
THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

If you are in any doubt about any of the contents of this circular or as to what action to take in relation to this circular, you should consult your licensed securities dealer, bank manager, solicitor, professional accountant or other professional adviser.

If you have sold or transferred all your shares in **Huadian Power International Corporation Limited*** (the “Company”), you should at once hand this circular, the proxy form (which was despatched on 29 September 2020) and the reply slip (which was despatched on 11 September 2020) to the purchaser(s) or the transferee(s) or to the bank, licensed securities dealer or other agent through whom the sale or transfer was effected for transmission to the purchaser(s) or the transferee(s).

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華電國際電力股份有限公司
Huadian Power International Corporation Limited*

*(A Sino-foreign investment joint stock company limited by shares incorporated in the
People's Republic of China (the “PRC”))*
(Stock Code: 1071)

**(1) CONTINUING CONNECTED TRANSACTIONS:
RENEWAL OF FUEL, EQUIPMENTS AND
SERVICES PURCHASE (SUPPLY) FRAMEWORK AGREEMENT; AND
(2) CONTINUING CONNECTED TRANSACTIONS:
RENEWAL OF LOAN FRAMEWORK AGREEMENT**

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



A letter from the Board is set out on pages 4 to 20 of this circular. A letter from the Independent Board Committee in relation to the transactions contemplated under the Proposed Fuel, Equipments and Services Purchase (Supply) Framework Agreement is set out on page 21 of this circular. A letter from Gram Capital, containing its advice to the Independent Board Committee and the Independent Shareholders in relation to the transactions contemplated under the Proposed Fuel, Equipments and Services Purchase (Supply) Framework Agreement, is set out on pages 22 to 40 of this circular.

The EGM of the Company will be held at 2:30 p.m. on Wednesday, 28 October 2020 at Huabin International Hotel, No. 4 Xuanwumennei Street, Xicheng District, Beijing, the PRC. The notice and the supplemental notice of the EGM were despatched to the Shareholders on 11 September 2020 and 29 September 2020, respectively.

If you are eligible and intend to attend the EGM, please complete and return the reply slip despatched on 11 September 2020 in accordance with the instructions printed thereon on or before Wednesday, 7 October 2020. Shareholders who intend to appoint a proxy to attend the EGM shall complete and return the proxy form despatched on 29 September 2020 in accordance with the instructions printed thereon not less than 24 hours before the time fixed for holding the EGM (i.e. before 2:30 p.m. on Tuesday, 27 October 2020) or any adjournment thereof (as the case may be). Completion and return of the proxy form will not preclude you from attending the EGM and voting in person if you so wish.

9 October 2020

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DEFINITIONS

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

“Board”	means the board of directors of the Company;
“China Huadian”	means China Huadian Corporation Limited* (中國華電集團有限公司), a wholly PRC state-owned enterprise, and the controlling Shareholder of the Company, and where the context requires, means China Huadian and its subsidiaries and companies whose 30% or more equity interests are directly or indirectly held by China Huadian;
“Company”	means Huadian Power International Corporation Limited* (華電國際電力股份有限公司), a Sino-foreign investment joint stock company limited by shares incorporated in the PRC, whose H shares and A shares are listed on the Hong Kong Stock Exchange and the Shanghai Stock Exchange, respectively;
“connected person(s)”	has the meaning ascribed to it under the Hong Kong Listing Rules that apply to the Company;
“controlling Shareholder”	has the meaning ascribed to it under the Hong Kong Listing Rules that apply to the Company;
“Directors”	means the directors of the Company;
“EGM”	means the extraordinary general meeting of the Company to be held at 2:30 p.m. on Wednesday, 28 October 2020 at Huabin International Hotel, No. 4 Xuanwumennei Street, Xicheng District, Beijing, the PRC;
“Existing Fuel, Equipments and Services Purchase (Supply) Framework Agreement”	means the fuel, equipments and services purchase (supply) framework agreement entered into between China Huadian and the Company on 1 November 2019 in relation to the mutual supply of fuel and provision of products and services between China Huadian and the Group, the principal terms of which have been disclosed in the announcement of the Company dated 1 November 2019 and its circular dated 29 November 2019;

DEFINITIONS

“Existing Loan Framework Agreement”	means the loan framework agreement entered into between China Huadian and the Company on 9 November 2017 in relation to the provision of loans by China Huadian to the Group, the principal terms of which have been disclosed in the announcement of the Company dated 9 November 2017 and its circular dated 5 December 2017;
“Group”	means the Company and its subsidiaries;
“Hong Kong”	means the Hong Kong Special Administrative Region of the PRC;
“Hong Kong Listing Rules”	means the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited;
“Hong Kong Stock Exchange”	means The Stock Exchange of Hong Kong Limited;
“Independent Board Committee”	means the independent committee of the Board, comprising independent non-executive Directors, namely Mr. Wang Dashu, Mr. Zong Wenlong, Mr. Feng Zhenping and Mr. Li Xingchun, appointed to advise the Independent Shareholders on the Proposed Fuel, Equipments and Services Purchase (Supply) Framework Agreement and related matters pursuant to the requirements of the Hong Kong Listing Rules;
“Independent Financial Adviser” or “Gram Capital”	means Gram Capital Limited, a licensed corporation to carry out Type 6 (advising on corporate finance) regulated activity under the SFO and has been appointed as the independent financial adviser to the Independent Board Committee and the Independent Shareholders in relation to the transactions contemplated under the Proposed Fuel, Equipments and Services Purchase (Supply) Framework Agreement;
“Independent Shareholders”	means the Shareholders who are not required to abstain from voting for approving (i) the Proposed Fuel, Equipments and Services Purchase (Supply) Framework Agreement and the proposed annual caps thereunder; and (ii) the Proposed Loan Framework Agreement and the proposed annual caps thereunder;

DEFINITIONS

“Latest Practicable Date”	means 29 September 2020, being the latest practicable date prior to the printing of this circular for ascertaining certain information contained herein;
“Miscellaneous and Relevant Services”	has the meaning ascribed to it under section II in the Letter from the Board of this circular;
“PRC”	means the People’s Republic of China;
“Proposed Fuel, Equipments and Services Purchase (Supply) Framework Agreement”	means the fuel, equipments and services purchase (supply) framework agreement entered into between China Huadian and the Company on 11 September 2020 in relation to the mutual supply of fuel and provision of products and services between China Huadian and the Group;
“Proposed Loan Framework Agreement”	means the loan framework agreement entered into between China Huadian and the Company on 11 September 2020 in relation to the provision of loans by China Huadian to the Group;
“RMB”	means Renminbi, the lawful currency of the PRC;
“SFO”	means the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong), as amended, supplemented or otherwise modified from time to time;
“share(s)”	means the share(s) with a par value of RMB1.00 each in the share capital of the Company;
“Shareholder(s)”	means the shareholder(s) of the Company;
“subsidiary(ies)”	has the meaning ascribed to it under the Hong Kong Listing Rules that apply to the Company; and
“%”	means per cent.

* For identification purpose only

LETTER FROM THE BOARD



華電國際電力股份有限公司
Huadian Power International Corporation Limited*

*(A Sino-foreign investment joint stock company limited by shares incorporated in the
People's Republic of China (the "PRC"))*
(Stock Code: 1071)

Directors:

Wang Xuxiang (*Chairman, Executive Director*)
Ni Shoumin (*Vice Chairman, Non-executive Director*)
Peng Xingyu (*Non-executive Director*)
Luo Xiaoqian (*Executive Director*)
Gou Wei (*Non-executive Director*)
Hao Bin (*Non-executive Director*)
Wang Xiaobo (*Non-executive Director*)
Feng Rong (*Executive Director*)
Wang Dashu (*Independent Non-executive Director*)
Zong Wenlong (*Independent Non-executive Director*)
Feng Zhenping (*Independent Non-executive Director*)
Li Xingchun (*Independent Non-executive Director*)

Office address:

No. 2 Xuanwumennei Street
Xicheng District
Beijing, the PRC

Place of business in Hong Kong:

31/F, Tower Two
Times Square
1 Matheson Street
Causeway Bay
Hong Kong

9 October 2020

To the Shareholders,

Dear Sir/Madam,

**(1) CONTINUING CONNECTED TRANSACTIONS:
RENEWAL OF FUEL, EQUIPMENTS AND
SERVICES PURCHASE (SUPPLY) FRAMEWORK AGREEMENT; AND
(2) CONTINUING CONNECTED TRANSACTIONS:
RENEWAL OF LOAN FRAMEWORK AGREEMENT**

I. INTRODUCTION

Reference is made to the announcement of the Company dated 11 September 2020 in relation to the continuing connected transactions.

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

- (i) the continuing connected transactions under the Proposed Fuel, Equipments and Services Purchase (Supply) Framework Agreement and the proposed annual caps thereunder; and
- (ii) the continuing connected transactions under the Proposed Loan Framework Agreement and the proposed annual caps thereunder.

II. PROPOSED FUEL, EQUIPMENTS AND SERVICES PURCHASE (SUPPLY) FRAMEWORK AGREEMENT

1. Background

References are made to the announcement of the Company dated 1 November 2019 and the circular of the Company dated 29 November 2019 in relation to, among other things, the continuing connected transactions between the Group and China Huadian under the Existing Fuel, Equipments and Services Purchase (Supply) Framework Agreement, which will expire on 31 December 2020.

On 11 September 2020, the Company entered into the Proposed Fuel, Equipments and Services Purchase (Supply) Framework Agreement with China Huadian to renew the relevant continuing connected transactions under the Existing Fuel, Equipments and Services Purchase (Supply) Framework Agreement with a term of three years from 1 January 2021 to 31 December 2023.

LETTER FROM THE BOARD

2. Major Terms

The major terms of the Proposed Fuel, Equipments and Services Purchase (Supply) Framework Agreement are set out below:

- Date: 11 September 2020
- Parties: the Company; and China Huadian
- Term: Three (3) years commencing from 1 January 2021 and expiring on 31 December 2023
- Transactions: ***Products and services provided by China Huadian to the Group***
- (1) supply of fuel by China Huadian to the Group;
 - (2) provision of engineering equipments (including but not limited to transducers, recycled water and desulphurisation systems), systems, products, engineering and construction contracting projects and environmental protection system renovation projects by China Huadian to the Group;
 - (3) provision of supplies procurement services and miscellaneous and relevant services by China Huadian to the Group, including:
 - (i) services in relation to the production and operation of the generating units of power plants, including overhauls and maintenance services, technological services such as testing of generating units and technology renovation and other services relating to production and operation;
 - (ii) financial agency service and property transaction agency services in the process of capital operations;
 - (iii) CDM registration services for the development and operation of clean energy projects;

LETTER FROM THE BOARD

- (iv) relevant quota (such as the quota on power generation rights and the quota of “replacing small units with larger units” on shutting down small generating units) services for the operation and project development of the Group; and
- (v) property management services for the leasing of Huadian Tower, the office building of the headquarters of the Company (the above (i) to (v), collectively “**Miscellaneous and Relevant Services**”).

Products and services provided by the Group to China Huadian

- (1) supply of fuel by the Group to China Huadian; and
- (2) provision of services such as overhauls and maintenance of generating units of power plants and alternative power generation and relevant quota services by the Group to China Huadian.

Price determination principles and internal procedures:

The consideration of the transactions under the Proposed Fuel, Equipments and Services Purchase (Supply) Framework Agreement will be subject to mutual consent and confirmation by the parties to the agreement, as well as determinations after arm’s length negotiation with reference to the then market price and prevailing market conditions. The Company has adopted appropriate internal procedures to ensure that (i) for transactions involving the provision of the products and services by China Huadian to the Group, the terms of such transactions will be fair and reasonable and no less favourable to the Group than those provided by independent third parties; and (ii) for transactions involving the provision of the products and services by the Group to China Huadian, the terms of such transactions will be fair and reasonable and no more favourable to China Huadian than those provided to independent third parties.

LETTER FROM THE BOARD

Mutual supply of fuel

In practice, the then market price of the purchase and sale of coal is generally determined by the local spot market price as at the time of the purchase order. The local spot market price is usually determined with reference to the following principles:

- (1) relevant quotations from two or more independent large-scale PRC coal enterprises; and
- (2) if there are no relevant quotations, the coal price shall be determined by reference to certain independent coal price index, including but not limited to, the Bohai Bay Thermal Coal Price Index, published on various coal industry websites including CQ Coal (秦皇島煤炭網) (<http://www.cqcoal.com>) and SX Coal (中國煤炭資源網) (<http://www.sxcoal.com>). According to the Notice on the Commissioning Operation of the Bohai Bay Thermal Coal Price Index (關於開展環渤海動力煤價格指數試運行工作的通知) issued by the National Development and Reform Commission in 2010, Bohai Bay Thermal Coal Price Index is authorized and guided by the National Development and Reform Committee and is data collected and periodically published by Qinhuangdao Seaborne Coal Market Co., Ltd.. It is an index system which reflects the Free on Board price and price volatility of Bohai Bay thermal coal.

Regarding the internal procedure for the purchase of coal by the Group, the safety and operation management department of the Company shall assess the relevant quotations based on factors such as quality, locality and market conditions, in order to determine the appropriate price for the purchase of coal. If the transaction concerned is a connected transaction, the finance and assets department and the securities market department of the Company shall also review such price based on the same assessment criteria to ensure the fairness of the prices of connected transactions.

LETTER FROM THE BOARD

In addition, the then market price of the sale of coal by the Group is also generally determined with reference to the local spot market price as at the time of the sales order. The local spot market price is usually determined with reference to the price for the sale of coal as set by the largest supplier of coal by production output in the relevant locality (such price is industry knowledge and a practice followed by other suppliers of coal, which the Company believes is reliable, and may be obtained through quotations for the purchase of coal as discussed above or through the network of the Company).

Regarding the internal procedure for the sale of coal by the Group, the safety and operation management department of the Company shall assess the sales price set by the above largest supplier of coal with reference to such factors as quality, the cost for the Company in producing or obtaining coal as well as the supply and demand of coal in the market, in order to determine the price for the sale of coal. If the transaction concerned is a connected transaction, the finance and assets department and the securities market department of the Company shall also review such price based on the same assessment criteria, with the final approval being made by the deputy general manager of the Company.

In terms of purchasing natural gas, the price of natural gas is currently prescribed by the Chinese government uniformly. The gas-fired power generation enterprises under the Group purchase the natural gas required for power generation at the prices stipulated by the provincial Development and Reform Commission. If the Chinese government implements relevant policies, regulations or guidelines on changing such price, the price of natural gas purchased by the Group shall be adjusted accordingly from the implementation date of such policies, regulations or guidelines.

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Other products and services provided by China Huadian to the Group

The consideration for the provision of products and main services by China Huadian to the Group as contemplated under the Proposed Fuel, Equipments and Services Purchase (Supply) Framework Agreement will be determined by reference to the following pricing principles:

- (1) pricing will be determined through a bidding process. The bidding process will adhere to the relevant laws and regulations including the Law of the PRC on Tenders and Bids (《中華人民共和國招標投標法》). The Company will refer to the internal manual regarding the management of the project bidding process. As set out in the internal manual, the Company will make bid initiations setting out, among other things, the specifications and requirements (including technicality, quality and pricing) of the relevant projects of provision of services, the criteria for assessing the contractors, and the requirements for the bid price. The entire bidding process will be controlled and managed by the bid evaluation committee. The committee consists of a president, which is a position held by the deputy general manager of the Company, and members from various business departments of the Company including the safety and operation management department, the finance and assets department and the project management department. The bid evaluation committee of the Company will be responsible for (i) ensuring the adherence to the process as set out in the Law of the PRC on Tenders and Bids; and (ii) reviewing, evaluating and monitoring documents from contractors based on such factors as technicality, quality, pricing, reputation and aftersale services, as well as the requirements in the bid invitation. The bid evaluation committee shall then determine the successful bidder by taking into account the above factors for assessment; and

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- (2) the bid price offered by the successful bidder under the abovementioned bidding process is subject to further arm's length negotiation between the Company and the successful bidder. Under such circumstances, the Company would make reference to the historical prices and pricing trends of the relevant services and products and ensure that the bid price offered by the successful bidder would be fair and reasonable to the Company and its Shareholders as a whole.

Services provided by the Group to China Huadian

The consideration for the provision of services by the Group to China Huadian as contemplated under the Proposed Fuel, Equipments and Services Purchase (Supply) Framework Agreement will be determined with reference to (i) the costs incurred by the Group in providing such services; and (ii) the service fees charged by the Group to independent third parties in providing similar services.

Regarding the internal procedure for the provision of services by the Group to China Huadian, the relevant business department of the Company providing the relevant services shall propose a service fee for the provision of such services with reference to the abovementioned factors. Since the transaction concerned constitutes a connected transaction of the Company, the finance and assets department and the securities market department of the Company shall also review such service fees based on the same assessment criteria, with the final approval made by the deputy general manager of the Company responsible for the relevant service line.

Condition precedent: The Proposed Fuel, Equipments and Services Purchase (Supply) Framework Agreement is conditional upon Independent Shareholders' approval at the EGM.

LETTER FROM THE BOARD

3. Historical Amounts

The actual amounts and the annual caps of the historical transactions under the Existing Fuel, Equipments and Services Purchase (Supply) Framework Agreement for the two years ended 31 December 2019 and for the six months ended 30 June 2020 are set out below:

Transactions	For the year ended 31 December 2018		For the year ended 31 December 2019		Actual amounts for the six months ended 30 June 2020	Annual caps for the year ending 31 December 2020
	Actual amounts (RMB millions)	Annual caps (RMB millions)	Actual amounts (RMB millions)	Annual caps (RMB millions)	(RMB millions)	(RMB millions)
<u>Expenditure</u>						
(a) Purchase of fuel from China						
Huadian	3,347	7,000	5,087	7,000	2,643	7,000
(b) Provision of engineering equipments, systems, products and engineering and construction contracting, environmental protection system renovation project and Miscellaneous and Relevant Services by China Huadian						
	5,287	7,000	4,282	8,000	894	8,000
<u>Revenue</u>						
(c) Sale of fuel and relevant services to China						
Huadian	11,001	13,000	11,135	13,000	4,903	13,000

LETTER FROM THE BOARD

4. Proposed Annual Caps

The Directors propose the annual caps for the transactions contemplated under the Proposed Fuel, Equipments and Services Purchase (Supply) Framework Agreement for the three years ending 31 December 2023 as follows:

Transactions	Proposed annual caps for the year ending 31 December 2021 (RMB millions)	Proposed annual caps for the year ending 31 December 2022 (RMB millions)	Proposed annual caps for the year ending 31 December 2023 (RMB millions)
<u>Expenditure</u>			
(a) Purchase of fuel from China Huadian	8,000	8,000	8,000
(b) Provision of engineering equipments, systems, products and engineering and construction contracting, environmental protection system renovation project and Miscellaneous and Relevant Services by China Huadian	8,000	8,000	8,000
	Total: 16,000	Total: 16,000	Total: 16,000
<u>Revenue</u>			
(c) Sale of fuel and relevant services to China Huadian	13,000	13,000	13,000
	Total: 13,000	Total: 13,000	Total: 13,000

In the process of estimating the annual caps for the purchase of fuel, engineering equipments and relevant services from China Huadian for the three years ending 31 December 2023, the Company has considered the factors set out below:

- (i) the historical transaction amounts for the purchase of fuel from China Huadian for the two years ended 31 December 2019 of RMB3,347 million and RMB5,087 million, representing an average utilization rate of approximately 60.2% of the annual caps for the two years ended 31 December 2019;
- (ii) the historical transaction amounts for the purchase of engineering equipments and relevant services from China Huadian for the two years ended 31 December 2019 of RMB5,287 million and RMB4,282 million, representing an average utilization rate of approximately 64.5% of the annual caps for the two years ended 31 December 2019;

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- (iii) the historical transaction amounts for the purchase of fuel, engineering equipments and relevant services from China Huadian for the six months ended 30 June 2020, and the estimation that the actual transaction amounts will climb close to the annual caps during the fourth quarter of 2020 due to (a) the estimated increasing demand for fuel, engineering equipments and relevant services attributable to the acceleration of the progress of relevant projects in the second half of 2020, which was delayed and effected by the outbreak of the COVID-19 pandemic in the first half of 2020, and (b) the large amount of settlement in the fourth quarter, which is in line with the Company's previous practice that the majority of historical transaction amounts were recorded in the fourth quarter of the financial year;
- (iv) the possible fluctuation in coal price. Subject to the changes in national macroeconomic policies, transportation capability and progress of coal mining, the coal price may increase in the following three years, which will in turn lead to an increase in the actual transaction amounts for the purchase of fuel from China Huadian by the Group;
- (v) the Group's increased fuel demand due to the newly installed coal-fired generating units which have commenced operations recently. Two coal-fired generating units with a total of 2,000 MW installed capacity have commenced commercial operations in July 2020. The commencement of operations of such generating units leads to an increase in the total demands of the Group for the fuel from China Huadian in the years from 2021 to 2023;
- (vi) the Group's expected increasing purchase amount of thermal coal from China Huadian with fair price to ensure the safe and stable supply attributable to China Huadian's continuously enlarged production capacity of its coal mines and strengthened supply capacity of thermal coal in the following three years; and
- (vii) the Group's increasing demand for environmental protection related services under the abovementioned transaction (b) (i.e. the provision of engineering equipments, systems, products and engineering and construction contracting, environmental protection system renovation project and Miscellaneous and Relevant Services by China Huadian) due to its intensive implementation on the sealing of coal storage site in Beijing-Tianjin-Hebei region and sewage treatment. More than 50% of the Company's coal-fired generating units are located in Beijing-Tianjin-Hebei region (including Shandong Province). Pursuant to the Action Plan for Tackling Air Pollution in Beijing-Tianjin-Hebei Region And Surrounding Areas (京津冀及周邊地區大氣污染綜合治理攻堅行動方案), in order to prevent dust pollution, the Company plans to continue implementing intensively the sealing of coal storage site in the Beijing-Tianjin-Hebei region in 2021, 2022 and 2023 by covering the coal used for power generation with coal sheds. Pursuant to the Water Pollution Prevention and Control Action Plan (水污染防治行動計劃) issued by the State Council, thermal power plants, due to their large demand for water and drainage, shall save water for power generation, improve the recycling rate of circulating water and achieve "zero discharge" from the economic operation and environmental protection's perspective. Recently, the implementation of such plan is becoming more stringent. The Company plans to continue increasing its investment in sewage treatment and renovate the old sewage treatment facilities in 2021, 2022 and 2023.

LETTER FROM THE BOARD

In the process of estimating the annual caps for the sale of fuel and related services to China Huadian for the three years ending 31 December 2023, the Company has considered the factors set out below:

- (i) it is estimated that the sale of fuel and the provision of relevant services to China Huadian will be capped at RMB12,800 million and RMB200 million for each year of the three years ending 31 December 2023, respectively, representing approximately 98% and 2% of the proposed annual caps of RMB13,000 million, respectively;
- (ii) the historical transaction amounts for the sale of fuel and relevant services to China Huadian for the two years ended 31 December 2019 of RMB11,001 million and RMB11,135 million, representing a high utilization rate of approximately 84.6% and 85.7% of the annual caps for the two years ended 31 December 2019 of RMB13,000 million, respectively;
- (iii) China Huadian's estimated stable demands for the fuel and related services for the three years ending 31 December 2023. China Huadian, as a wholly PRC state-owned enterprise, implements consistent development strategy and purchasing policy. It is estimated that the transaction amounts for the sale of fuel and related services provided by the Group to China Huadian for the three years ending 31 December 2023 will remain the same level as those for the two years ended 31 December 2019; and
- (iv) the estimated stable supply capacity of the Company. The Group is estimated to be capable of sale such fuel and provision of relevant services to China Huadian based on its current supply capacity.

5. Reasons for and Benefits of Extension of the Existing Continuing Connected Transactions

The coal mines of the Group and China Huadian are in different localities in which the mutual provision of coal may reduce the overall cost for the procurement of coal. In addition, a subsidiary of the Group is primarily engaged in coal trading services, through which the Group is able to enhance its bargaining power in the process of coal procurement by way of bulk procurement and sales, and reduce the overall cost for coal procurement of the Group accordingly. The mutual provision of relevant services between China Huadian and the Group provides more efficient allocation of labour (in that the timing for the needs of the relevant services which are generally of a maintenance nature may differ). Considering the long-term relationship between the Group and China Huadian, the Company considers that it is beneficial to continue to enter into the Proposed Fuel, Equipments and Services Purchase (Supply) Framework Agreement with China Huadian as such transactions have facilitated the growth of the principal business and installation capacity of the Group.

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6. Hong Kong Listing Rules Implications

China Huadian is the controlling Shareholder of the Company (which directly and indirectly holds approximately 46.84% of the total issued share capital of the Company as at the Latest Practicable Date) and thus a connected person of the Company under the Hong Kong Listing Rules. The connected transactions under the Proposed Fuel, Equipments and Services Purchase (Supply) Framework Agreement will be carried out on a continuing or recurring basis in the ordinary and usual course of business of the Group and accordingly constitute continuing connected transactions of the Company under the Hong Kong Listing Rules.

As one or more of the applicable percentage ratios (as defined under Rule 14A.06 of the Hong Kong Listing Rules) in respect of the transactions under the Proposed Fuel, Equipments and Services Purchase (Supply) Framework Agreement exceeds 5%, the transactions contemplated thereunder are subject to the reporting, announcement and Independent Shareholders' approval requirements under Chapter 14A of the Hong Kong Listing Rules.

The Independent Board Committee has been established pursuant to the Hong Kong Listing Rules to advise the Independent Shareholders on the Proposed Fuel, Equipments and Services Purchase (Supply) Framework Agreement and relevant matters. Gram Capital has been appointed as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders in respect of the same matters.

7. Information on the Parties

Information relating to the Group

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

Information relating to China Huadian

As at the Latest Practicable Date, China Huadian, the controlling Shareholder of the Company, directly and indirectly holds approximately 46.84% of the total issued share capital of the Company. China Huadian is primarily engaged in power generation, heat production and supply, energy development of coal and other resources related to the power generation and relevant professional technical services.

LETTER FROM THE BOARD

III. PROPOSED LOAN FRAMEWORK AGREEMENT

1. Background

References are made to the announcement of the Company dated 9 November 2017 and the circular of the Company dated 5 December 2017 in relation to, among other things, the continuing connected transactions between the Group and China Huadian under the Existing Loan Framework Agreement, which will expire on 31 December 2020.

On 11 September 2020, the Company entered into the Proposed Loan Framework Agreement with China Huadian to renew the relevant continuing connected transactions under the Existing Loan Framework Agreement with a term of three years from 1 January 2021 to 31 December 2023. As disclosed in the announcement of the Company dated 11 September 2020, the Proposed Loan Framework Agreement entered into between the Company and China Huadian constitutes financial assistance of connected persons to the Company. Provided that: (i) the financing cost of the Group shall not be higher than that available to the Group from the commercial banks for the same financing products with the same term during the same period and the loans are conducted on normal commercial terms or better to the Group; and (ii) the loans are not secured by any of the assets of the Group, such loans are exempted financial assistance under Rule 14A.90 of the Hong Kong Listing Rules and are not subject to the reporting, announcement and Independent Shareholders' approval requirements under Chapter 14A of the Hong Kong Listing Rules.

Although the Proposed Loan Framework Agreement and the transactions contemplated thereunder are exempt from the reporting, announcement and Independent Shareholders' approval requirements under the Hong Kong Listing Rules, such transactions are subject to the reporting, announcement and Independent Shareholders' approval requirements pursuant to the Rules Governing the Listing of Stocks on Shanghai Stock Exchange.

2. Major Terms

The major terms of the Proposed Loan Framework Agreement are set out below:

Date:	11 September 2020
Parties:	China Huadian as the lender; and the Company (for itself and on behalf of its subsidiaries) as the borrower
Term:	Three (3) years commencing from 1 January 2021 and expiring on 31 December 2023

LETTER FROM THE BOARD

Provision of loans: China Huadian and its subsidiaries (excluding the Group) will provide to the Company and its subsidiaries an annual average loan balance not exceeding RMB20 billion for each of the three years from 2021 to 2023. The loan rate shall not be higher than that available to the Group from commercial banks during the same period and the Group shall not be required to provide any mortgages, pledges, third party guarantees or other forms of guarantee. China Huadian guaranteed that the loans under the agreement will be provided through trusted loans or other forms as permitted by PRC laws and regulations.

Condition precedent: The Proposed Loan Framework Agreement is conditional upon Independent Shareholders' approval at the EGM.

3. Historical Amounts

The actual amounts and the annual caps of the historical transactions in respect of the provision of loans by China Huadian to the Group under the Existing Loan Framework Agreement for the two years ended 31 December 2019 and for the six months ended 30 June 2020 are set out below:

Transaction	For the year ended 31 December 2018		For the year ended 31 December 2019		Actual amount for the six months ended 30 June 2020	Annual cap for the year ending 31 December 2020
	Actual amount (RMB millions)	Annual cap (RMB millions)	Actual amount (RMB millions)	Annual cap (RMB millions)	(RMB millions)	(RMB millions)
Provision of annual average loan balance by China Huadian to the Group	9,972	20,000	11,083	20,000	14,435	20,000

LETTER FROM THE BOARD

4. Proposed Annual Caps

The Directors propose the annual caps for the transactions in respect of the provision of loans by China Huadian to the Group contemplated under the Proposed Loan Framework Agreement for the three years ending 31 December 2023 as follows:

Transaction	Proposed annual cap for the year ending 31 December 2021 (RMB millions)	Proposed annual cap for the year ending 31 December 2022 (RMB millions)	Proposed annual cap for the year ending 31 December 2023 (RMB millions)
Provision of annual average loan balance by China Huadian to the Group	20,000	20,000	20,000

In considering the proposed annual caps for the three years ending 31 December 2023, the Company has taken into account: (i) the historical transaction amounts for the provision of loans by China Huadian to the Group under the Existing Loan Framework Agreement for the two years ended 31 December 2019 and the six months ended 30 June 2020; and (ii) the financial demand for the Group.

5. Reasons for and Benefits of Extension of the Existing Continuing Connected Transactions

Considering the established relationship between China Huadian and the Company, the Company considers that it is beneficial to the Group to receive financial assistance from China Huadian as such transactions ensure the stable supply of funds required for the Group as well as facilitate the development of all businesses of the Group.

IV. EGM

The Directors propose to put forward the continuing connected transactions and the proposed annual caps contemplated under the Proposed Fuel, Equipments and Services Purchase (Supply) Framework Agreement and the Proposed Loan Framework Agreement for the Independent Shareholders' approval at the EGM.

China Huadian, which holds 4,534,199,224 issued A shares of the Company, representing approximately 45.97% of the total issued share capital of the Company, and China Huadian Hong Kong Company Limited, its wholly-owned subsidiary, which holds 85,862,000 issued H shares of the Company, representing approximately 0.87% of the total issued share capital of the Company, will abstain from voting for approving (i) the Proposed Fuel, Equipments and Services Purchase (Supply) Framework Agreement and the proposed annual caps thereunder; and (ii) the Proposed Loan Framework Agreement and the proposed annual caps thereunder.

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Save as mentioned above, to the best of the Directors' knowledge, information and belief, none of the other Shareholders has any material interest in the abovementioned transactions and therefore will be required to abstain from voting on the relevant resolutions at the EGM.

V. RECOMMENDATIONS

Given that Mr. Wang Xuxiang, Mr. Peng Xingyu, Mr. Gou Wei and Mr. Hao Bin, the Directors of the Company, held positions in China Huadian, they have abstained from voting on the resolutions regarding the above mentioned transactions at the second meeting of the ninth session of the Board. Save as mentioned above, no other Directors have any material interest in the above mentioned transactions and therefore no other Directors have abstained from voting on such Board resolutions.

The Board (including the independent non-executive Directors) considers that: (i) the Proposed Fuel, Equipments and Services Purchase (Supply) Framework Agreement and the Proposed Loan Framework Agreement are fair and reasonable, on normal commercial terms, in the ordinary and usual course of business of the Group and in the interests of the Company and its Shareholders as a whole; and (ii) the proposed annual caps under such agreements are fair and reasonable. Accordingly, the Directors recommend the Independent Shareholders to vote in favour of the relevant resolutions to be proposed at the EGM.

VI. FURTHER INFORMATION

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

Yours faithfully,
For and on behalf of the Board
Huadian Power International Corporation Limited*
Wang Xuxiang
Chairman

* *For identification purpose only*



華電國際電力股份有限公司
Huadian Power International Corporation Limited*

*(A Sino-foreign investment joint stock company limited by shares incorporated in the
People's Republic of China (the "PRC"))*
(Stock Code: 1071)

9 October 2020

To the Independent Shareholders

Dear Sir or Madam,

CONTINUING CONNECTED TRANSACTIONS

We have been appointed to form the Independent Board Committee to consider and advise whether the terms of the Proposed Fuel, Equipments and Services Purchase (Supply) Framework Agreement and the continuing connected transactions contemplated thereunder are (i) fair and reasonable; (ii) on normal commercial terms and in the ordinary and usual course of business of the Group; and (iii) in the interests of the Company and the Shareholders as a whole. Gram Capital has been appointed as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders in relation to the transactions contemplated under the Proposed Fuel, Equipments and Services Purchase (Supply) Framework Agreement and the related proposed annual caps. Terms used herein shall have the same meanings as those defined in this circular unless the context otherwise requires.

We wish to draw the attention of the Independent Shareholders to the letter from the Board, the letter from the Independent Board Committee and the letter of advice from Gram Capital, set out on pages 4 to 20, page 21 and pages 22 to 40 of this circular, respectively.

Having considered the information contained in the letter from the Board and taking into account the advice and recommendation given by Gram Capital, we are of the view that (i) the Proposed Fuel, Equipments and Services Purchase (Supply) Framework Agreement and the continuing connected transactions contemplated thereunder are fair and reasonable, on normal commercial terms, in the ordinary and usual course of business of the Group and in the interests of the Company and the Shareholders as a whole; and (ii) the related proposed annual caps under the Proposed Fuel, Equipments and Services Purchase (Supply) Framework Agreement are fair and reasonable.

Accordingly, we recommend the Independent Shareholders to vote in favour of the aforementioned agreement, the transactions contemplated thereunder and the related proposed annual caps at the EGM.

Yours faithfully,
Independent Board Committee of
Huadian Power International Corporation Limited*
Wang Dashu, Zong Wenlong, Feng Zhenping, Li Xingchun
Independent Non-executive Directors

* *For identification purpose only*

LETTER FROM GRAM CAPITAL

Set out below is the text of a letter received from Gram Capital, the Independent Financial Adviser to the Independent Board Committee and the independent Shareholders in respect of the Fuel and Services Transactions for the purpose of inclusion in this circular.



Room 1209, 12/F.
Nan Fung Tower
88 Connaught Road Central/
173 Des Voeux Road Central
Hong Kong

9 October 2020

*To: The independent board committee and the independent shareholders
of Huadian Power International Corporation Limited**

Dear Sirs,

CONTINUING CONNECTED TRANSACTIONS

We refer to our appointment as the Independent Financial Adviser to advise the Independent Board Committee and the independent Shareholders in respect of the Fuel and Services Transactions (as defined below), details of which are set out in the letter from the Board (the “**Board Letter**”) contained in the circular dated 9 October 2020 issued by the Company to the Shareholders (the “**Circular**”), of which this letter forms part. Terms used in this letter shall have the same meanings as defined in the Circular unless the context requires otherwise.

On 11 September 2020, the Company entered into the Proposed Fuel, Equipments and Services Purchase (Supply) Framework Agreement with China Huadian to renew the relevant continuing connected transactions under the Existing Fuel, Equipments and Services Purchase (Supply) Framework Agreement with a term of three (3) year from 1 January 2021 to 31 December 2023. Pursuant to the Proposed Fuel, Equipments and Services Purchase (Supply) Framework Agreement, (i) China Huadian will supply fuel to the Group (the “**Fuel Purchase Transactions**”); (ii) China Huadian will provide engineering equipments (including but not limited to transducers, recycled water and desulphurisation systems), systems, products, engineering and construction contracting projects and environmental protection system renovation projects and Miscellaneous and Relevant Services to the Group (the “**Services Transactions**”); and (iii) the Group will sell fuel (the “**Fuel Sale Transactions**”) and provide services (such as overhauls and maintenance of generating units of power plants and alternative power generation and relevant quota services) to China Huadian (the “**Sale Transactions**”, together with the Fuel Purchase Transactions and the Services Transactions, the “**Fuel and Services Transactions**”), for a term of three years commencing from 1 January 2021 and expiring on 31 December 2023.

LETTER FROM GRAM CAPITAL

With reference to the Board Letter, each of the Fuel and Services Transactions constitutes continuing connected transactions of the Company, and is subject to the reporting, announcement and independent Shareholders' approval requirements under Chapter 14A of the Hong Kong Listing Rules.

The Independent Board Committee comprising Wang Dashu, Zong Wenlong, Feng Zhenping and Li Xingchun (all being independent non-executive Directors) has been established to advise the independent Shareholders on (i) whether the terms of Fuel and Services Transactions are on normal commercial terms and are fair and reasonable; (ii) whether the Fuel and Services Transactions are conducted in the ordinary and usual course of business of the Group and are in the interests of the Company and the Shareholders as a whole; and (iii) how the independent Shareholders should vote in respect of the resolution(s) to approve the Fuel and Services Transactions at the EGM. We, Gram Capital Limited, have been appointed as the Independent Financial Adviser to advise the Independent Board Committee and Independent Shareholders in this respect.

INDEPENDENCE

During the past two years immediately preceding the Latest Practicable Date, Mr. Graham Lam was the person signing off (i) the opinion letter from the independent financial adviser contained in the Company's circular dated 28 November 2018 in respect of continuing connected transactions; and (ii) the opinion letter from the independent financial adviser contained in the Company's circular dated 29 November 2019 in respect of continuing connected transactions. Notwithstanding the aforesaid past engagements, as at the Latest Practicable Date, we were not aware of any relationships or interests between Gram Capital and the Company, or any other parties that could be reasonably regarded as hindrance to Gram Capital's independence to act as the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders.

Besides that, apart from the advisory fee payable to us in connection with our appointment as the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders, no arrangement exists whereby we shall receive any other fees or benefits from the Company.

BASIS OF OUR OPINION

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

LETTER FROM GRAM CAPITAL

advisers and/or the Directors, which have been provided to us. Our opinion is based on the Directors' representation and confirmation that there is no undisclosed private agreements/arrangements or implied understanding with anyone concerning the Fuel and Services Transactions. We consider that we have taken sufficient and necessary steps on which to form a reasonable basis and an informed view for our opinion in compliance with Rule 13.80 of the Hong Kong Listing Rules.

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

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

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

LETTER FROM GRAM CAPITAL

PRINCIPAL FACTORS AND REASONS CONSIDERED

In arriving at our opinion in respect of the Fuel and Services Transactions, we have taken into consideration the following principal factors and reasons:

Information on the Group

With reference to the Board Letter, the Group is one of the largest comprehensive energy companies in China, which is principally engaged in the construction and operation of power plants, including large-scale efficient coal or gas-fired generating units and various renewable energy projects, and the development, construction and operation of coal mines.

Set out below are the financial information of the Group for the six months ended 30 June 2020 and the two years ended 31 December 2019 as extracted from the Company's interim report for the six months ended 30 June 2020 (the "**2020 Interim Report**") and the Company's annual report for the two years ended 31 December 2019 (the "**2019 Annual Report**"), respectively:

	For the six months ended 30 June 2020 <i>RMB'000</i> <i>(unaudited)</i>	For the year ended 31 December 2019 <i>RMB'000</i> <i>(audited)</i>	For the year ended 31 December 2018 <i>RMB'000</i> <i>(audited)</i>	Change from FY2018 to FY2019 %
Turnover	40,942,846	91,752,980	87,419,418	4.96
Operating Profit	5,182,313	8,215,730	6,268,605	31.06
Profit for the period/year attributable to the equity holders of the Company	2,411,435	3,385,324	1,445,736	134.16

According to the above table, the Group recorded an increase in turnover of approximately 4.96% for FY2019 as compared to that for FY2018. With reference to the 2019 Annual Report, the aforesaid increase in revenue was mainly due to the adjustment of VAT tax rate and the increase in power generation volume. The Group's operating profit also substantially increased during FY2019, which was mainly due to the year-on-year decrease in coal prices. The Group recorded a significant increase in profit of approximately 134.16% for the year attributable to the equity holders of the Company for FY2019.

FUEL AND SERVICES TRANSACTIONS

1. Background of Fuel and Services Transactions

Information on China Huadian

With reference to the Board Letter, as at the Latest Practicable Date, China Huadian, the controlling Shareholder of the Company, directly and indirectly holds approximately 46.84% of total issued share capital of the Company. China Huadian is primarily engaged in power generation, heat production and supply, energy development of coal and other resources related to the power generation and relevant professional technical services.

Reasons for the Fuel and Services Transactions

With reference to the Board Letter, the Group and China Huadian are in different localities in which the mutual provision of coal may reduce the overall cost for the procurement of coal. In addition, a subsidiary of the Group is primarily engaged in coal trading services, through which the Group is able to enhance its bargaining power in the process of coal procurement by way of bulk procurement and sales, and reduce the overall cost for coal procurement of the Group accordingly. The mutual provision of relevant services between China Huadian and the Group provides more efficient allocation of labour (in that the timing for the needs of the relevant services which are generally of a maintenance nature may differ). Considering the long-term relationship between the Group and China Huadian, the Company considers that it is beneficial to continue to enter into the Proposed Fuel, Equipments and Services Purchase (Supply) Framework Agreement with China Huadian as such transactions have facilitated the growth of the principal business and installation capacity of the Group. Upon our enquiry, the Directors advised us that China Huadian Group and the Group had mutually provided the Fuel and Services Transactions (excluding natural gas) to each other for over nine years.

With reference to the 2020 Interim Report, the Group's total controlled installed capacity amounted to 56,953.3MW, of which 43,235MW was attributable to controlled coal-fired generating units; 6,878.1MW was attributable to gas-fired generating units, and 6,840.2MW was attributable to renewable energy generating units such as hydropower, wind power, solar power generating units. The Directors advised us that coal is the major raw material of the Company for coal-fired power generation.

As advised by the Directors, the Group's services providers relating to the provision of general contracting, operation and maintenance services and equipment are determined through a competitive bidding process, with China Huadian or its subsidiaries (the "**China Huadian Group**") as potential bidders. Taking into account that (i) China Huadian Group had built up extensive experience and kept reputable records in the market of project contracting, operation and maintenance services; (ii) historically, China Huadian Group provided project contracting services and sold power generation equipment to the Group. Compared with other independent third party service providers,

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China Huadian Group's established service network and long-term cooperation with the Group, China Huadian Group's more familiar with and better understanding in the Group's needs could provide better services to the Group; and (iii) China Huadian Group provided customized project contracting, operation and maintenance services and sold power generation equipment to the Group at competitive prices, which help the Group to reduce its cost for the Group, the Directors consider that the Services Transactions are beneficial to the Group.

As confirmed by the Directors, as the Fuel and Services Transactions have been entered into in the ordinary and usual course of business of the Group and on a frequent and regular basis, (i) it would be costly and impractical to make regular disclosure of each of the relevant transactions and obtain the prior approval from the independent Shareholders as required by the Hong Kong Listing Rules, if necessary; and (ii) service provider under the Services Transactions will be selected through a bidding process, by which all bidders (including the China Huadian Group) have to bid in accordance with the specific timetable, it may be impracticable to seek independent Shareholders' approval upon confirmation of China Huadian Group's successful bidding. Accordingly, the Directors are of the view that the Fuel and Services Transactions will be beneficial to the Company and the Shareholders as a whole.

Having considered the above factors, we consider the Fuel and Services Transactions are conducted in the ordinary and usual course of business of the Group and in the interest of the Company and the Shareholders as a whole.

2. Principal terms of the Fuel and Services Transactions

Date:	11 September 2020
Parties:	the Company; and China Huadian
Existing Term:	Three (3) year commencing from 1 January 2021 and expiring on 31 December 2023
Transactions:	<i>Products and services provided by China Huadian to the Group</i> (1) supply of fuel by China Huadian to the Group; (2) provision of engineering equipments (including but not limited to transducers, recycled water and desulphurisation systems), systems, products, engineering and construction contracting projects and environmental protection system renovation projects by China Huadian to the Group;

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- (3) provision of supplies procurement services and miscellaneous and relevant services by China Huadian to the Group (the “**Miscellaneous and Relevant Services**”), including:
- (i) services in relation to the production and operation of the generating units of power plants, including overhauls and maintenance services, technological services such as testing of generating units and technology renovation and other services relating to production and operation;
 - (ii) financial agency service and property transaction agency services in the process of capital operations;
 - (iii) CDM registration services for the development and operation of clean energy projects;
 - (iv) relevant quota (such as the quota on power generation rights and the quota of “replacing small units with larger units” on shutting down small generating units) services for the operation and project development of the Group;
 - (v) property management services for the leasing of Huadian Tower, the office building of the headquarters of the Company; and

Products and services provided by the Group to China Huadian

- (1) supply of fuel by the Group to China Huadian;
- (2) provision of services such as overhauls and maintenance of generating units of power plants and alternative power generation and relevant quota services by the Group to China Huadian.

Price determination principles

The consideration of the transactions under the Proposed Fuel, Equipments and Services Purchase (Supply) Framework Agreement will be subject to mutual consent and confirmation by the parties to the agreement, as well as determinations after arm’s length negotiation with reference to the then market price and prevailing market conditions. The Company has adopted appropriate internal procedures to ensure that (i) for transactions involving the provision of the products and services by China Huadian to the Group, the terms of such transactions will be fair and reasonable and no less favourable to the Group than those provided by independent third parties; and (ii) for transactions involving the provision of the products and services by the Group to China Huadian, the terms of such transactions will be fair and reasonable and no more favourable to China Huadian than those provided to independent third parties.

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With reference to Rule 14A.56 of the Hong Kong Listing Rules, among other things, the auditors of the Company must provide a letter to the Board confirming whether anything has come to their attention that causes them to believe that the continuing connected transactions were not, in all material respects, in accordance with the pricing policies of the listed issuer's group if the transactions involve the provision of goods or services by the listed issuer's group. We obtained the letter from the Company's auditors (the "**Auditors' Confirmation Letter**"), showing their confirmation that, among other things, for transactions involving the provision of goods or services by the Group (including sale of coal and provision of services such as maintenance of generating units of power plants, alternative power generation and relevant quota services by the Group to China Huadian) for FY2019, nothing has come to their attention that causes them to believe that the transactions were not, in all material respects, in accordance with the pricing policies of the Company.

Fuel Purchase Transactions and Fuel Sale Transactions

As set out in the Board Letter, in practice, the market price of the purchase and sale of coal is generally determined by the local spot market price as at the time of the purchase order. The local spot market price is usually determined with reference to the following principles:

- (1) relevant quotations from two or more independent large-scale PRC coal enterprises; and
- (2) if there are no relevant quotations, the coal price shall be determined by reference to certain independent coal price index, including but not limited to, the Bohai Bay Thermal Coal Price Index, published on various coal industry websites including CQ Coal (秦皇島煤炭網) (<http://www.cqcoal.com>) and SX Coal (中國煤炭資源網) (<http://www.sxcoal.com>). According to the Notice on the Commissioning Operation of the Bohai Bay Thermal Coal Price Index (關於開展環渤海動力煤價格指數試運行工作的通知) issued by the National Development and Reform Commission in 2010, Bohai Bay Thermal Coal Price Index is authorized and guided by the National Development and Reform Committee and is data collected and periodically published by Qinhuangdao Seaborne Coal Market Co., Ltd.. It is an index system which reflects the Free on Board price and price volatility of Bohai Bay thermal coal.

For our due diligence purpose, we obtained three sets of invoices (the "**Coal Invoices**") for each of the purchase/supply of coal between (i) the Company and members of China Huadian Group; and (ii) the Company and independent third parties. We noted from the Coal Invoices that (i) the prices of coal offered by members of China Huadian Group were not higher than those offered by independent third parties to the Group; and (ii) the prices of coal offered by the Group to members of China Huadian Group were not lower than those offered to independent third parties by the Group ("**Our Findings on Coal Invoices**").

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As mentioned above, if there are no relevant quotations, the coal price shall be determined by reference to certain independent coal price index, including but not limited to, the Bohai Bay Thermal Coal Price Index, published on various coal industry websites including CQ Coal (秦皇島煤炭網) (<http://www.cqcoal.com>) and SX Coal (中國煤炭資源網) (<http://www.sxcoal.com>). According to the Notice on the Commissioning Operation of the Bohai Bay Thermal Coal Price Index (關於開展環渤海動力煤價格指數試運行工作的通知) issued by the National Development and Reform Commission in 2010, Bohai Bay Thermal Coal Price Index is authorized and guided by the National Development and Reform Committee and is data collected and periodically published by Qinquangdao Seaborne Coal Market Co., Ltd.. It is an index system which reflects the Free on Board price and price volatility of Bohai Bay thermal coal.

With reference to the Board Letter, in terms of purchasing natural gas, the price of natural gas is currently prescribed by the Chinese government uniformly. The gas-fired power generation enterprises under the Group purchase the natural gas required for power generation at the prices stipulated by the provincial Development and Reform Commission. If the Chinese government implements relevant policies, regulations or guidelines on changing such price, the price of natural gas purchased by the Group shall be adjusted accordingly from the implementation date of such policies, regulations or guidelines. For our due diligence purpose, we obtained government documents showing the current price of natural gas is formulated by the Chinese government.

Services Transactions

With reference to the Board Letter, in practice, the consideration for Services Transactions is determined by reference to the following pricing principles:

- (1) pricing will be determined through a bidding process. The bidding process will adhere to the relevant laws and regulations including the Law of the PRC on Tenders and Bids (《中華人民共和國招標投標法》). The Company will refer to the internal manual regarding the management of the project bidding process. As set out in the internal manual, the Company will make bid initiations setting out, among other things, the specifications and requirements (including technicality, quality and pricing) of the relevant projects of provision of services, the criteria for assessing the contractors, and the requirements for the bid price. The entire bidding process will be controlled and managed by the bid evaluation committee. The committee consists of a president, which is a position held by the deputy general manager of the Company, and members from various business departments of the Company including the safety and operation management department, the finance and assets department and the project management department. The bid evaluation committee of the Company will be responsible for (i) ensuring the adherence to the process as set out in the Law of the PRC on Tenders and Bids; and (ii) reviewing, evaluating and monitoring documents from contractors based on such factors as technicality, quality, pricing, reputation and after-sale services,

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as well as the requirements in the bid invitation. The bid evaluation committee shall then determine the successful bidder by taking into account the above factors for assessment; and

- (2) the bid price offered by the successful bidder under the abovementioned bidding process is subject to further arm's length negotiation between the Company and the successful bidder. Under such circumstances, the Company would make reference to the historical prices and pricing trends of the relevant services and products and ensure that the bid price offered by the successful bidder would be fair and reasonable to the Company and its Shareholders as a whole.

Upon our request, we obtained three sets of bidding documents relating to the Services Transactions and relevant signed contracts (the "**Individual Contracts**"). We noted from the aforesaid contracts and the respective bidding documents that (i) major pricing terms of the Individual Contracts are in line with those of the respective bidding documents; (ii) price offered by China Huadian Group is in compliance with its quotation in bidding documents; and (iii) such Individual Contracts were awarded based on winning bid basis ("**Our Findings on Individual Contracts**").

In addition, the consideration for the provision of services by the Group to China Huadian as contemplated under the Proposed Fuel, Equipments and Services Purchase (Supply) Framework Agreement will be determined with reference to (i) the costs incurred by the Group in providing such services; and (ii) the service fees charged by the Group to independent third parties in providing similar services.

Internal procedures

We noted that the Group adopted various measures to ensure the fair pricing of the Fuel and Services Transactions, in particular, the Group's various departments will be involved in the Fuel and Services Transactions before the entering into of the Fuel and Services Transactions. Details of which are set out under the section headed "Price determination principles and internal procedures" of the Board Letter. We consider that the effectiveness of implementation of the measures will ensure the fair pricing of the Fuel and Services Transactions.

Having considered that (i) the Auditors' Confirmation Letter (as the case may be); (ii) Our Findings on Coal Invoices; (iii) Our Findings on Individual Contracts, we do not doubt the effectiveness of implementation of the measures.

We also reviewed the Proposed Fuel, Equipments and Services Purchase (Supply) Framework Agreement and the existing coal, equipments and services purchase (supply) framework agreement dated 1 November 2019 entered into by the same parties. We noted that, save for the duration and the maximum annual transaction amounts agreed by both

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parties in the above agreement, the principal terms of transactions under the Proposed Fuel, Equipments and Services Purchase (Supply) Framework Agreement are similar to the terms of the existing coal, equipments and services purchase (supply) framework agreement.

Having considered the above factors, we are of the view that the terms of the Fuel and Services Transactions are on normal commercial terms and are fair and reasonable.

3. The proposed annual caps under the Fuel and Services Transactions

A. Purchase Caps

Set out below are (i) the historical transactions amounts of Fuel Purchase Transaction for the two years ended 31 December 2019 and for the six months ended 30 June 2020; and (ii) the proposed annual caps of Fuel Purchase Transactions for the three years ending 31 December 2023:

	For the year ended 31 December 2018 <i>RMB'million</i>	For the year ended 31 December 2019 <i>RMB'million</i>	For the year ending 31 December 2020 <i>RMB'million</i>
Fuel Purchase Transaction			
Historical transaction amounts	3,347	5,087	2,643 <i>(Note)</i>
Existing annual caps	7,000	7,000	7,000
Utilisation rate	47.8%	72.7%	N/A
	For the year ending 31 December 2021 <i>RMB'million</i>	For the year ending 31 December 2022 <i>RMB'million</i>	For the year ending 31 December 2023 <i>RMB'million</i>
Proposed annual cap (the "Purchase Caps")	8,000	8,000	8,000

Note: the figure was for the six months ended 30 June 2020

With reference to the Board Letter, when determining the Purchase Caps for the three years ending 31 December 2023, the Directors took into account of certain factors. Details of the factors are set out under the section headed "4. Proposed Annual Caps" of the Board Letter.

According to the above table, utilisation rates of the existing annual caps were amounted to approximately 47.8% and 72.7% for FY2018 and FY2019 respectively. In addition, the Purchase Caps for each of the three years ending 31 December 2023 represented an increase of approximately 14.3% as compared to the existing annual cap

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of Purchase Transactions for the year ending 31 December 2020. As advised by the Directors, the Purchase Cap for the year ending 31 December 2021 was based on the (i) estimated demand of coal of approximately RMB7,100 million for the year ending 31 December 2021 (the “**Coal Demand**”); (ii) estimated demand of other fuel of approximately RMB400 million for the year ending 31 December 2021 (the “**Other Fuel Demand**”); and (iii) a buffer of approximately 6.7% on the total estimated demand of fuel for the year ending 31 December 2021.

Coal Demand

Upon our enquiry, we understood from the Directors the calculation of the Coal Demand (i.e. Coal Demand = Estimated annual coal purchase volume (in tonne) x Estimated average price of coal). We further enquired into the Directors the details of the annual coal purchase volume (in tonne) and estimated average price of coal with 5,000 kcal/kg (i.e. RMB400 per tonne (tax exclusive))^(Note) for the year ending 31 December 2021.

Based on information as provided by the Directors, the estimated coal purchase volume (in tonne) under the Fuel Purchase Transactions was approximately 19.7% of total estimated annual coal purchase volume (in tonne) for the year ending 31 December 2021 (i.e. 90 million tonne). For our due diligence purpose, we enquired into the Directors the total historical coal purchase volume (in tonne) for FY2018 and FY2019. We noted that the estimated total coal purchase volume (in tonne) for the year ending 31 December 2021 was not substantially deviated from the total historical coal purchase volume (in tonne) for FY2018 (i.e. approximately 88.14 million tonne) and FY2019 (i.e. approximately 87.11 million tonne). In addition, the historical coal purchase volume (in tonne) from China Huadian Group represented approximately 13.3% for FY2019 and approximately 17.8% for the six months ended 30 June 2020 to the total historical coal purchase volume (in tonne) for FY2019 and the six months ended 30 June 2020 respectively. Having considered (i) the estimated percentage of coal purchase volume (in tonne) to total estimated annual coal purchase volume (in tonne) for the year ending 31 December 2021 (i.e. 19.7%) represented a slight increase of 1.9 percent points as compared to the percentage of coal purchase volume (in tonne) to total estimated annual coal purchase volume (in tonne) for the six months ended 30 June 2020 (i.e. 17.8%); and (ii) the implied increase in the percentage was considered due to the increase of coal production capacity of China Huadian Group, we consider that the estimated coal purchase volume (in tonne) under the Fuel Purchase Transactions for the year ending 31 December 2021 to be acceptable.

Note: as advised by the Company, for illustration purpose, the implied price of RMB400 per tonne (tax exclusive) of coal with 5,000 kcal/kg, after adjustment of tax impact and calorific value conversion, would be approximately RMB500 per tonne (tax inclusive) of coal with 5,500 kcal/kg.

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In addition, based on CQ Coal (秦皇島煤炭網), the latest Bohai Bay Thermal Coal Price Index for 5,500 kcal/kg (i.e. RMB544 per tonne (tax inclusive) as at 2 September 2020, being the latest available date for such information). We consider the estimated average price of the coal under the Fuel Purchase Transactions (which after taking into account of tax and calorific value conversion is not far from the latest Bohai Bay Thermal Coal Price Index) is acceptable.

In light of the above factors, we consider that Coal Demand for the year ending 31 December 2021 to be fair and reasonable.

Other Fuel Demand

As mentioned above, the estimated demand on other fuel is RMB400 million for the year ending 31 December 2021.

As advised by the Directors, the estimated demand on other fuel was based on the estimated demand of natural gas by Tianjin Huadian Nanjiang Thermal Power Company Limited (“**Nanjiang Thermal Power Company**”), which operates gas-fired generating units with installed capacity of 930MW, from the China Huadian Group. Based on the information provided by the Directors, the estimated demand of natural gas for the year ending 31 December 2021 represented approximately half of purchase amount of natural gas for FY2019. As advised by the Directors, the lowering of estimated demand of natural gas for the year ending 31 December 2021 was mainly due to the possible increase of demand of natural gas by the Group from independent third parties. Therefore, the estimated demand on other fuel for the year ending 31 December 2021 of RMB400 million was calculated by (i) RMB800 million (based on Nanjiang Thermal Power Company’s historical purchase amount from China Huadian Group in 2019 of approximately RMB751 million) times (ii) 50% (which was mainly due to the possible increase of demand of natural gas by the Group from independent third parties as mentioned above and therefore the Directors advised that the Group proposed to purchase, in principal, not more than half of the estimated demand on natural gas for the year ending 31 December 2021 from the China Huadian Group based on the purchase amount from the China Huadian Group in 2019. Accordingly, 50% was applied for the calculation).

However, the Directors also reserved buffer (refer to below sub-section) should Nanjiang Thermal Power Company’s actual demand of natural gas from China Huadian Group for the year ending 31 December 2021 be at similar level of the actual demand of natural gas for FY2019.

In light of the above factors, we consider that Other Fuel Demand for the year ending 31 December 2021 to be fair and reasonable.

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Buffer

As mentioned above, the Company has applied a buffer of approximately 6.7% to the sum of Coal Demand and Other Fuel Demand to cover the possible demand of fuel by the Group for the unexpected circumstances, such as (i) the unexpected increase of demand of fuel (in volume); and (ii) the substantial increase in price of fuel, we are of the view that the buffer to be acceptable.

In light of that (i) Coal Demand for the year ending 31 December 2021 to be fair and reasonable; (ii) Other Fuel Demand for the year ending 31 December 2021 to be fair and reasonable; (iii) the buffer of approximately 6.7% to be acceptable; and (iv) the Directors' expectation that the estimated demand of the Purchase Transactions would be stable during 2021 to 2023, we are of the view that the Purchase Caps for the three years ending 31 December 2023, which are the same during the years, to be fair and reasonable.

B. Service Caps

Set out below are (i) the historical transactions amounts of Service Transactions for the two years ended 31 December 2019 and for the six months ended 30 June 2020; and (ii) the proposed annual cap of Service Transactions for the three years ending 31 December 2023:

	For the year ended 31 December 2018 <i>RMB'million</i>	For the year ended 31 December 2019 <i>RMB'million</i>	For the year ending 31 December 2020 <i>RMB'million</i>
Services Transactions			
Historical transaction amounts	5,287	4,282	894 (<i>Note</i>)
Existing annual caps	7,000	8,000	8,000
Utilisation rate	75.5%	53.5%	N/A
	For the year ending 31 December 2021 <i>RMB'million</i>	For the year ending 31 December 2022 <i>RMB'million</i>	For the year ending 31 December 2023 <i>RMB'million</i>
Proposed annual cap (the “Service Caps”)	8,000	8,000	8,000

Note: the figure was for six months ended 30 June 2020

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As advised by the Directors, when estimating the annual cap for the provision of engineering equipments, systems, products and engineering and construction contracting projects, supplies procurement services and other Miscellaneous and Relevant Services by China Huadian to the Group, the Directors took into account of certain factors. Details of the factors are set out under the section headed “4. Proposed Annual Caps” of the Board Letter.

We noted that the relevant utilisation rates of the existing annual caps were approximately 75.5% and 53.5% respectively for FY2018 and FY2019 respectively. The utilisation rates of the existing annual caps were not at high levels.

As advised by the Directors, the majority part of the Group’s total estimated demand of the Service Transactions for the year ending 31 December 2020 is the possible demand on engineering and construction contracting services.

With reference to the 2020 Interim Report, as at 30 June 2020, the Group’s major generating units which have been under construction are, (i) coal-fired generating units amounted to approximately 510MW; (ii) gas-fired generating units amounted to approximately 1,629MW; (iii) hydropower generating units amounted to approximately 168MW, (iv) wind generating units amounted to 1,716.5MW and (v) photovoltaic generating units amounted to 11.3MW. The Directors further advised us the average cost unit per KW for construction of (i) coal-fired generating units; (ii) gas-fired generating units; (iii) hydropower generating units, (iv) wind generating units and (v) photovoltaic generating units as stated above. For our due diligence purpose, we enquired into the Directors the average cost unit per KW for construction of the aforesaid power generating units and noted that the estimated average cost unit per KW is in line with historical average cost unit per KW. The Service Cap for the year ending 31 December 2021 is less than implied total cost of aforesaid under construction projects.

In addition, we also enquired into the Directors the historical construction cost (including service provided by both connected parties and independent third parties) of the aforesaid power generating units for FY2019 and noted that the Service Cap for the year ending 31 December 2021 is less than the aforesaid historical construction cost for FY2019.

Upon our further request, the Directors advised that they considered following to assess the reasonableness of the Service Cap for the year ending 31 December 2021, although the implied total cost of above-mentioned under construction projects was larger than the Service Cap for the year ending 31 December 2021, which indicated the possible demand of Services Transaction from China Huadian Group and/or independent third parties.

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- Historical transaction amounts of Services Transactions for the five years ended 31 December 2019 from China Huadian Group and the Group's capital expenditure for infrastructure construction investment, technical reformation, etc. (the "**Relevant Capital Expenditure**") are set out below:

	2019	2018	2017	2016	2015
Historical transaction amounts					
(I) (approximate RMB' billion)	4.28	5.29	4.81	3.40	2.19
Relevant Capital Expenditure					
(II) (approximate RMB' billion)	15.60	17.40	15.79	20.19	15.80
Ratio of (I) over (II)	27.44%	30.40%	30.46%	16.84%	13.86%
Average			23.80%		

- According to the above table, the average ratio of historical transaction amounts of Services Transactions for the five years ended 31 December 2019 from China Huadian Group to the Relevant Capital Expenditure during the same period was approximately 23.80%.
- As stated in the 2019 Annual Report, according to the actual progress of each project, in 2020, the Group intends to invest approximately RMB16.0 billion, which will be used for the infrastructure of power supply projects, environmental protection and energy-saving technical reformation projects and other projects.
- The estimated demand of Services Transactions for the year ending 31 December 2021, based on the above average percentage ratio and intended investment in 2020, would be approximately RMB3.808 billion.
- During the five years ended 31 December 2019, the maximum Relevant Capital Expenditure amounted to approximately RMB20.19 billion, representing an increase of approximately RMB4.19 billion as compared to the intended investment amounts in 2020 (i.e. RMB16.0 billion).
- In the event that the intended investment amount for the year ending 31 December 2021 reached the maximum level of the five years ended 31 December 2019 and the increased amounts would be provided by China Huadian Group, the estimated demand of Services Transactions for the year ending 31 December 2021 (i.e. RMB8.0 billion) would be sufficient to cover the implied demand of Services Transactions in such circumstances (i.e. RMB7.998 billion = RMB3.808 billion + RMB4.19 billion).

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In light of the above factors and that (i) there would also be possible demand on other services including overhauls and maintenance services, technology renovation, technological services, etc.; and (ii) the Directors' expectation that the estimated demand of the Services Transactions would be stable during 2021 to 2023, we are of the view that the Service Caps for the three years ending 31 December 2023, which are the same during the years, to be fair and reasonable.

C. Sale Caps

Set out below are (i) the historical transactions amounts of Sale Transactions for the two years ended 31 December 2019 and for the six months ended 30 June 2020 with existing annual caps; and (ii) the proposed annual caps of Sale Transactions for the three years ending 31 December 2023:

	For the year ended 31 December 2018	For the year ended 31 December 2019	For the year ending 31 December 2020
Fuel Sale Transaction	<i>RMB'million</i>	<i>RMB'million</i>	<i>RMB'million</i>
Historical transaction amounts	11,001	11,135	4,903 (<i>Note</i>)
Existing annual caps	13,000	13,000	13,000
Utilisation rate	84.6%	85.7%	N/A
	For the year ending 31 December 2021	For the year ending 31 December 2022	For the year ending 31 December 2023
	<i>RMB'million</i>	<i>RMB'million</i>	<i>RMB'million</i>
Proposed annual cap (the "Sale Caps")	13,000	13,000	13,000

Note: the figure was for six months ended 30 June 2020

As advised by the Directors, when estimating the Sale Caps for the three years ending 31 December 2023, the Directors took into account of certain factors. Details of the factors are set out under the section headed "4. Proposed Annual Caps" of the Board Letter.

We noted that the relevant utilisation rates of the existing annual caps were approximately 84.6% and 85.7% respectively for FY2018 and FY2019 respectively. The utilisation rates of the existing annual caps were at high levels.

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We enquired into the Directors the calculation of the possible sale of fuel (i.e. coal) to China Huadian Group for the year ending 31 December 2021, which represented approximately 98% of the Sale Cap for the year ending 31 December 2021. We noted that such estimation was determined based on (i) estimated quantity of coals to be sold to China Huadian Group; and (ii) estimated average price of coal. We further enquired into the Directors the historical quantity of coals sold to China Huadian Group for the two years ended 31 December 2019 and noted that the estimated quantity of coals to be sold to China Huadian Group for the year ending 31 December 2021 represented an increase of approximately 10.3% as compared to the historical quantity of coals sold to China Huadian Group for FY2019 (an increase of approximately 8.4% for FY2019 as compared to that for FY2018). We also noted that the estimated average price of coal under the Fuel Sale Transactions are the same as that under the Fuel Purchase Transactions.

With reference to the Board Letter, the Company has applied approximately 2% of the Sale Cap for the year ending 31 December 2021 to cover the possible demand of services by China Huadian Group such as overhauls and maintenance of generating units of power plants, alternative power generation and relevant quota services. Having considered that (i) the requirement for the aforesaid services would be determined by China Huadian Group; and (ii) the service provider would be selected by bidding process, we are of the view that approximately 2% of the Sale Cap for the year ending 31 December 2021 to cover the possible demand of aforesaid services to be acceptable.

Based on the above factors and that the Directors' expectation that the estimated demand of the Sale Transactions would be stable during the year ending 31 December 2021 to the year ending 31 December 2023, we are of the view that the Sale Caps for the three years ending 31 December 2023, which are the same during the years, to be fair and reasonable.

4. Hong Kong Listing Rules implication regarding the Fuel and Services Transactions

The Directors confirmed that the Company shall comply with the requirements of Rules 14A.53 to 14A.59 of the Hong Kong Listing Rules pursuant to which (i) the values of the Fuel and Services Transactions must be restricted by the Purchase Caps, Services Caps and Sale Caps for the period concerned under the Proposed Fuel, Equipments and Services Purchase (Supply) Framework Agreement; (ii) the terms of the Fuel and Services Transactions (including the Purchase Caps, Services Caps and Sale Caps) must be reviewed by the independent non-executive Directors annually; (iii) details of independent non-executive Directors' annual review on the terms of the Fuel and Services Transactions must be included in the Company's subsequent published annual reports and financial accounts.

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Furthermore, it is also required by the Hong Kong Listing Rules that the auditors of the Company must provide a letter to the Board confirming, among other things, whether anything has come to their attention that causes them to believe that the Fuel and Services Transactions (i) have not been approved by the Board; (ii) were not, in all material respects, in accordance with the pricing policies of the listed issuer's group if the transactions involve the provision of goods or services by the listed issuer's group; (iii) were not, in all material respects, in accordance with the relevant agreement governing the transaction; and (iv) has exceeded the Purchase Caps, Services Caps and Sale Caps.

In the event that the total amounts of the Fuel and Services Transactions are anticipated to exceed the Purchase Caps, Services Caps and/or Sale Caps, or that there is any proposed material amendment to the terms of the Fuel and Services Transactions, as confirmed by the Directors, the Company shall comply with the applicable provisions of the Hong Kong Listing Rules governing continuing connected transaction.

Given the above stipulated requirements for continuing connected transactions pursuant to the Hong Kong Listing Rules, we are of the view that there are adequate measures in place to monitor the Fuel and Services Transactions and thus the interest of the independent Shareholders would be safeguarded.

5. Recommendation on the Fuel and Services Transactions

Having taken into consideration the factors and reasons as stated above, we are of the opinion that (i) the terms of the Fuel and Services Transactions are on normal commercial terms and are fair and reasonable; and (ii) the Fuel and Services Transactions are conducted in the ordinary and usual course of business of the Group and in the interests of the Company and the Shareholders as a whole. Accordingly, we recommend the Independent Board Committee to advise the independent Shareholders to vote in favour of the resolution(s) to be proposed at the EGM to approve the Fuel and Services Transactions and we recommend the independent Shareholders to vote in favour of the resolution(s) in this regard.

Yours faithfully,
For and on behalf of
Gram Capital Limited
Graham Lam
Managing Director

* *For identification purpose only*

Note: Mr. Graham Lam is a licensed person registered with the Securities and Futures Commission and a responsible officer of Gram Capital Limited to carry out Type 6 (advising on corporate finance) regulated activity under the SFO. He has over 25 years of experience in investment banking industry.

1. RESPONSIBILITY STATEMENT

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

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

Name	Position in the Company	Number of A shares of the Company held as personal interest	Capacity
Gou Wei	Non-executive Director	10,000 ^(Note)	Beneficial owner

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

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

Mr. Wang Xuxiang, Mr. Peng Xingyu, Mr. Gou Wei and Mr. Hao Bin, the Directors of the Company, and Mr. Ding Huande, the proposed Director of the Company, held positions in China Huadian. Save as disclosed above, as at the Latest Practicable Date, none of the other Directors, proposed Directors or supervisors of the Company was also a director or employee of a company which had an interest or short position in the shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO.

3. CONSENT AND QUALIFICATION OF EXPERT

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

The following sets out the qualification of Gram Capital:

Name	Qualification
Gram Capital Limited	Type 6 (advising on corporate finance) regulated activity as defined under the SFO

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

As at the Latest Practicable Date, Gram Capital did not have any direct or indirect interest in any assets which had been, since 31 December 2019, being the date to which the latest published audited accounts of the Company were made up, acquired or disposed of by or leased to, or were proposed to be acquired or disposed of by or leased to, any member of the Group.

4. NO MATERIAL ADVERSE CHANGE

As at the Latest Practicable Date, the Directors were not aware of any material adverse change in the financial or trading position of the Group since 31 December 2019, being the date to which the latest published audited accounts of the Company were made up.

5. SERVICE CONTRACTS

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

6. COMPETING INTERESTS

As at the Latest Practicable Date, none of the Directors, proposed Directors or supervisors or their respective close associates (as defined under the Hong Kong Listing Rules) had any interest in other business which competes or is likely to compete with the business of the Group as if each of them was treated as a controlling Shareholder of the Company under Rule 8.10 of the Hong Kong Listing Rules.

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

As at the Latest Practicable Date, none of the Directors, proposed Directors or supervisors of the Company had any direct or indirect interest in any assets which had been since 31 December 2019 (being the date to which the latest published audited accounts of the Company were made up) acquired or disposed of by or leased to, or were proposed to be acquired or disposed of by or leased to, any member of the Group.

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

8. MATERIAL LITIGATION

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

9. MISCELLANEOUS

- (a) The registered office of the Company is situated at No. 14800, Jingshi Road, Jinan City, Shandong Province, the PRC.
- (b) The business office of the Company is situated at No. 2 Xuanwumennei Street, Xicheng District, Beijing, the PRC.
- (c) The Hong Kong H share registrar and H share transfer office of the Company is Hong Kong Registrars Limited situated at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong.
- (d) None of the websites appearing in or referred to in this circular or any of the information contained on any such websites forms part of this circular. Neither the Company nor any Director take any responsibility for any information contained on such websites or its accuracy.
- (e) The English text of this circular shall prevail over its Chinese text in the case of inconsistency.

10. DOCUMENTS AVAILABLE FOR INSPECTION

A copy of each of the (i) Existing Fuel, Equipments and Services Purchase (Supply) Framework Agreement; (ii) Proposed Fuel, Equipments and Services Purchase (Supply) Framework Agreement; (iii) the letter from the Board, the text of which is set out on pages 4 to 20 of this circular; (iv) the letter from the Independent Board Committee, the text of which is set out on page 21 of this circular; and (v) the letter from Gram Capital, the text of which is set out on pages 22 to 40 of this circular will be available for inspection at the office of Toppan Merrill Limited, 8th Floor, Gloucester Tower, The Landmark, 15 Queen's Road Central, Central, Hong Kong during normal business hours on any weekday (except public holidays) from the date of this circular up to and including 23 October 2020.