Last Trading Date multiplied by the number of ordinary shares as set out in their respective monthly return for May 2020.

(2) The PERs of the Comparable Companies and the Company are calculated based on their respective market capitalisation as at the Last Trading Date divided by their respective profit attributable to the owners of the company as referenced from their respective annual reports for the year ended 31 December 2019.

(3) The PBRs of the Comparable Companies and the Company are calculated based on their respective market capitalisation as at the Last Trading Date divided by their respective net assets attributable to the owners of the company as referenced from their respective annual reports for the year ended 31 December 2019.

(4) For comparison purpose, the profit attributable to the owners of the company and net assets attributable to the owners of the company of each of China Longyuan Power Group Corporation Limited, GCL New Energy Holdings Limited and the Company have excluded the profit attributable to the perpetual capital securities holders and net assets attributable to the perpetual capital securities holders respectively.

(5) The PER and PBR of the Company are calculated based on the Cancellation Price of HK$2.50.

As shown in Table 6, we noted that the PERs of the two Primary Comparable Companies are 5.99 times and 6.22 times with an average of 5.94 times. The PER of the Company as represented by the Cancellation Price of 10.25 times is significantly higher than those of the Primary Comparable Companies. The PBRs of the Primary Comparable Companies are 0.55 times to 0.56 times with an average of 0.56 times. The PBR of the Company as represented by the Cancellation Price of 0.86 times is higher than those of the Primary Comparable Companies.

The PERs of the Secondary Comparable Companies range from 4.00 times to 10.15 times with an average of 6.68 times. The PER of the Company as represented by the Cancellation Price of 10.25 times is higher than those of the Secondary Comparable Companies and significantly higher than their average PER. The PBRs of the Secondary Comparable Companies range from 0.27 times to 0.87 times with an average of 0.53 times. The PBR of the Company as represented by the Cancellation Price of 0.86 times falls within the range of and near the high end of the range of those of the Secondary Comparable Companies.

***Comment***

Although the Comparable Companies have some differences in terms of market capitalisation and mix of power generation businesses, the peer comparison still serves as a useful tool to determine whether the Cancellation Price offered by the Offeror is fair and reasonable with reference to its peers' recent market valuation. The Primary Comparable Companies, with diversified power generation businesses which is similar to that of the Company, exhibited narrower ranges of PERs and PBRs which were close to those of the Company as represented by its closing price as at the Last Trading Date.

The Secondary Comparable Companies, with single type of clean power generation business, exhibited wider ranges of PERs and PBRs. Sichuan Energy Investment Development Co., Ltd., a hydropower producer, has the highest PER of 10.15 times. CGN Power Co., Ltd, a nuclear power producer, is the largest amongst all the Secondary Comparable Companies with market capitalization of over 21 times other peers and has the highest PBR of 0.87 times. The wider ranges of PERs and PBRs, in our view, may be due to different individual power segments and substantially larger in size.

The PER of the Company as represented by the Cancellation Price of HK$2.50 is higher than those of all the Comparable Companies. The PBR of the Company as represented by the Cancellation Price falls within the range of and is close to the high end of those of the Comparable Companies.

## 7. Privatisation Precedents

We have compared the Merger with privatisation proposals of other companies listed on the Stock Exchange announced during the Review Period, excluding privatisation proposals which were not or are yet to be approved (or, where applicable, required acceptance level were not or yet to be achieved) or involving a share consideration (the "**Privatisation Precedents**"). The Privatisation Precedents, in our view, not only provide the premium or discount that an offeror is willing to pay for taking the listed companies private but also the premium or discount that most of the independent shareholders (subject to the required thresholds as stipulated under the Takeovers Code) are willing to accept for tendering their shares to the offeror. Thus, privatisation precedents excluding the failed ones are considered appropriate for comparison purpose. The Privatisation Precedents represent an exhaustive list of privatisation proposals meeting the said criteria and reflect the pricing of recent transactions of this type.

The following table is the comparison of premiums over the then market prices at which the Privatisation Precedents were priced and the level of premium or discount to NAV per share at which the Privatisation Precedents were made, although the business nature and scale of each company vary and some aspects of pricing may be industry-specific.

**TABLE 7: Privatisation Precedents**

| | | | Premium/(discount) of offer price/cancellation price over/to closing share price/average share price on/over | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| **Date of Rule 3.5/3.7 announcement** | **Company (stock code)** | **Method of privatisation** | **Last trading day(2)(4)** | **5 trading days(2)(4)** | **30 trading days(2)(4)** | **60 trading days(2)(4)** | **90 trading days(2)(4)** | **180 trading days(2)(4)** | **Premium/ (discount) of NAV per share(2)(3)** |
| 20-Apr-20 | Allied Properties (HK) Ltd (56) | Scheme of arrangement | 34.27% | 36.56% | 39.53% | 33.53% | 30.05% | 22.70% | (66.30)% |
| 3-Apr-20 | Elec & Eltek International Company Limited (1151) ("**Elec & Eltek**") | Voluntary general offer | 67.55%(7) | 46.53%(7) | 39.05%(7) | 38.72%(7) | 42.51%(7) | 51.84%(7) | 3.20% |
| 20-Mar-20 | Li & Fung Ltd (494) | Scheme of arrangement | 150.00% | 157.73% | 95.16% | 72.67% | 62.12% | 43.34% | 8.23%(6) |
| 29-Jan-20 | Kingsley Edugroup Ltd (8105) | Voluntary general offer | 12.50% | 8.43% | 5.41% | 5.81% | 5.41% | (6.52)% | 198.34% |
| 20-Jan-20 | BBI Life Sciences Corporation (1035) | Scheme of arrangement | 16.28% | 23.76% | 42.45% | 46.10% | 47.92% | 56.68% | 109.74% |
| 12-Dec-19 | Joyce Boutique Group Limited (647) | Scheme of arrangement | 91.78% | 91.26% | 82.17% | 62.70% | 50.05% | 32.21% | 19.91% |

| Date of Rule 3.5/3.7 announcement | Company (stock code) | Method of privatisation | Premium/(discount) of offer price/cancellation price over/to closing share price/average share price on/over: Last trading day(2)(4) | 5 trading days(2)(4) | 30 trading days(2)(4) | 60 trading days(2)(4) | 90 trading days(2)(4) | 180 trading days(2)(4) | Premium/(discount) of NAV per share(2)(3) |
|---|---|---|---|---|---|---|---|---|---|
| 27-Nov-19 | China Agri-Industries Holdings Limited (606) | Scheme of arrangement | 34.07% | 35.61% | 53.17% | 64.73% | 72.49% | 69.96% | (23.56)% |
| 1-Nov-19 | Springland International Holdings Limited (1700) | Scheme of arrangement | 63.12% | 67.88% | 56.82% | 55.39% | 53.22% | 48.59% | (18.15)% |
| 20-Oct-19 | Dah Chong Hong Holdings Limited (1828) | Scheme of arrangement | 37.55% | 37.34% | 54.85% | 55.93% | 54.22% | 41.49% | (28.16)% |
| 3-Oct-19 | Huaneng Renewables Corporation Limited (958) ("**Huaneng Renewables**") | Voluntary general offer | 46.08%(5) | 50.95%(5) | 55.72%(5) | 51.17%(5) | 51.28%(5) | 45.32%(5) | (4.52)% |
| 2-Oct-19 | AVIC International Holdings Ltd (161) | Voluntary general offer & merger by absorption | 29.12% | 43.82% | 81.31% | 88.63% | 100.17% | 92.08% | 18.42%(6) |
| 12-Aug-19 | TPV Technology Limited (903) | Scheme of arrangement | 41.39% | 46.77% | 54.50% | 75.04% | 87.41% | 138.79% | (24.76)% |
| 27-Jun-19 | Asia Satellite Telecommunications Holdings Ltd (1135) | Scheme of arrangement | 23.43% | 31.46% | 44.44% | 50.44% | 56.52% | 70.96% | 10.01% |
| 18-Jun-19 | C.P. Lotus Corporation (121) | Scheme of arrangement | 10.00% | 10.22% | 29.36% | 30.33% | 26.50% | 21.92% | 52.78% |
| 14-Jun-19 | China Automation Group Limited (569) | Scheme of arrangement | 23.97%(5) | 27.33%(5) | 47.78%(5) | 47.44%(5) | 46.63%(5) | 42.46%(5) | 16.01% |
| 4-Apr-19 | China Hengshi Foundation Company Ltd (1197) | Scheme of arrangement | 10.62% | 14.57% | 17.50% | 19.03% | 24.39% | 27.51% | 42.05% |
| 28-Mar-19 | China Power Clean Energy Development Company Ltd (735) ("**China Power**") | Scheme of arrangement | 41.93% | 54.92% | 78.36% | 94.07% | 101.76% | 88.77% | (35.08)% |

| | | | Premium/(discount) of offer price/cancellation price over/to closing share price/average share price on/over | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| **Date of Rule 3.5/3.7 announcement** | **Company (stock code)** | **Method of privatisation** | **Last trading day(2)(4)** | **5 trading days(2)(4)** | **30 trading days(2)(4)** | **60 trading days(2)(4)** | **90 trading days(2)(4)** | **180 trading days(2)(4)** | **Premium/ (discount) of NAV per share(2)(3)** |
| 5-Dec-18 | Hopewell Holdings Limited (54) | Scheme of arrangement | 46.69% | 48.83% | 55.52% | 54.09% | 49.62% | 43.68% | (35.56)% |
| 30-Oct-18 | Advanced Semiconductor Manufacturing Corporation Limited (3355) | Merger by absorption | 66.67% | 85.64% | 99.29% | 93.38% | 90.19% | 84.21% | 89.87% |
| 27-Sep-18 | Sinotrans Shipping Ltd (368) | Scheme of arrangement | 50.00% | 54.82% | 43.11% | 37.43% | 32.64% | 27.91% | (25.21)% |
| 10-Jun-18 | Hong Kong Aircraft Engineering Company Limited (44) | Scheme of arrangement | 63.20% | 63.24% | 62.44% | 60.24% | 56.96% | 49.97% | 99.25% |
| 7-Jun-18 | Portico International Holdings Ltd (589) | Scheme of arrangement | 50.18% | 51.63% | 49.18% | 45.18% | 45.82% | 49.88% | (9.89)% |
| 10-Nov-17 | Welling Holding Ltd. (382) | Scheme of arrangement | 30.38% | 30.38% | 34.20% | 35.84% | 28.81% | 22.75% | 22.62% |
| 3-Jul-17 | China Assets (Holdings) Limited (170) | Scheme of arrangement | 61.52% | 70.26% | 76.73% | 77.11% | 76.60% | 73.94% | (53.82)% |
| 19-Jun-17 | Bloomage BioTechnology Corporation Limited (963) | Scheme of arrangement | 13.99% | 20.92% | 24.40% | 30.25% | 33.73% | 32.51% | 215.28% |
| | ***Calculated based on the last trading price prior to the earlier of publication of the Rule 3.5 announcement or initial Rule 3.7 announcement (if any):*** | | | | | | | | |
| | ***Maximum*** | | 150.00% | 157.73% | 99.29% | 94.07% | 101.76% | 138.79% | 215.28% |
| | ***Minimum*** | | 10.00% | 8.43% | 5.41% | 5.81% | 5.41% | (6.52)% | (66.30)% |
| | ***Average*** | | 44.65% | 48.43% | 52.90% | 53.01% | 53.08% | 50.92% | 23.23% |
| | **Cancellation Price of HK$2.50 per H Share** | | 65.56% | 82.22% | 87.92% | 89.27% | 85.34% | 75.82% | (14.03)%(6) |

*Source: Bloomberg and the Stock Exchange website*

*Notes:*

(1) Unless otherwise stated, the above premium/(discount) of the offer/cancellation price over the last trading price and average closing price per share (up to and including the relevant last trading day) are calculated based on the last trading price prior to the commencement of the offer period.

(2) Subject to rounding differences.

(3) It represents the premium/(discount) of offer price/cancellation price over or to the NAV per share quoted from the respective privatisation documents without taking into account any adjustments arising from, amongst other, revaluation of properties set out therein.

(4) Up to and including the last trading day of the shares prior to the publication of the Rule 3.5 announcement or Rule 3.7 announcement (where applicable).

(5) The premium/(discount) is calculated based on the share offer price over the last trading day and the average of the respective trading days (up to and including the relevant last trading day) prior to the publication of the initial Rule 3.7 announcement.

(6) The perpetual bonds carried by the companies, which have been accounted for as equity, have been excluded from the net asset value of the respective companies in case of non-convertible bonds and have been calculated based on the assumption that the bonds are converted in full into securities in case of convertible bonds.

(7) The relevant premiums of Elec & Eltek are calculated based on the ex-dividend offer price.

***(a) Premiums/(discounts) over/to the prevailing share price***

The premiums/(discounts) of the above Privatisation Precedents represented by the offer or cancellation price over/to their respective share closing price on the last trading day prior to the earlier of publication of the Rule 3.5 announcement or initial Rule 3.7 announcement (if any) and average share price over 5-, 30-, 60-, 90- and 180-trading day (up to and including the last trading day) ranged from 10.00% to 150.00%, 8.43% to 157.73%, 5.41% to 99.29%, 5.81% to 94.07%, 5.41% to 101.76% and (6.52)% to 138.79% with averages of 44.65%, 48.43%, 52.90%, 53.01%, 53.08% and 50.92%, respectively;

The premiums represented by the Cancellation Price over the closing H Share price on the Last Trading Date and average H Share price over 5-, 30-, 60-, 90-, and 180-trading day (up to and including the Last Trading Date) are 65.56%, 82.22%, 87.92%, 89.27%, 85.34% and 75.82%, respectively, are all within the range of the respective premiums of the Privatisation Precedents. The premiums represented by the Cancellation Price over the closing H Share price on the Last Trading Date and average H Share price across all periods are higher than the respective averages of the Privatisation Precedents (calculated based on the last trading price prior to the earlier of publication of the Rule 3.5 announcement or initial Rule 3.7 announcement (if any)).

***(b) Premiums/(discounts) over the NAV per Share***

The Cancellation Price of HK$2.50 per H Share as compared with the NAV per Share of HK$2.91, represents a discount of 14.03%.

From the Privatisation Precedents, we have observed the consideration as compared with the respective NAV ranging from a discount of 66.30% to a premium of 215.28%. Out of the 25 Privatisation Precedents, the consideration in 14 cases represent premiums ranging from 3.20% to 215.28% over the respective NAV per share with an average premium of 64.69% and 11 cases represent a discount ranging from 4.52% to 66.30% to the respective NAV per share with an average discount of 29.55%.

*Comment*

The premiums represented by the Cancellation Price over the closing share price on the Last Trading Date and average share price over various trading periods are higher than the average of the premiums of the Privatisation Precedents over the last trading day and various periods prior to the publication of the initial Rule 3.7 announcement (if any) or Rule 3.5 announcement, whichever is the earlier.

The cancellation/offer prices of the above Privatisation Precedents represented from a discount of 66.30% to a premium of 215.28% to/over their respective NAV per share. Such wide range, in our view, is due to different business nature, scale and industries in which the companies operate. The Cancellation Price represents a discount of 14.03% to the NAV per Share which falls within the range of those of a total of 25 Privatisation Precedents and is lower than the average discount to NAV per share of the 11 Privatisation Precedents with discounts to their NAV per share. We noted that two privatisation precedents are engaged in similar businesses as the Company's. China Power, delisted in 2019, had a diversified portfolio of clean energy projects with a focus on natural gas-fired power and wind power and Huaneng Renewables, delisted in 2020, is engaged in wind power and solar power projects. They either did not have or had a very minimal coal-fired power generation. Their cancellation/offer prices represented discounts of 4.52% and 35.08% to the respective NAV per share. The discount of 14.03% to the NAV per Share as represented by the Cancellation Price falls between those of Huaneng Renewables and China Power.

**8. Analysis on the withdrawal of listing of H Shares and the Merger**

As mentioned in the letter from the Board, the Pre-Condition has been fulfilled, upon satisfaction of all the Conditions to effectiveness, the Company does not intend to retain its listing on the Stock Exchange and will apply to the Stock Exchange for voluntary withdrawal of the listing of the H Shares from the Stock Exchange in accordance with Rule 6.15(2) of the Listing Rules.

As discussed in the sub-section 3 above, considering a number of factors such as failing to access capital through equity financing, and the benefits to carry out the Merger given the premium represented by the Cancellation Price over recent H Share prices and the opportunity to realise the investments in the Company while avoiding possible downward pressure on the H Share price, we consider that the withdrawal of listing and the Merger are measures with an overall objective (i) to facilitate business integration between Huadian and the Group as well as to enhance the flexibility and efficiency of the Group's future business development; and (ii) to give H Shareholders an exit option to cash out their investment at a premium over prevailing H Share price.

As part of the Merger and pursuant to the Merger Agreement, the Offeror will pay a Cancellation Price of HK$2.50 per delisted H Share in cash to the then existing H Shareholders within seven Business Days after the Merger becoming unconditional, and the Company will be deregistered in accordance with the PRC Company Law, the Administrative Regulations of the PRC Governing the Company Registration and relevant legal provisions. Consequently, the Company will cease to exist as a separate legal entity, which will be merged and absorbed into the Offeror.

Having considered the above, we consider the Merger can provide a valuable opportunity for the H Shareholders to realise their investments in the Company, and is fair and reasonable and in the interests of the H Shareholders.

Independent H Shareholders are encouraged to read in detail the terms and conditions of the Merger contained in the letter from the Board in the Composite Document.

## IV. DISCUSSION OF THE PRINCIPAL FACTORS AND REASONS

In forming our opinion and recommendation below, we have taken into account the factors set out under the section headed "III. Principal factors and reasons considered" above, none of which can be considered in isolation. We would like to draw the attention of the Independent H Shareholders in particular to the points summarised below:

### (a) Premium over market price

The realisable value of the H Shareholders' investment in the Company depends on the H Share price. One of the most important factors when assessing the fairness of the Cancellation Price has been the premium of the Cancellation Price over recent H Share prices, which is substantial. The Cancellation Price is higher than the closing H Share prices in all trading days during the Review Period. Based on the summaries as set out in the sub-section headed "5. Analysis of price performance and trading liquidity of the H Shares – (ii) Cancellation Price comparisons" above, the Cancellation Price compares favourably to the closing Share prices, with a range of premium of approximately 65.56% to 89.27% over different periods before the Last Trading Date that we have reviewed. The Company was listed in 2012 at an initial public offering ("**IPO**") price of HK$1.65 per H Share. The Cancellation Price represents 51.5% premium over its IPO price.

The Merger is to be implemented at the Cancellation Price of HK$2.50 per H Share (which is equivalent to the Cancellation Price for each Domestic Share) in cash. The Company will not increase the Cancellation Price for the Merger and does not reserve the right to increase the Cancellation Price. If the Merger fails, the Company cannot in normal circumstances put forward another such proposal for at least twelve months.

**(b) Volatility in power generation from clean energy projects**

Since the Company was listed in 2012, the Group's contribution of coal-fired power generation had been gradually reduced in terms of both gross power generation and profitability. For 2019, about 80% of the operating profit is derived from clean energy segments with wind power being the largest contributor. Hydropower was the largest contributor to the Group's power generation in 2016 but its contribution to the Group reduced by 35.4% and 36.4%, year-on-year, in 2017 and 2018 respectively due to extremely less incoming water in Fujian Province. Its contribution then picked up and increased by 63.4% year-on-year in 2019, representing 67.1% of its power generation in 2016. We noted that the Group's profitability is cushioned by the increases in coal-fired power generation of 28.1% and 16.6%, year-on-year, in 2017 and 2018 respectively. With the relatively thin profit margin of coal-fired power, the Group's profit attributable to Shareholders were RMB1,986.1 million, RMB1,993.2 million and RMB1,887.4 million for 2017-2019, representing a year-on-year increase of 0.4% in 2018 and a year-on-year decrease of 5.3% in 2019.

**(c) Net current liabilities position and perpetual bonds**

The Group was in net current liabilities position for 2017-2019. The net current liabilities as at 31 December 2017, 2018 and 2019 was RMB14.0 billion, RMB7.2 billion and RMB8.7 billion, respectively, representing a decrease of 48.8% in 2018 and an increase of 21.3% in 2019. The Group had approximately RMB20.2 billion of unutilized banking facilities as at 31 December 2019. The issuance of perpetual bonds in 2017-2019 has lowered the net gearing ratio (i.e. total borrowings less cash and cash equivalents divided by equity of the Group) of the Group from 253.3% as at 31 December 2017 to 185.4% as at 31 December 2018 and further to 158.0% as at 31 December 2019. The Group's perpetual bonds amounted to RMB4.0 billion, RMB9.0 billion and RMB12.6 billion as at 31 December 2017, 2018 and 2019 respectively. Gearing ratio of the Group, for which the perpetual bonds have been included in equity but excluded in total borrowings, is considered to be high. The sustainability of the Group's operations is largely dependent on whether the Group is able to raise long-term debts at a reasonable cost for its further business development and refinance the borrowings (including perpetual bonds) as and when they fall due.

**(d) The Merger presents a good opportunity to realise the H Shares given the low trading volume**

The monthly total trading volume of the H Shares (as a percentage to the total issued H Shares) has not been consistently active from 1 June 2017 up to the date of the Joint Announcement. There were surges in trading volume recorded in April and May 2018 following the release of the Company's annual results for the year ended 31 December 2017 and the liquidity of the H Shares increased substantially in March and May 2020 for which the Management is unaware of the reasons for such increase. Otherwise, we are however of the view that the H Shares cannot be regarded as having been actively traded. Accordingly, the Merger provides an exit opportunity for the Independent H Shareholders (especially those with relatively sizeable shareholdings) who would like to realise their investments in the H Shares at a fixed cash price without disturbing the market price.

**(e) The Cancellation Price represents a discount to NAV per Share but is close to the historical low discount during the Review Period**

The Cancellation Price represents a discount of approximately 14.03% to the NAV per Share of RMB2.68 or HK$2.91. However, the H Shares have been trading at discount to NAV per Share throughout the Review Period, ranging from 4.88% to 59.08% and had discounts deeper than the discount of 14.03% as represented by the Cancellation Price in 749 trading days out of a total of 780 during the period from 1 June 2017 to the Last Trading Date. The discounts of the closing price to the NAV of the Shares narrowed after the Company issued the Joint Announcement on 1 June 2020, in our view, may not be sustainable at the current level if the Merger lapses.

**(f) Cross check against Comparable Companies**

The Cancellation Price of HK$2.50 per H Share represents a PER of 10.25 times and a PBR of 0.86 times which are higher than those of the Primary Comparable Companies, ranging from 5.99 times to 6.22 times with an average of 6.11 times and ranging from 0.55 times to 0.56 times with an average of 0.56 times, respectively, as at the date of the Joint Announcement.

**(g) Privatisation Precedents**

The premiums offered by the Cancellation Price over the closing H Share price on the Last Trading Date and average H Share price over the 10-, 30-, 60-, 90-, 120-and 180- trading day (up to and including the Last Trading Date) are 65.56%, 82.22%, 87.92%, 89.27%, 85.34% and 75.82%, respectively. The premiums represented by the Cancellation Price over the closing H Share price on the Last Trading Date and average H Share price across all periods are higher than the respective averages of the Privatisation Precedents. We noted that two privatisation precedents are engaged in similar businesses as the Company's. China Power, delisted in 2019, had a diversified portfolio of clean energy projects with a focus on natural gas-fired power and wind power and Huaneng Renewables, delisted in 2020, is engaged in wind power and solar power projects. They either did not have or had a very minimal coal-fired power generation. Their cancellation/offer prices represented discounts of 4.52% and 35.08% to the respective NAV per share. The discount of 14.03% to the NAV per Share as represented by the Cancellation Price falls between those of Huaneng Renewables and China Power.

**(h) An attractive proposal from another source is unlikely**

An alternative general offer or other proposal to acquire the Shares is unlikely as the Offeror holds over 50% of the issued shares of the Company which is held as a core business and long-term investment by the Offeror.

## V. OPINION AND RECOMMENDATIONS

Based on the above principal factors and reasons, we consider the terms of the Merger are fair and reasonable so far as the Independent H Shareholders are concerned. Accordingly, we advise the Independent Board Committee to recommend the Independent H Shareholders to (i) vote in favour of the resolutions to approve the Merger Agreement and the Merger at the H Shareholders' Class Meeting; and (ii) vote in favour of the resolution to approve the Merger Agreement and the Merger at the EGM.

Independent H Shareholders are advised to monitor the H Share price performance and liquidity of the H Shares before the H Shareholders' Class Meeting and the EGM or the trading halt for its delisting. Since the Joint Announcement, the market price of the H Shares has been chiefly governed, in our view, by the Merger. Independent H Shareholders are reminded of the risk, in our view, of a fall in the H Share price towards its previous level before the Joint Announcement of around HK$1.31 to HK$1.51 per H Share, at least in the short term, if the Merger Agreement and the Merger are not approved. Independent H Shareholders who are sensitive to this risk may consider selling in the market prior to the H Shareholders' Class Meeting and the EGM.

There is also a possibility that the H Share price may exceed the Cancellation Price before the H Shareholders' Class Meeting and the EGM or the trading halt for its delisting, although based on recent price movements we consider this unlikely. In the event that the market price of the H Shares exceeds the Cancellation Price so that the sale proceeds, net of all transaction costs, exceeds the amount receivable under the Merger, the Independent H Shareholders should consider selling their H Shares in the market.

Yours faithfully,
for and on behalf of
**SOMERLEY CAPITAL LIMITED**
**Jenny Leung**
*Director*

*Ms. Jenny Leung is a licensed person registered with the SFC and a responsible officer of Somerley Capital Limited, who is licensed under the SFO to carry out Type 6 (advising on corporate finance) regulated activities. She has over twenty years' experience in the corporate finance industry.*

## 1. SUMMARY OF FINANCIAL INFORMATION OF THE GROUP

The following is a summary of the financial results of the Group for each of the three years ended 31 December 2017, 2018 and 2019 as extracted from the annual reports for the years ended 31 December 2017, 2018 and 2019 published by the Company in accordance with the Listing Rules.

| | **For the year ended 31 December 2019** | **For the year ended 31 December 2018** | **For the year ended 31 December 2017** |
|---|---|---|---|
| | *RMB'000* | *RMB'000* | *RMB'000* |
| | *Audited* | *Audited* | *Audited* |
| Revenue | 19,775,911 | 18,329,707 | 16,812,679 |
| Profit before taxation | 3,233,772 | 2,757,785 | 2,802,227 |
| Income tax expenses | (542,276) | (285,069) | (336,723) |
| Profit attributable to: | | | |
| Equity holders of the Company | 2,415,720 | 2,268,468 | 2,117,043 |
| Non-controlling interests | 275,776 | 204,248 | 348,461 |
| Total comprehensive income attributable to: | | | |
| Equity holders of the Company | 2,416,894 | 2,077,433 | 2,096,522 |
| Non-controlling interests | 275,776 | 204,248 | 348,461 |
| Dividends | 454,030 | 477,572 | 467,483 |
| Dividends per share (RMB) | 0.0540 | 0.0568 | 0.0556 |
| Earnings per share | | | |
| – Basic and diluted (RMB cents) | 22.45 | 23.71 | 23.62 |

There are no other items of income or expense which are material for each of the three years ended 31 December 2017, 2018 and 2019.

The consolidated financial statements of the Group for the two years ended 31 December 2018 and 2019 were audited by Ernst and Young. The consolidated financial statements of the Group for the year ended 31 December 2017 were audited by KPMG. No modified opinion, emphasis of matter or material uncertainty related to going concern was given by the auditors of the Group in respect of the Group's audited consolidated financial statements for the financial years ended 31 December 2017, 2018 and 2019.

## 2. AUDITED CONSOLIDATED FINANCIAL STATEMENTS OF THE GROUP FOR THE THREE YEARS ENDED 31 DECEMBER 2017, 2018 AND 2019

The Company is required to set out or refer to in this Composite Document the consolidated statement of profit or loss, the consolidated statement of financial position, the consolidated cash flow statement, the consolidated statement of changes of equity and any other primary statement as shown in (i) the audited consolidated financial statements of the Group for the year ended 31 December 2017 (the "**2017 Financial Statements**"); (ii) the audited consolidated financial statements of the Group for the year ended 31 December 2018 (the "**2018 Financial Statements**"); and (iii) the audited consolidated financial statements of the Group for the year ended 31 December 2019 (the "**2019 Financial Statements**"), together with the notes to the relevant published accounts which are of major relevance to the appreciation of the above financial information.

The 2017 Financial Statements are set out from pages 99 to 214 in the annual report of the Company for the year ended 31 December 2017 (the "**2017 Annual Report**") which was published on 25 April 2018 on the websites of the Company (http://eng.hdfx.com.cn/webfront/webpage/web/contentPage/id/ed06073d357541ffa293b66b3b05e0a1) and the Stock Exchange (https://www1.hkexnews.hk/listedco/listconews/sehk/2018/0425/ltn20180425455.pdf).

The 2018 Financial Statements are set out from pages 122 to 257 in the annual report of the Company for the year ended 31 December 2018 (the "**2018 Annual Report**") which was published on 25 April 2019 on the websites of the Company (http://eng.hdfx.com.cn/webfront/webpage/web/contentPage/id/37741afb77b748c989e6c220d40fa47e) and the Stock Exchange (https://www1.hkexnews.hk/listedco/listconews/sehk/2019/0425/ltn201904252237.pdf)

The 2019 Financial Statements are set out from pages 140 to 279 in the annual report of the Company for the year ended 31 December 2019 (the "**2019 Annual Report**") which was published on 23 April 2020 on the websites of the Company (http://eng.hdfx.com.cn/webfront/webpage/web/contentPage/id/52e789ca264f4b25892bc479ef8035c6) and the Stock Exchange (https://www1.hkexnews.hk/listedco/listconews/sehk/2020/0423/2020042300941.pdf) and the supplementary announcement (the "**Supplementary Announcement**") published by the Company on 31 July 2020 in relation to the 2019 Annual Report on the websites of the Company (http://eng.hdfx.com.cn/webfront/webpage/web/contentPage/id/f6408ed2eeb84db5988b1cf8853d27f8) and the Stock Exchange (https://www1.hkexnews.hk/listedco/listconews/sehk/2020/0731/2020073101520.pdf).

The 2017 Financial Statements, the 2018 Financial Statements and the 2019 Financial Statements (but not any other part of the 2017 Annual Report, the 2018 Annual Report and the 2019 Annual Report in which they respectively appear) and the Supplementary Announcement are incorporated by reference into this Composite Document and form part of this Composite Document.

## 3. INDEBTEDNESS STATEMENT

As at the close of business on 31 May 2020, the Group's unaudited outstanding interest-bearing debts amounted to approximately RMB64,959,217,000, including RMB52,061,665,000 of borrowings from banks and financial institutions, RMB1,220,970,000 of borrowings from Huadian, RMB3,296,376,000 of borrowings from fellow subsidiaries, RMB7,761,157,000 of other borrowings and RMB619,049,000 of lease liabilities, in particular, (1) in respect of borrowings from banks and financial institutions, the secured and unsecured borrowings amounted to RMB21,404,966,000 and RMB30,656,699,000, respectively; (2) borrowings from Huadian were all unsecured; (3) in respect of borrowings from fellow subsidiaries, the secured and unsecured borrowings amounted to RMB731,376,000 and RMB2,565,000,000, respectively; (4) in respect of other borrowings, the secured and unsecured borrowings amounted to RMB727,155,000 and RMB7,034,002,000, respectively.

As at the close of business on 31 May 2020, the Group's contingent liabilities included:

### (1) Financial guarantees issued

The external guarantee provided by the Group over the balance of bank loans for a joint venture amounted to RMB180,700,000.

### (2) Contingent liability in respect of taxes on Clean Development Mechanism ("CDM") revenue

Up to date, there have been no rules issued on whether the revenue from sales of Certified Emission Reduction ("**CERs**") is subject to any value-added tax or business tax. Based on the discussions with local tax authorities, the Directors are of the opinion that no such taxes will be applicable to the revenue from sales of CERs. Therefore, the Group has not made any provision on such contingencies.

### (3) Contingent liability in respect of the resettlement compensation for Mianhuatan Hydropower

Mianhuatan Hydropower has been requested by the relevant local government authority to further increase the compensation to cover the rising costs associated with the relocation and resettlement of additional residents, the construction of roads and bridges, environmental protection and the preservation of historical relics. The final resettlement compensation has yet to be determined by the Fujian Development and Reform Commission (the "**Fujian DRC**") and National Development and Reform Commission of the PRC (the "**NDRC**"). Mianhuatan Hydropower has prepaid an aggregated amount of RMB390,000,000 during the years ended 31 December 2009, 2010 and 2011 in relation to this dispute and has recognised a provision of RMB40,000,000 during the year ended 31 December 2011 based on the assessment of the circumstances. On 18 November 2019, Mianhuatan Hydropower entered into a preliminary settlement agreement with the local government authority of Longyan, Fujian Province. Mianhuatan Hydropower agreed to raise final resettlement compensation cap to

RMB700,000,000, which included the prepayment of RMB390,000,000 made during the period from 2009 to 2011. The final amount of resettlement compensation and payment schedule are subject to determination of Fujian DRC. The total amounts in addition to RMB430,000,000 recognised have been capitalised in property, plant and equipment in 2019. Huadian has undertaken to indemnify the Group against its losses, claims, charges and expenses arising from the relocation and resettlement of local residents in relation to Mianhuatan Project if the additional compensation which the NDRC requires the Group to pay is to exceed RMB40,000,000.

## 4. MATERIAL CHANGE

The Directors confirm that, save for the following matter, there has been no material change in the financial or trading position or outlook of the Group subsequent to 31 December 2019, the date to which the latest audited consolidated financial statements of the Company were made up, up to and including the Latest Practicable Date:

(1) as set out in the Company's announcement published on 10 August 2020 relating to the power generation for July 2020, the gross power generation of the Company for the period from January to July 2020 decreased by 4.8% over the corresponding period of 2019, of which the wind power generation increased by 0.8%, the solar power generation increased by 5.4%, the hydropower generation decreased by 40.2%, the coal-fired power generation increased by 15.8%, the Natural gas-fired (distributed) generation increased by 2.2%, other clean energy generation increased by 3.3% over the corresponding period of 2019;

(2) as set out in the Company's announcement published on 19 May 2020 relating to the issue of green renewable corporate bonds 2020 (second tranche), the Company issued green renewable corporate bonds 2020 (second tranche) with an issue size of up to RMB3 billion (inclusive);

(3) as set out in the Company's announcement published on 13 April 2020 relating to the issue of green renewable corporate bonds 2020 (first tranche), the Company issued green renewable corporate bonds 2020 (first tranche) with an issue size of up to RMB2 billion (inclusive); and

(4) as set out in the Company's announcement published on 2 March 2020 relating to issuance of the first tranche of 2020 ultra-short-term financing instruments (for COVID-19 prevention and control), the Company issued the first tranche of 2020 ultra-short-term financing instruments (for COVID-19 prevention and control) with a registered issue amount of RMB2 billion.

## 1. RESPONSIBILITY STATEMENT

As at the date of this document, the Offeror's sole director is Mr. GOU Wei. The sole director of the Offeror accepts full responsibility for the accuracy of the information contained in this document (other than in relation to the Company) and confirm, having made all reasonable enquiries, that to the best of his knowledge, opinions expressed in this document (other than those expressed by the Directors) have been arrived at after due and careful consideration and there are no other facts not contained in this document the omission of which would make any of the statements in this document misleading.

As at the date of this document, the board of directors of Huadian comprises Mr. WEN Shugang, Mr. YE Xiangdong, Mr. ZHENG Baosen, Mr. BOON Swan Foo, Mr. SUN Xiaomin, Ms. CHEN Ke, Mr. YU Wanyuan and Mr. FENG Haipeng. The directors of Huadian jointly and severally accept full responsibility for the accuracy of the information contained in this document (other than in relation to the Company) and confirm, having made all reasonable enquiries, that to the best of their knowledge, opinions expressed in this document (other than those expressed by the Directors) have been arrived at after due and careful consideration and there are no other facts not contained in this document the omission of which would make any of the statements in this document misleading.

As at the date of this document, the Board comprises Mr. HUANG Shaoxiong, Mr. WU Jianchun and Mr. DU Jiangwu as executive Directors, Mr. TAO Yunpeng, Mr. SHI Chongguang and Mr. WANG Bangyi as non-executive Directors, and Mr. ZHANG Bai, Mr. TAO Zhigang and Mr. WU Yiqiang as independent non-executive Directors. The Directors jointly and severally accept full responsibility for the accuracy of the information contained in this document (other than in relation to the Offeror and Huadian) and confirm, having made all reasonable enquiries, that to the best of their knowledge, opinions expressed in this document (other than those expressed by the sole director of the Offeror and the directors of Huadian) have been arrived at after due and careful consideration and there are no other facts not contained in this document the omission of which would make any of the statements in this document misleading.

## 2. SHARE CAPITAL OF THE COMPANY

(1) As at the Latest Practicable Date, the registered share capital of the Company was RMB8,407,961,520, and the total issued share capital of the Company was RMB8,407,961,520, consisting of 2,570,223,120 H Shares of a par value of RMB1.00 each and 5,837,738,400 Domestic Shares with a par value of RMB1.00 each.

(2) All Shares rank pari passu in all respects as regards rights to capital, dividends and voting.

(3) There is no option, warrant or conversion right affecting the Shares.

(4) From 31 December 2019 (i.e. the date on which the Company's previous financial year ends) to the Latest Practicable Date, the Company did not issue any Shares.

## 3. MARKET PRICES

The table below sets out the closing price of the H Shares on the Stock Exchange on (1) the last business day of each of the calendar months during the Relevant Period, (2) the Last Trading Date, and (3) the Latest Practicable Date:

| **Date** | **Closing price of each H Share** *(HK$)* |
|---|---|
| 31 December 2019 | 1.59 |
| 31 January 2020 | 1.34 |
| 28 February 2020 | 1.32 |
| 31 March 2020 | 1.28 |
| 29 April 2020 | 1.38 |
| 27 May 2020 (Last Trading Date) | 1.51 |
| 30 June 2020 | 2.48 |
| 31 July 2020 | 2.43 |
| 21 August 2020 (Latest Practicable Date) | 2.45 |

During the Relevant Period, the highest closing price of the H Shares as quoted on the Stock Exchange was HK$2.49 on 18 June 2020, 26 June 2020 and 29 June 2020, and the lowest closing price of the H Shares as quoted on the Stock Exchange was HK$1.19 on 24 March 2020.

## 4. DISCLOSURE OF INTERESTS IN THE SHARES BY THE COMPANY

### (a) Interests of the directors, supervisors and chief executives of the Company in the securities of the Company and the securities of the associated corporations of the Company

As at the Latest Practicable Date, none of the directors, supervisors and chief executives of the Company had any interests or short positions in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were required (i) to be notified to the Company and the Stock Exchange pursuant to the Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO); or (ii) to be entered in the register required to be kept pursuant to section 352 of the SFO; or (iii) to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules.

### (b) Interests of substantial shareholders in the securities of the Company

As at the Latest Practicable Date, save as disclosed below, so far as was known to the Board, no persons (not being a director, supervisor or chief executive of the Company) had an interest or a short position in the Shares or underlying shares and debentures of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which were recorded in the register required to be kept under section 336 of the SFO, or as otherwise notified to the Company and the Stock Exchange.

| Name of Shareholder | Class of Share | Capacity/Nature of interests | Number of Shares *(shares)* | Approximate percentage in the relevant class of Shares[(1)] | Approximate percentage in the total share capital[(2)] |
|---|---|---|---|---|---|
| Huadian Group[(3)] | Domestic Shares | Beneficial owner/Interest of corporation controlled by the substantial shareholder | 5,276,907,638 (Long position) | 90.39% | 62.76% |
| China Reinsurance (Group) Corporation | H Shares | Beneficial owner | 645,620,000 (Long position) | 25.12% | 7.68% |
| UBS Group AG | H Shares | Interest of corporation controlled by the substantial shareholder | 443,304,997 (Long position) | 17.25% | 5.27% |
| Pentwater Capital Management LP | H Shares | Interest of corporation controlled by the substantial shareholder | 254,657,814 (Long position) | 9.91% | 3.03% |
| JPMorgan Chase & Co. | H Shares | Person having a security interest in the Shares | 128,928,564 (Long position) | 5.02% | 1.53% |
| | | | | 1.11% | 0.34% |
| | | Interest of corporation controlled by the substantial shareholder | 28,508,614 (Short position) | 0.04% | 0.01% |
| | | Approved lending agent | 1,092,998 (Lending pool) | | |

*Notes:*

(1) It is calculated on the basis that the Company had issued 5,837,738,400 Domestic Shares or 2,570,223,120 H Shares as at the Latest Practicable Date.

(2) It is calculated on the basis that the Company had issued 8,407,961,520 Shares as at the Latest Practicable Date.

(3) Huadian had an interest in the Domestic Shares of the Company, with 5,008,785,336 domestic shares (long position) being held in its capacity as beneficial owner. Huadian, through various subsidiaries, had an interest in the Domestic Shares of the Company, with 268,122,302 Domestic Shares (long position) being held in its capacity as interest of corporation controlled by the substantial shareholder.

**(c) Additional disclosure of interests**

As at the Latest Practicable Date:

(a) none of the Directors was interested within the meaning of Part XV of the SFO in the Shares or any warrants, options, convertible securities or derivatives in respect of any Shares;

(b) none of the subsidiaries of the Company, pension funds of the Company or of a subsidiary of the Company, or any person who is presumed to be acting in concert with the Company by virtue of class (5) of the definition of acting in concert in the Takeovers Code or who is an associate of the Company by virtue of class (2) of the definition of "associate" in the Takeovers Code but excluding any exempt principal trader and exempt fund managers, owned or controlled any Shares or any convertible securities, warrants, options or derivatives in respect of any Shares;

(c) there was no arrangement of the kind referred to in Note 8 to Rule 22 of the Takeovers Code which existed between the Company, or any person who is presumed to be acting in concert with the Company by virtue of classes (1), (2), (3) and (5) of the definition of acting in concert, or any of the Company's associates by virtue of classes (2), (3) or (4) of the definition of "associate" under the Takeovers Code, and any other person;

(d) no fund managers (other than exempt fund managers) connected with the Company had managed any Shares or any convertible securities, warrants, options or derivatives in respect of any Shares on a discretionary basis;

(e) none of the Directors held any beneficial shareholdings in the Company which would otherwise entitle them to accept or reject the Merger; and

(f) none of the Company or the Directors had borrowed or lent any Shares or any convertible securities, warrants, options or derivatives or relevant securities (as defined in Note 4 to Rule 22 of the Takeovers Code) in respect of any Shares.

## 5. DISCLOSURE OF INTERESTS IN THE SECURITIES OF THE OFFEROR BY THE COMPANY

As at the Latest Practicable Date:

(1) the Company did not own any shares, convertible securities, warrants, options, or derivatives in respect of any shares in the Offeror; and

(2) none of the Directors had any interest in the shares, convertible securities, warrants, options, or derivatives in respect of any shares in the Offeror.

## 6. DEALINGS IN THE SHARES BY THE COMPANY

(a) During the Relevant Period, none of the Directors had dealt for value in any Shares, convertible securities, warrants, options, or derivatives in respect of any Shares;

(b) during the period beginning from the date of the Joint Announcement up to the Latest Practicable Date, none of the subsidiaries of the Company, or pension funds of the Company or of a subsidiary of the Company, or any person who is presumed to be acting in concert with the Company by virtue of class (5) of the definition of acting in concert in the Takeovers Code or who is an associate of the Company by virtue of class (2) of the definition of "associate" in the Takeovers Code but excluding exempt principal traders and exempt fund managers had dealt for value in any Shares or any convertible securities, warrants, options or derivatives in respect of any Shares;

(c) during the period beginning from the date of the Joint Announcement up to the Latest Practicable Date, no fund managers connected with the Company (other than exempt fund managers) who managed funds on a discretionary basis had dealt for value in any Shares or any other convertible securities, warrants, options or derivatives in respect of any Shares; and

(d) during the period beginning from the date of the Joint Announcement up to the Latest Practicable Date, no person between whom there is arrangement of the kind referred to in Note 8 to Rule 22 of the Takeovers Code and the Company, or any person who is presumed to be acting in concert with the Company virtue of classes (1), (2), (3) and (5) of the definition of acting in concert, or any of the Company's associates by virtue of classes, (2), (3) or (4) of the definition of "associate" under the Takeovers Code had dealt for value in any Shares or any convertible securities, warrants, options or derivatives in respect of any Shares.

## 7. DEALINGS IN THE SECURITIES OF THE OFFEROR BY THE COMPANY

During the Relevant Period, neither the Company nor any of the Directors had dealt for value in any shares, convertible securities, warrants, options or derivatives in respect of any shares in the Offeror.

## 8. DISCLOSURE OF INTERESTS IN THE SHARES BY THE OFFEROR

As at the Latest Practicable Date:

(1) none of the Offeror or the sole director of the Offeror was interested in any Shares or any convertible securities, warrants, options or derivatives in respect of the Shares;

(2) none of the concert parties of the Offeror owned or controlled any Shares or any convertible securities, warrants, options or derivatives in respect of the Shares (except those concert parties which were exempt principal traders or exempt fund managers, in each case recognised by the Executive as such for the purposes of the Takeovers Code and also excluding Shares held on behalf of non-discretionary investment clients of the CICC group), save as disclosed in the sub-paragraph headed "(3) Shareholding in the Company" in the section headed "LETTER FROM THE BOARD";

(3) there was no existing holding of voting rights and rights over Shares in respect of which the Offeror, Huadian or any person acting in concert with either of them had received an irrevocable commitment in relation to the voting of the resolutions in respect of the Merger;

(4) save for the Merger Agreement and the transactions contemplated thereunder, there was no arrangement (whether by way of option, indemnity or otherwise) in relation to the Shares and which might be material to the Merger;

(5) there was no agreement or arrangement (other than the Merger Agreement and the transactions contemplated thereunder) to which the Offeror or Huadian was a party which related to the circumstances in which either of them might or might not invoke or seek to invoke a condition of the Merger; and

(6) none of the Offeror or any of the concert parties of the Offeror had borrowed or lent any Shares or any convertible securities, warrants, options or derivatives or relevant securities (as defined in Note 4 to Rule 22 of the Takeovers Code) in respect of the Shares, save for any borrowed Shares which have been either on-lent or sold.

The Offeror confirms that there was no understanding, arrangement or agreement or special deal (as defined under Rule 25 of the Takeovers Code) between (i) any Shareholder; and (ii)(a) the Offeror, Huadian and any person acting in concert with either of them or (b) the Company, its subsidiaries or associated companies from 1 April 2020 (i.e. the date on which the Merger is reasonably in contemplation) to the Latest Practicable Date.

**9. DEALINGS IN THE SHARES BY THE OFFEROR**

(1) None of the Offeror or the sole director of the Offeror or any of the concert parties of the Offeror had dealt for value in any Shares or any convertible securities, warrants, options or derivatives in respect of the Shares (excluding non-proprietary trades conducted by members of the CICC group for and on behalf of clients of the CICC group and excluding dealings conducted by those entities in the CICC group that are exempt principal traders or exempt funds managers) during the Relevant Period.

(2) No person who has an arrangement of the kind referred to in Note 8 to Rule 22 of the Takeovers Code with the Offeror or any of the concert parties of the Offeror had dealt for value in the Shares or any convertible securities, warranties, options or derivatives in respect of the Shares during the Relevant Period.

## 10. ARRANGEMENTS IN CONNECTION WITH THE MERGER

### (1) Arrangements affecting the Directors

As at the Latest Practicable Date:

(i) no benefit (save for statutory compensation required under applicable laws) would be given to any Director as compensation for loss of office or otherwise in connection with the Merger;

(ii) save for the Merger, there were no agreements or arrangements between any Director and any other person which was conditional on or dependent upon the outcome of the Merger or otherwise connected with the Merger; and

(iii) there were no material contracts entered into by the Offeror in which any Director had a material personal interest.

### (2) Arrangements with the Company in connection with the Merger

(i) The emolument of the Directors will not be affected by the Merger or by any associated transactions.

(ii) As at the Latest Practicable Date, no person who owned or controlled any Shares or any convertible securities, warrants, options or derivatives in respect of the Shares had irrevocably committed themselves to vote their Shares in favour of or against (as the case may be) the resolutions in respect of the Merger.

### (3) Arrangement with the Offeror in connection with the Merger

(i) Save as disclosed in paragraph headed "3. Principal Terms of the Merger Agreement" in the section headed "LETTER FROM THE BOARD", there is no agreement, arrangement or understanding (including any compensation arrangement) between the Offeror or any person acting in concert with it on the one hand and any of the Directors, recent Directors, Shareholders or recent Shareholders on the other hand having any connection with or dependence upon the Merger.

(ii) Save for the Merger and the transactions contemplated thereunder, there is no agreement or arrangement to which the Offeror or Huadian is a party which relate to the circumstances in which either of them may or may not invoke or seek to invoke a condition to the Merger.

(iii) As at the Latest Practicable Date, the Offeror did not have any intention to transfer, charge or pledge any Shares acquired pursuant to the Merger to any other person.

(iv) As at the Latest Practicable Date, there were no arrangements of the kind referred to in Note 8 to Rule 22 of the Takeovers Code which existed between the Offeror or any person acting in concert with the Offeror and any other person.

## 11. MATERIAL CONTRACTS

Save for the Merger Agreement, details of which are set out in the paragraph headed "3. Principal Terms of the Merger Agreement" in the section headed "LETTER FROM THE BOARD" in this document, the Group has not entered into any material contract (being a contract not entered into in the ordinary course of business carried on or intended to be carried on by the members of the Group) within the two years immediately preceding the commencement of the Offer Period, and up to and including the Latest Practicable Date, which is or may be material.

## 12. MATERIAL LITIGATION

As at the Latest Practicable Date, neither the Company nor any of its subsidiaries was engaged in any litigation or arbitration or claim of material importance and no litigation or claim of material importance was known to the Directors to be pending or threatened by or against the Company or any of its subsidiaries.

## 13. EXPERTS' QUALIFICATIONS AND CONSENT

The following are the names and qualifications of the experts whose letter, opinions or advice are contained or referred to in this document:

| Name | Qualifications |
|---|---|
| CICC | the financial adviser to the Offeror, in connection with the Merger, a corporation licensed to carry out Type 1 (dealing in securities), Type 2 (dealing in futures contracts), Type 4 (advising on securities), Type 5 (advising on futures contracts) and Type 6 (advising on corporate finance) regulated activities under the SFO |
| Somerley Capital Limited | the Independent Financial Adviser, a corporation licensed to carry out Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities under the SFO |

Each of the above experts has given and has not withdrawn its written consent to the issue of this document with the inclusion therein of its opinions, and the references to its name and opinions in the form and context in which they respectively appear.

## 14. SERVICE CONTRACTS

As at the Latest Practicable Date, none of the Directors had any existing service contract with the Company or any of its subsidiaries or associated companies which (i) (including both continuous and fixed-term contracts) had been entered into, or amended within six months before the date of commencement of the Offer Period; (ii) was a continuous contract with a notice period of 12 months or more; (iii) was a fixed term contract with more than 12 months to run irrespective of the notice period; or (iv) was not determinable by the Company within one year without payment of compensation (other than statutory compensation).

## 15. OTHER INFORMATION

(1) The registered address of the Offeror is 20/F, Qiantian Mansion, No. 231 Hudong Road, Gulou District, Fuzhou City, Fujian Province, the PRC.

(2) The sole director of the Offeror is Mr. Gou Wei.

(3) The principal members of the Offeror's concert group include (i) Huadian; (ii) the Company; and (iii) Huadian Engineering; and (iv) Wujiang Hydropower**.** Details of the principal members of the Offeror's concert group are as follows:

| Name of the principal member | Address | Director(s) |
|---|---|---|
| Huadian | Registered office and principal place of business: Huadian Building, 2 Xuanwumen Inner St, Xicheng District, Beijing, China | Mr. Wen Shugang<br>Mr. Ye Xiangdong<br>Mr. Zheng Baosen<br>Mr. Boon Swan Foo<br>Mr. Sun Xiaomin<br>Ms. Chen Ke<br>Mr. Yu Wanyuan<br>Mr. Feng Haipeng |
| The Company | Registered office: 20/F, Qiantian Mansion, No. 231 Hudong Road, Gulou District, Fuzhou City, Fujian Province, the PRC<br><br>Principal place of business in Hong Kong: 31/F, Tower Two, Times Square, 1 Matheson Street, Causeway Bay, Hong Kong | Mr. Huang Shaoxiong<br>Mr. Wu Jianchun<br>Mr. Du Jiangwu<br>Mr. Tao Yunpeng<br>Mr. Shi Chongguang<br>Mr. Wang Bangyi<br>Mr. Zhang Bai<br>Mr. Tao Zhigang<br>Mr. Wu Yiqiang |

| Name of the principal member | Address | Director(s) |
|---|---|---|
| Huadian Engineering | Registered office and principal place of business: Building 1, Courtyard 6, East Auto Museum Road, Fengtai District, Beijing, China | Mr. Wen Duanchao<br>Mr. Tao Yunpeng<br>Mr. Jiang Xuehsou<br>Mr. Zheng Feng<br>Mr. Zhang Dongxiao<br>Mr. Duan Ximin<br>Ms. Yuan Yanan |
| Wujiang Hydropower | Registered office and principal place of business: 9 Xinhua Road, Nanming District, Guiyang, Guizhou Province, China | Mr. He Guanghong<br>Mr. Wu Wei<br>Mr. Yang Baoyin<br>Mr. Wang Hui<br>Mr. Chu Yu<br>Mr. Zhao Huabang |

(4) CICC is the financial adviser to the Offeror in relation to the Merger and its address is 29/F One International Finance Centre, 1 Harbour View Street, Central, Hong Kong.

(5) In case of inconsistency, the English version of this document shall prevail over the Chinese version.

## 16. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents are available for inspection from the date of this document until the date on which the Offer Period ends (both dates inclusive): (1) at the Company's principal place of business at 31/F, Tower Two, Times Square, 1 Matheson Street, Causeway Bay, Hong Kong during normal business hours (i.e. from 9:30 a.m. to 5:00 p.m. from Monday to Friday, excluding public holidays); (2) on the Company's website at http://www.hdfx.com.cn/; and (3) on the SFC's website at www.sfc.hk:

(1) the Articles;

(2) the articles of association of the Offeror;

(3) the annual reports containing the financial statements of the Company for each of the three financial years ended 2017, 2018 and 2019;

(4) the letter from the Board, the full text of which is set out in this document from pages 7 to 21;

(5) the letter from the Independent Board Committee, the full text of which is set out in this document on pages 22 to 23;

(6) the letter from the Independent Financial Adviser, the full text of which is set out in this document from pages 24 to 66;

(7) the material contract(s) referred to in the section headed "11. Material Contracts" in this Appendix II;

(8) the letters of consent referred to in the section headed "13. Experts' Qualifications and Consent" in this Appendix II; and

(9) this document.

華電福新能源股份有限公司
HUADIAN FUXIN ENERGY CORPORATION LIMITED

*(a joint stock limited company incorporated in the People's Republic of China with limited liability)*
**(Stock code: 00816)**

## NOTICE OF EXTRAORDINARY GENERAL MEETING

**NOTICE IS HEREBY GIVEN** that an extraordinary general meeting (the "**EGM**") of Huadian Fuxin Energy Corporation Limited (the "**Company**") will be held at 9:00 a.m. on Wednesday, 16 September 2020 at Conference Room, 5/F, Huabin International Hotel Beijing, No.4 Xuanwumennei Street, Xicheng District, Beijing, the PRC, for the purpose of considering and, if thought fit, passing the following resolution. Unless otherwise stated, capitalised terms used herein shall have the same meanings as defined in the composite document jointly issued by the Company and Fujian Huadian Furui Energy Development Co., Ltd.* (the "**Offeror**") dated 26 August 2020.

### AS SPECIAL RESOLUTION

1. (a) To consider and, if thought fit, to approve, confirm and ratify the Merger Agreement dated 1 June 2020 entered into between the Company and the Offeror and the Merger and the transactions contemplated under the Merger Agreement.

   (b) To consider and, if thought fit, to approve that any Director be authorised to do all such acts and things, to sign and execute all such other documents, deeds and instruments, to make applications to the relevant regulatory authorities and to take such steps as he may consider necessary, appropriate, expedient and in the interest of the Company to give effect to and in connection with any transactions contemplated under the Merger Agreement.

By order of the Board
**Huadian Fuxin Energy Corporation Limited**
**Huang Shaoxiong**
*Chairman of the Board*

Beijing, PRC

26 August 2020

*As at the date of this notice, the executive Directors are Mr. HUANG Shaoxiong, Mr. WU Jianchun and Mr. DU Jiangwu; the non-executive Directors are Mr. TAO Yunpeng, Mr. SHI Chongguang and Mr. WANG Bangyi; and the independent non-executive Directors are Mr. ZHANG Bai, Mr. TAO Zhigang and Mr. WU Yiqiang.*

* *For identification purpose only*

*Notes:*

1. In order to determine the shareholders of H shares who will be entitled to attend and vote at the EGM, the register of members of the Company will be closed from Friday, 11 September 2020 to Wednesday, 16 September 2020, both days inclusive, during which period no transfer of the Company's shares will be registered. To be eligible to attend and vote at the EGM, all instruments of transfer accompanied by relevant share certificates must be lodged with the Company's H Share Registrar, Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong not later than 4:30 p.m. on Thursday, 10 September 2020. Shareholders whose names are recorded in the register of members of the Company on Wednesday, 16 September 2020 are entitled to attend the EGM.

2. A shareholder entitled to attend and vote at the EGM may appoint one or more proxies (whether he/she is a shareholder) to attend and vote at the EGM on his or her behalf. The form of proxy shall contain the number of the shares to be represented by the proxy. If several persons are authorised as the proxies of a shareholder, the form of proxy shall specify the number and class of shares to be represented by each proxy.

3. The form of proxy shall be signed by the appointer or his attorney duly authorised in writing or, in the case of a legal person, must be either executed under its common seal or under the hand of its directors or attorney duly authorised.

4. To be valid, the form of proxy must be lodged with the Company's H Share Registrar, Computershare Hong Kong Investor Services Limited, at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong (for the holders of H Shares), or to the Board office of the Company at 9/F, Building B, Huadian Plaza, No. 2 Xuanwumennei Street, Xicheng District, Beijing, the PRC (for the holders of Domestic Shares) not less than 24 hours prior to the holding of the EGM. If the form of proxy is signed by another person under a power of attorney or other authorisation documents given by the appointer, such power of attorney or other authorisation documents shall be notarised. The notarised power of attorney or other authorisation documents shall, together with the form of proxy, be deposited at the specified place at the time set out in the form of proxy.

5. If the appointer is a legal person, its legal representative or any person authorised by resolutions of the board of directors or other governing bodies may attend the EGM on behalf of the appointer.

6. The Company has the right to request a proxy who attends the EGM on behalf of a shareholder to provide proof of identity. If a legal person shareholder appoints its representative to attend the meeting, the Company is entitled to require the representative to present his own identification document and a notarially certified copy of the resolution or power of attorney authorized by the board of directors or other competent body of such legal person shareholder (except for a recognized clearing house as defined by relevant ordinances in force from time to time in accordance with Hong Kong laws or its proxies).

7. Shareholders intending to attend the EGM must return the reply slip to the Company's H Share Registrar, Computershare Hong Kong Investor Services Limited at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong (for the holders of H Shares) by hand or by post, or to the Board office of the Company at 9/F, Building B, Huadian Plaza, No. 2 Xuanwumennei Street, Xicheng District, Beijing, the PRC (for the holders of Domestic Shares) by hand, by post or by fax (fax no.: (86) 010-83567357) on or before Tuesday, 8 September 2020.

8. Contact details of the Board office of the Company in the PRC are as follows:

| | |
|---|---|
| Address: | 9/F, Building B, Huadian Plaza<br>No. 2 Xuanwumennei Street<br>Xicheng District<br>Beijing, the PRC |
| Telephone number: | (86) 010-8356 7369 |
| Fax number: | (86) 010-8356 7357 |

華電福新能源股份有限公司
HUADIAN FUXIN ENERGY CORPORATION LIMITED

*(a joint stock limited company incorporated in the People's Republic of China with limited liability)*
**(Stock code: 00816)**

## NOTICE OF H SHAREHOLDERS' CLASS MEETING

**NOTICE IS HEREBY GIVEN** that an H shareholders' class meeting (the "**H Shareholders' Class Meeting**") of Huadian Fuxin Energy Corporation Limited (the "**Company**") will be held at 9:00 a.m. or immediately following the conclusion of the EGM or any adjournment thereof on Wednesday, 16 September 2020 at Conference Room, 5/F, Huabin International Hotel Beijing, No.4 Xuanwumennei Street, Xicheng District, Beijing, the PRC, for the purpose of considering and, if thought fit, passing the following resolution. Unless otherwise stated, capitalised terms used herein shall have the same meanings as defined in the composite document jointly issued by the Company and Fujian Huadian Furui Energy Development Co., Ltd.* (the "**Offeror**") dated 26 August 2020.

## AS SPECIAL RESOLUTION

1. (a) To consider and, if thought fit, to approve, confirm and ratify the Merger Agreement dated 1 June 2020 entered into between the Company and the Offeror and the Merger and the transactions contemplated under the Merger Agreement.

   (b) To consider and, if thought fit, to approve that any Director be authorised to do all such acts and things, to sign and execute all such other documents, deeds and instruments, to make applications to the relevant regulatory authorities and to take such steps as he may consider necessary, appropriate, expedient and in the interest of the Company to give effect to and in connection with any transactions contemplated under the Merger Agreement.

By order of the Board
**Huadian Fuxin Energy Corporation Limited**
**Huang Shaoxiong**
*Chairman of the Board*

Beijing, PRC

26 August 2020

*As at the date of this notice, the executive Directors are Mr. HUANG Shaoxiong, Mr. WU Jianchun and Mr. DU Jiangwu; the non-executive Directors are Mr. TAO Yunpeng, Mr. SHI Chongguang and Mr. WANG Bangyi; and the independent non-executive Directors are Mr. ZHANG Bai, Mr. TAO Zhigang and Mr. WU Yiqiang.*

* *For identification purpose only*

*Notes:*

1. In order to determine the shareholders of H shares who will be entitled to attend and vote at the H Shareholders' Class Meeting, the register of members of the Company will be closed from Friday, 11 September 2020 to Wednesday, 16 September 2020, both days inclusive, during which period no transfer of the Company's shares will be registered. To be eligible to attend and vote at the H Shareholders' Class Meeting, all instruments of transfer accompanied by relevant share certificates must be lodged with the Company's H Share Registrar, Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong not later than 4:30 p.m. on Thursday, 10 September 2020. Shareholders whose names are recorded in the register of members of the Company Wednesday, 16 September 2020 are entitled to attend the H Shareholders' Class Meeting.

2. A shareholder entitled to attend and vote at the H Shareholders' Class Meeting may appoint one or more proxies (whether he/she is a shareholder) to attend and vote at the H Shareholders' Class Meeting on his or her behalf. The form of proxy shall contain the number of the shares to be represented by the proxy. If several persons are authorised as the proxies of a shareholder, the form of proxy shall specify the number and class of shares to be represented by each proxy.

3. The form of proxy shall be signed by the appointer or his attorney duly authorised in writing or, in the case of a legal person, must be either executed under its common seal or under the hand of its directors or attorney duly authorised.

4. To be valid, the form of proxy must be lodged with the Company's H Share Registrar, Computershare Hong Kong Investor Services Limited, at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong not less than 24 hours prior to the holding of the H Shareholders' Class Meeting. If the form of proxy is signed by another person under a power of attorney or other authorisation documents given by the appointer, such power of attorney or other authorisation documents shall be notarised. The notarised power of attorney or other authorisation documents shall, together with the form of proxy, be deposited at the specified place at the time set out in the form of proxy.

5. If the appointer is a legal person, its legal representative or any person authorised by resolutions of the board of directors or other governing bodies may attend the H Shareholders' Class Meeting on behalf of the appointer.

6. The Company has the right to request a proxy who attends the H Shareholders' Class Meeting on behalf of a shareholder to provide proof of identity. If a legal person shareholder appoints its representative to attend the meeting, the Company is entitled to require the representative to present his own identification document and a notarially certified copy of the resolution or power of attorney authorized by the board of directors or other competent body of such legal person shareholder (except for a recognized clearing house as defined by relevant ordinances in force from time to time in accordance with Hong Kong laws or its proxies).

7. Shareholders intending to attend the H Shareholders' Class Meeting must return the reply slip to the Company's H Share Registrar, Computershare Hong Kong Investor Services Limited (for holders of H shares of the Company), at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong by hand or by post on or before Tuesday, 8 September 2020.

8. Contact details of the Board office of the Company in the PRC are as follows:

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| Address: | 9/F, Building B, Huadian Plaza<br>No. 2 Xuanwumennei Street<br>Xicheng District<br>Beijing, the PRC |
| Telephone number: | (86) 010-8356 7369 |
| Fax number: | (86) 010-8356 7357 |