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If you have sold or transferred all your shares in **Huadian Power International Corporation Limited*** (the “Company”), you should at once hand this supplemental circular and the proxy form 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)

**DISCLOSEABLE TRANSACTION AND
CONNECTED TRANSACTIONS:
ENTERING INTO TRANSFER AGREEMENTS**

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



Gram Capital Limited
嘉林資本有限公司

This supplemental circular (“**Supplemental Circular**”) shall be read in conjunction with the circular dated 29 January 2021 (“**Original Circular**”) of Huadian Power International Corporation Limited* (the “**Company**”).

A letter from the Board is set out on pages 4 to 27 of this Supplemental Circular. A letter from the Independent Board Committee in relation to the Transfer Agreements and the Transfers contemplated thereunder, is set out on page 28 of this Supplemental Circular. A letter from Gram Capital, containing its advice to the Independent Board Committee and the Independent Shareholders in relation to the Transfer Agreements and the Transfers contemplated thereunder, is set out on pages 29 to 49 of this Supplemental Circular.

A notice convening the EGM to be held at 2:00 p.m. on Wednesday, 28 April 2021 at Jinan Yanzi Resort, No.14668 Jingshi Street, Lixia District, Jinan, Shandong Province, the People's Republic of China, is set out on pages 125 to 128 of this Supplemental Circular.

Shareholders who intend to appoint a proxy to attend the EGM shall complete and return the proxy form despatched on 31 March 2021 in accordance with the instructions printed thereon not less than 24 hours before the time fixed for holding the EGM (i.e. before 2:00 p.m. on Tuesday, 27 April 2021) 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.

CONTENTS

	<i>Page</i>
DEFINITIONS	1
LETTER FROM THE BOARD	4
LETTER FROM THE INDEPENDENT BOARD COMMITTEE	28
LETTER FROM GRAM CAPITAL	29
APPENDIX I – SUMMARY OF VALUATION REPORT OF NINGXIA LINGWU	50
APPENDIX II – SUMMARY OF VALUATION REPORT OF NINGXIA HEATING	83
APPENDIX III – LETTER FROM THE REPORTING ACCOUNTANT OF THE COMPANY ON VALUATION REPORT	118
APPENDIX IV – LETTER ON PROFIT FORECAST OF NINGXIA HEATING FROM THE BOARD OF THE COMPANY	120
APPENDIX V – GENERAL INFORMATION	121
NOTICE OF EXTRAORDINARY GENERAL MEETING	125

DEFINITIONS

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

“Appraiser”	Beijing China Enterprise Appraisal Co., Ltd.* (北京中企華資產評估有限責任公司);
“Board”	the board of directors of the Company;
“China Huadian”	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;
“China Huadian Group”	China Huadian Corporation Limited* (中國華電集團有限公司) and its subsidiaries, which for the purpose of this Supplemental Circular excludes the Group;
“Company”	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”	the directors of the Company;
“EGM”	the extraordinary general meeting of the Company to be held at 2:00 p.m. on Wednesday, 28 April 2021 at Jinan Yanzi Resort, No.14668 Jingshi Street, Lixia District, Jinan, Shandong Province, the People’s Republic of China;
“Group”	the Company and its subsidiaries as of the date of this Supplemental Circular;
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC;

DEFINITIONS

“Hong Kong Listing Rules”	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited;
“Hong Kong Stock Exchange”	The Stock Exchange of Hong Kong Limited;
“Independent Board Committee”	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 Transfer Agreements and the Transfers contemplated thereunder pursuant to the requirements of the Hong Kong Listing Rules;
“Independent Financial Adviser” or “Gram Capital”	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 Transfer Agreements and the Transfers contemplated thereunder;
“Independent Shareholders”	the Shareholders who are not required to abstain from voting on approving the Transfer Agreements and the Transfers contemplated thereunder;
“Latest Practicable Date”	26 March 2021, being the latest practicable date prior to the printing of this Supplemental Circular for ascertaining certain information contained herein;
“Lingwu Dividend Receivable”	the dividend receivable arising from the 65% equity interests in Ningxia Lingwu held by the Company as at the date of the Ningxia Lingwu Agreement;
“Ningxia Lingwu” or “Huadian Lingwu Power Plant”	Huadian Ningxia Lingwu Power Generation Company Limited* (華電寧夏靈武發電有限公司), a company incorporated in the PRC with limited liability;
“Ningxia Lingwu Agreement”	the equity and debt transfer agreement entered into by the Company and China Huadian on 26 February 2021, pursuant to which, the Company agreed to sell, and China Huadian agreed to purchase 65% equity interests in Ningxia Lingwu held by the Company and Lingwu Dividend Receivable;

DEFINITIONS

“Ningxia Heating”	Ningxia Huadian Heating Corporation Limited* (寧夏華電供熱有限公司), a company incorporated in the PRC with limited liability;
“Ningxia Heating Agreement”	the equity transfer agreement entered into by the Company and China Huadian on 26 February 2021, pursuant to which, the Company agreed to sell, and China Huadian agreed to purchase 53% equity interests in Ningxia Heating held by the Company;
“PRC”	the People’s Republic of China;
“RMB”	Renminbi, the lawful currency of the PRC;
“SASAC”	State-owned Assets Supervision and Administration Commission of State Council;
“SFO”	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)”	the share(s) with a par value of RMB1.00 each in the share capital of the Company;
“Shareholder(s)”	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;
“Transition Period”	the period from the Valuation Reference Date (exclusive of such date) to the completion date (inclusive of such date);
“Transfers”	the transactions contemplated under the Transfer Agreements;
“Transfer Agreements”	including Ningxia Lingwu Agreement and Ningxia Heating Agreement;
“Valuation Reference Date”	30 June 2020, the valuation reference date stated in the Ningxia Lingwu valuation report prepared by the Zhonghe Appraisal Co., Ltd. and the Ningxia Heating valuation report prepared by the Appraiser; and
“%”	per cent.

* For identification purposes 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:

Ding Huande (*Chairman, Executive Director*)
Ni Shoumin (*Vice Chairman, Non-executive Director*)
Peng Xingyu (*Non-executive Director*)
Luo Xiaoqian (*Executive Director*)
Zhang Zhiqiang (*Non-executive Director*)
Li Pengyun (*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

31 March 2021

To the Shareholders,

Dear Sir/Madam

**DISCLOSEABLE TRANSACTION AND
CONNECTED TRANSACTIONS:
ENTERING INTO TRANSFER AGREEMENTS**

I. INTRODUCTION

Reference is made to the announcement of the Company dated 26 February 2021 in relation to the Transfer Agreements and the Transfers contemplated thereunder.

The purpose of this Supplemental Circular is to provide the Shareholders with information in respect of the Transfer Agreements and the Transfers contemplated thereunder, to enable the Shareholders to make their informed decisions as to how to vote on relevant resolutions at the EGM.

LETTER FROM THE BOARD

II. NINGXIA LINGWU AGREEMENT

The principal terms of the Ningxia Lingwu Agreement are summarized as follows:

Date: 26 February 2021

Parties: The Company (the transferor); and
China Huadian (the transferee).

Subject matter: The Company agreed to sell and China Huadian agreed to purchase 65% equity interests in Ningxia Lingwu held by the Company and the Lingwu Dividend Receivable.

Consideration: The consideration of the transactions contemplated under the Ningxia Lingwu Agreement is RMB2,822,503,971.45, comprising the consideration of:

- (i) the transfer of 65% equity interests in Ningxia Lingwu, being approximately RMB2,095,704,651.68, which is calculated as follows:

$$\text{RMB2,095,704,651.68} = \text{RMB}(4,386,346,998.48 - 1,162,185,995.9) \times 65\%$$

Where:

- (1) RMB4,386,346,998.48 represents the appraised value of owners' equity for Ningxia Lingwu as at 30 June 2020 without taking into account the dividends distributable to its shareholders, using asset-based approach by Zhonghe Appraisal Co., Ltd.;
- (2) RMB1,162,185,995.9 represents total dividends distributable to its shareholders set forth in the "Proposal of Profit Distribution of the Company (2014-2019)" considered and approved by the general meeting of Ningxia Lingwu on 28 July 2020 (the "**Proposal**"); and

LETTER FROM THE BOARD

- (3) 65% represents the percentage of equity interests held by the Company in Ningxia Lingwu.
- (ii) the transfer of the Lingwu Dividend Receivable, being RMB726,799,319.77, which is calculated as follows:

$$\text{RMB726,799,319.77} = \text{RMB771,328,762.86} - \text{RMB44,529,443.09}$$

Where:

- (1) RMB771,328,762.86 represents the total dividends distributable to the Company, calculated based on the total dividends distributable to Ningxia Lingwu's shareholders set forth in the Proposal and among which the amount of transfer into share capital, and the percentage of shares in Ningxia Lingwu held by the Company⁽¹⁾; and
- (2) RMB44,529,443.09 represents the dividend already paid to the Company from Ningxia Lingwu on 9 September 2020. As set forth in the Proposal, the total dividends distributable to Ningxia Lingwu's shareholders (including the Lingwu Dividend Receivable) shall be paid in due course (without specifying the due date for such amount) subject to the business operation of Ningxia Lingwu.

Note:

- (1) The dividend distributable to the Company for the years of 2014 and 2015 is RMB391,582,044 and RMB325,196,672.43 respectively, which are slightly more than its proportional amount of dividend as to the Company's shareholding percentage in Ningxia Lingwu, due to the facts that: (i) the share capital of Ningxia Lingwu was contributed by the Company and Chalco Ningxia Energy Group Co., Ltd. (中鋁寧夏能源集團有限公司) by yearly installments. Small parts of the actual capital contributions by Chalco Ningxia Energy Group Co., Ltd. during 2014 and 2015 were delayed as a result of its longer internal decisioning process then; and (ii) the dividends distributable to the shareholders of Ningxia Lingwu for 2014 and 2015 were therefore calculated and fixed by the Proposal according to the actual share capital contribution by shareholders during those two years. During 2016-2019, both shareholders of Ningxia Lingwu made their share capital contribution without any delay and therefore the dividends distributable to them were calculated according to their respective shareholding percentages in Ningxia Lingwu (i.e. 65% and 35%).

LETTER FROM THE BOARD

During the Transition Period commencing on the Valuation Reference Date to the completion date (being the completion date of the industrial and commercial change registration for the shareholders in respect of the transfer of 65% equity interests in Ningxia Lingwu), the Company shall be entitled to assume the corresponding profit or loss attributable to the abovesaid 65% equity interests in Ningxia Lingwu. And the third instalment of consideration shall be adjusted based on such audited profit/loss, according to the audit report of Ningxia Lingwu for the period from the Valuation Reference Date (exclusive of such date) to the completion date (inclusive of such date). As at the Latest Practicable Date, the Company is still in the process of appointing an auditor to perform such audit and targets to finalize the appointment by the middle of April 2021.

Having reviewed the credentials and the confirmation letter provided by Zhonghe Appraisal Co., Ltd., the Board confirms that Zhonghe Appraisal Co., Ltd. is an independent and competent valuer to conduct the valuation of Ningxia Lingwu. Regarding the valuation approach adopted, the asset-based approach, in comparison to other appraisal approaches, is a basic approach of assessing corporate value by asset investment, which can directly reflect the scale of corporate value. In addition, Ningxia Lingwu is a cogeneration enterprise, which falls into the scope of heavy assets industry that has a high ratio of fixed asset investment. Therefore, the asset-based approach valuation result relatively has a higher reliability. Given above and after review of the valuation report and discussion with the valuer, the Board is of the view that the valuation methodology adopted in the valuation of Ningxia Lingwu is fair and reasonable.

LETTER FROM THE BOARD

In respect of the key assumptions adopted in the valuation of Ningxia Lingwu, the Board is of the view that such assumptions are fair and reasonable taking into account the following basis: (i) such key assumptions are duly screened and chosen by the valuer in accordance with the relevant requirements as prescribed in the applicable PRC regulations and guidance on valuations (such as the Guidelines on Valuation Report of Business State-owned Assets (CAS [2017] No. 42) and Assets Valuation Practicing Standards – Assets Valuation Report (CAS [2018] No. 35)); (ii) the independence and competence of the valuer, which played a key role in choosing such assumptions as mentioned above; (iii) that the senior management and the Board of the Company have carefully reviewed such key assumptions adopted in the valuation of Ningxia Lingwu; and (iv) that the senior management and the Board of the Company have discussed with the valuer in details on such assumptions and are not aware of any other key assumption which may materially impact the result of valuation of Ningxia Lingwu.

As at the Latest Practicable Date, the Company is not aware of any subsequent material changes to circumstances and conditions of Ningxia Lingwu that will impact the results of the valuation of Ningxia Lingwu since the Valuation Reference Date. In addition, as mentioned, an audit of Ningxia Lingwu for the Transition Period shall be followed and completed, and the third instalment of payment consideration will be adjusted accordingly based on such audited results. Given above and considering the valuation report of Ningxia Lingwu has an effective term of one year after the Valuation Reference Date according to relevant PRC regulations, the valuation of Ningxia Lingwu forms a fair and reasonable basis for the determination of the considerations for the transactions under Ningxia Lingwu Agreement.

LETTER FROM THE BOARD

Although the parties did not designate a cap to the adjustments (which could be upward or downward) resulted from the abovementioned pre-closing audit in relation to the Transition Period, the Company expects that the adjustment on the amount of consideration arising from the audit results of Ningxia Lingwu as at the completion date in respect of the Transition Period will be minimal, on the following basis: (i) the adjustment mechanism will mainly look to the possible change of audited figure of amount of net asset of the Ningxia Lingwu over the Transition Period, details of which can be referred to in item (iii) of “Payments” section below; (ii) the amount of net asset of Ningxia Lingwu as at the completion date would be affected, if any, mainly by any capital increase, dividend distribution and profit or loss of Ningxia Lingwu during the Transition Period; and (iii) the Company is not aware of, and does not foresee, any material change to circumstances and conditions of Ningxia Lingwu that will impact the results of the valuation of Ningxia Lingwu since the Valuation Reference Date, nor any plans for capital increase or dividend distribution, or material profit or loss (after reviewing the management account of the Company) to be incurred by Ningxia Lingwu during the Transition Period. Given the above, the Transfers (calculated on an aggregated basis) will not end up with a higher classification of transaction. In addition, the Company will make further announcement on the details of the adjusted consideration of the transactions under the Ningxia Lingwu Agreement as and when appropriate.

The Board is of the view that such pre-closing audit of Ningxia Lingwu (for details, please refer to item (iii) of the “Payments” section below) is on normal commercial terms or better terms, fair and reasonable and in the interest of the Company and its Shareholders as a whole on the following basis: (i) by way of conducting such a pre-closing audit, the consideration after adjustment for the transaction will then be better reflective of the latest value of the Company’s shareholding in Ningxia Lingwu as at the closing; and (ii) such a pre-closing adjustment approach, as the parties adopted in this transaction, is a prevailing consideration adjustment mechanism in the market which has been commonly adopted in the similar type of M&A transactions.

LETTER FROM THE BOARD

As a result, after taking into account the fairness and reasonableness of (1) the valuation methodology and the key assumptions adopted in the valuation of Ningxia Lingwu and thus the appraised value of Ningxia Lingwu arrived; and (2) the adjustment mechanism of consideration based on an additional pre-closing audit of Ningxia Lingwu, the Board is satisfied that the consideration under the Ningxia Lingwu Agreement is fair and reasonable, and on normal commercial terms or better terms.

Payments:

The consideration for the transactions contemplated under the Ningxia Lingwu Agreement will be paid in cash by China Huadian to the Company in three instalments under the proportions of 51%, 29% and 20%, in which:

- (i) China Huadian shall pay the first instalment of consideration for transfer (being RMB1,439,477,025.44) within five working days after the Ningxia Lingwu Agreement has come into effect;
- (ii) China Huadian shall pay the second instalment of consideration for transfer (being RMB818,526,151.72) within five working days after Ningxia Lingwu has completed the industrial and commercial change registration for the transfer of its 65% equity interests; and
- (iii) The audit of Ningxia Lingwu for the Transition Period shall be completed and the corresponding audit report shall be issued within 15 working days after the industrial and commercial change registration. Within five working days after the issuance of the abovementioned audit report, China Huadian shall pay the third instalment of adjusted consideration for transfer, which shall be calculated based on the difference between the audited net asset as at the Valuation Reference Date and that as at the closing date (in proportion to the percentage of equity interests held by the Company in Ningxia Lingwu). Such audited figure of the net asset as at the closing date will be arrived at taking into account any capital increase, dividend distribution and/or profit or loss of Ningxia Lingwu during the Transition Period. The consideration will rise if the net asset increases as at the closing date and vice versa. The relevant adjustments of consideration shall then be made to RMB564,500,794.29, which is the third installment of consideration before adjustment.

As at the Latest Practicable Date, the Company has not paid any of the three instalments of consideration.

LETTER FROM THE BOARD

Conditions precedent:

The completion of transactions contemplated under the Ningxia Lingwu Agreement is conditional upon the fulfillment of the following matters:

- (i) the asset valuation report of Ningxia Lingwu being filed with the competent authority in accordance with relevant regulations on the administration of state-owned assets, namely SASAC and its authorized entity;
- (ii) the transactions contemplated under the Ningxia Lingwu Agreement being considered and approved at the general meeting of Ningxia Lingwu, and other shareholders have explicitly waived their rights of first refusal in relation to the 65% equity interests in Ningxia Lingwu;
- (iii) the transactions contemplated under the Ningxia Lingwu Agreement being considered and approved at the general meeting of the Company; and
- (iv) the transactions contemplated under the Ningxia Lingwu Agreement to be conducted by way of transfer by agreement, being approved by the relevant authority responsible for the administration of state-owned assets, namely SASAC and its authorized entity.

The above-mentioned conditions are not waivable by China Huadian and the Company. And as at the Latest Practicable Date, the above conditions precedent under (i), (ii) and (iv) have been fulfilled.

Completion:

The Company shall procure Ningxia Lingwu to complete the industrial and commercial change registration (subject to the acceptance of the relevant change registration by the competent department of industrial and commercial administration) in respect of the change of the shareholders and shareholding as well as articles of association of Ningxia Lingwu within 30 days upon the fulfillment of the above conditions precedent.

The completion of the Ningxia Lingwu Agreement and the Ningxia Heating Agreement is inter-conditional on each other. It is expected that the transactions under the Ningxia Lingwu Agreement will be completed by 30 June 2021.

LETTER FROM THE BOARD

III. NINGXIA HEATING AGREEMENT

1. Principal terms of the Ningxia Heating Agreement are summarized as follows:

Date:	26 February 2021
Parties:	The Company (the transferor); and China Huadian (the transferee).
Subject matter:	The Company agreed to sell and China Huadian agreed to purchase 53% equity interests in Ningxia Heating held by the Company.
Consideration:	The consideration of transaction contemplated under the Ningxia Heating Agreement is RMB1,249,728,234, which is calculated as follows:

$$\text{RMB1,249,728,234} = \text{RMB}(2,342,227,800 + 15,750,000) \times 53\%$$

Where:

- (i) RMB2,342,227,800 represents the appraised value of owners' equity in Ningxia Heating as at 30 June 2020, using income approach by the Appraiser, without taking into account the amount of capital contribution which has not yet been paid by the minority shareholders to Ningxia Heating;
- (ii) RMB15,750,000 represents the amount of capital contribution which has not yet been paid by the minority shareholders to Ningxia Heating, which was due to their lack of cash resource as a result of their operating situation as at the time of capital contribution;
- (iii) 53% represents the percentage of equity interests held by the Company in Ningxia Heating; and
- (iv) the Company has paid its portion of RMB100,000,000, RMB178,250,000, RMB278,250,000 and RMB254,400,000 in October 2017, November 2017, March 2018 and August 2020, respectively.

LETTER FROM THE BOARD

During the Transition Period commencing on the Valuation Reference Date to the completion date (being the completion date of the industrial and commercial change registration for the shareholders in respect of the transfer of 53% equity interests in Ningxia Heating), the Company shall be entitled to assume the corresponding profit or loss attributable to the abovesaid 53% equity interests in Ningxia Heating. And the third instalment of consideration shall be adjusted based on such audited profit/loss, according to the audit report of Ningxia Heating for the period from the Valuation Reference Date (exclusive of such date) to the completion date (inclusive of such date). As at the Latest Practicable Date, the Company is still in the process of appointing an auditor to perform such audit and targets to finalize the appointment by the middle of April 2021.

Having reviewed the credentials and the confirmation letter provided by the Appraiser, the Board confirms that the Appraiser is an independent and competent valuer to conduct the valuation of Ningxia Heating. Ningxia Heating is a company specializing in urban central heating supply, which falls within the category of franchising. Save for the projects completed and currently under operation, the remaining construction of other projects is scheduled to be completed and put into operation by the end of 2022. In addition to the existing fixed asset investments and a large amount of working capital, Ningxia Heating also has relatively stable customer resources, stable suppliers, a strong management and operation team, a good reputation, experienced industry management talents, and relatively full qualifications among the industry. The industry prospects are promising, considering its competitiveness in the same area and the same industry, the company's estimated future profits are achievable. The income approach covers the contribution of all tangible and intangible assets from the perspective of future income. Compared with the asset-based approach, the income approach is more able to reflect the market value of Ningxia Heating on the Valuation Reference Date. In particular, for Phase II project of Ningxia Heating, the construction in progress under the asset-based approach only reflects the carry amount up to now. However, according to the enterprise historical data, it is known that upon the investment in the heating project, considerable cash flow will be generated in the later stage since the heating price is government-guided and the heating area has been determined. Therefore, compared with the asset-based approach, the income approach can better reflect the market value of Ningxia Heating.

LETTER FROM THE BOARD

Ningxia Lingwu is a production-oriented enterprise which produces electricity and heat. Equipment assets account for a large proportion. Therefore, the asset approach is adopted for valuation of Ningxia Lingwu. Moreover, since its income is mainly affected by the amount of power generation, the utilization hours of power generation are affected by macroeconomic factors. At the same time, the cost is mainly affected by coal prices with large fluctuation. If the income approach is adopted for valuation, it is difficult to ensure the accuracy of its estimated income and profits. Therefore, different valuation methodologies were adopted in the valuation of these two companies due to their distinctive corporate and revenue-generating nature. Given above and after review of the valuation methodologies and detailed discussion with the valuer, the Board is of the view that the valuation methodology adopted in the valuation of Ningxia Heating is fair and reasonable.

In respect of the key assumptions adopted in the valuation of Ningxia Heating, the Board is of the view that such assumptions are fair and reasonable taking into account the following basis: (i) such key assumptions are duly screened and chosen by the valuer in accordance with the relevant requirements as prescribed in the applicable PRC regulations and guidance on valuations (such as the Guidelines on Valuation Report of Business State-owned Assets (CAS [2017] No. 42) and Assets Valuation Practicing Standards – Assets Valuation Report (CAS [2018] No. 35)); (ii) the independence and competence of the valuer, which played a key role in choosing such assumptions as mentioned above; (iii) that the senior management and the Board of the Company have carefully reviewed such key assumptions adopted in the valuation of Ningxia Heating; and (iv) that the senior management and the Board of the Company have discussed with the valuer in details on such assumptions and are not aware of any other key assumption which may materially impact the result of valuation of Ningxia Heating.

LETTER FROM THE BOARD

As at the Latest Practicable Date, the Company is not aware of any subsequent material changes to circumstances and conditions of Ningxia Heating that will impact the results of the valuation of Ningxia Heating since the Valuation Reference Date. In addition, as mentioned, an audit of Ningxia Heating for the Transition Period shall be followed and completed, and the third instalment of payment consideration will be adjusted accordingly based on such audited results. Given above and considering the valuation report of Ningxia Heating has an effective term of one year after the Valuation Reference Date according to relevant PRC regulations, the valuation of Ningxia Heating forms a fair and reasonable basis for the determination of the considerations for the transactions under Ningxia Heating Agreement.

Although the parties did not designate a cap to the adjustments (which could be upward or downward) resulted from the abovementioned pre-closing audit in relation to the Transition Period, the Company expects that the adjustment on the amount of consideration arising from the audit results of Ningxia Heating as at the completion date in respect of the Transition Period will be minimal, on the following basis: (i) the adjustment mechanism will mainly look to the possible change of audited figure of amount of net asset of the Ningxia Heating over the Transition Period, details of which can be referred to in item (iii) of “Payments” section below; (ii) the amount of net asset of Ningxia Heating as at the completion date would be affected, if any, mainly by any capital increase, dividend distribution and profit or loss of Ningxia Heating during the Transition Period; and (iii) the Company is not aware of, and does not foresee, any material change to circumstances and conditions of Ningxia Heating that will impact the results of the valuation of Ningxia Heating since the Valuation Reference Date, nor any plans for capital increase or dividend distribution, or material profit or loss (after reviewing the management account of the Company) to be incurred by Ningxia Heating during the Transition Period. Given the above, the Transfers (calculated on an aggregated basis) will not end up with a higher classification of transaction. In addition, the Company will make further announcement on the details of the adjusted consideration of the transaction under the Ningxia Heating Agreement as and when appropriate.

LETTER FROM THE BOARD

The Board is of the view that such pre-closing audit of Ningxia Heating (for details, please refer to item (iii) of the “Payments” section below) is on normal commercial terms or better terms, fair and reasonable and in the interest of the Company and its Shareholders as a whole on the following basis: (i) by way of conducting such a pre-closing audit, the consideration after adjustment for the transaction will then be better reflective of the latest value of the Company’s shareholding in Ningxia Heating as at the closing; and (ii) such a pre-closing adjustment approach, as the parties adopted in this transaction, is a prevailing consideration adjustment mechanism in the market which has been commonly adopted in the similar type of M&A transactions.

As a result, after taking into account the fairness and reasonableness of (1) the valuation methodology and the key assumptions adopted in the valuation of Ningxia Heating and thus the appraised value of Ningxia Heating arrived; and (2) the adjustment mechanism of consideration based on an additional pre-closing audit of Ningxia Heating, the Board is satisfied that the consideration under the Ningxia Heating Agreement is fair and reasonable, and on normal commercial terms or better terms.

Payments:

The consideration for the transaction contemplated under the Ningxia Heating Agreement will be paid in cash by China Huadian to the Company in three instalments under the proportions of 51%, 29% and 20%, in which:

- (i) China Huadian shall pay the first instalment of consideration for transfer (being RMB637,361,399.34) within five working days after the Ningxia Heating Agreement has come into effect;
- (ii) China Huadian shall pay the second instalment of consideration for transfer (being RMB362,421,187.86) within five working days after Ningxia Heating has completed the industrial and commercial change registration for the transfer of its 53% equity interests; and

LETTER FROM THE BOARD

- (iii) The audit of Ningxia Heating for the Transition Period shall be completed and the corresponding audit report shall be issued within 15 working days after the industrial and commercial change registration. Within five working days after the issuance of the abovementioned audit report, China Huadian shall pay the third instalment of adjusted consideration for transfer, which shall be calculated based on the difference between the audited net asset as at the Valuation Reference Date and that as at the closing date (in proportion to the percentage of equity interests held by the Company in Ningxia Heating). Such audited figure of the net asset as at the closing date will be arrived at taking into account any capital increase, dividend distribution and/or profit or loss of Ningxia Heating during the Transition Period. The consideration will rise if the net asset increases as at the closing date and vice versa. The relevant adjustments of consideration shall then be made to RMB249,945,646.8, which is the third installment of consideration before adjustment.

As at the Latest Practicable Date, the Company has not paid any of the three instalments of consideration.

Conditions precedent:

The completion of transaction contemplated under the Ningxia Heating Agreement is conditional upon the fulfilment of the following matters:

- (i) the assets valuation report of Ningxia Heating being filed with the competent authority in accordance with relevant regulations on the administration of state-owned assets, namely SASAC and its authorized entity;
- (ii) the transaction contemplated under the Ningxia Heating Agreement being considered and approved at the general meeting of Ningxia Heating, and other shareholders have explicitly waived their rights of first refusal in relation to the 53% equity interests in Ningxia Heating;
- (iii) the transaction contemplated under the Ningxia Heating Agreement being considered and approved at the general meeting of the Company; and

LETTER FROM THE BOARD

- (iv) the transaction contemplated under the Ningxia Heating Agreement to be conducted by way of transfer by agreement, being approved by the relevant authority responsible for the administration of state-owned assets, namely SASAC and its authorized entity.

The above-mentioned conditions are not waivable by China Huadian and the Company. And as at the Latest Practicable Date, the above conditions precedent under (i), (ii) and (iv) have been fulfilled.

Completion:

The Company shall procure Ningxia Heating to complete the industrial and commercial change registration (subject to the acceptance of the relevant change registration by the competent department of industrial and commercial administration) in respect of the change of the shareholders and shareholding as well as articles of association of Ningxia Heating within 30 days upon the fulfillment of the above conditions precedent.

The completion of the Ningxia Lingwu Agreement and the Ningxia Heating Agreement is inter-conditional on each other. It is expected that the transaction under the Ningxia Heating Agreement will be completed by 30 June 2021.

2. Profit forecast in relation to the valuation approach on the equity interests in Ningxia Heating

As income approach is adopted for the valuation of equity interests in Ningxia Heating, the valuation is deemed as a profit forecast under Rule 14.61 of the Hong Kong Listing Rules. As such, the Company discloses the following details of the valuation in accordance to Rule 14.62 of the Hong Kong Listing Rules.

The appraised value of the equity interests in Ningxia Heating set out in the valuation report is based on the following principal assumptions:

(1) General assumptions

- a) It is assumed that Ningxia Heating will continue to operate as a going concern after the Valuation Reference Date;
- b) It is assumed that there will be no material changes in the political, economic and social environment of the country and region in which Ningxia Heating is located after the Valuation Reference Date;

LETTER FROM THE BOARD

- c) It is assumed that there will be no material changes to the macro-economic policies, industrial policies and regional development policies of the country after the Valuation Reference Date;
- d) It is assumed that there will be no material changes to the interest rates, exchange rates, tax bases, tax rates and policy-imposed levies in relation to Ningxia Heating after the Valuation Reference Date;
- e) It is assumed that the management of Ningxia Heating will be responsible and stable, and have the capability to take on their duties after the Valuation Reference Date;
- f) It is assumed that Ningxia Heating will fully comply with all relevant laws and regulations;
- g) It is assumed that there will be no force majeure that may have material adverse impact on Ningxia Heating after the Valuation Reference Date.

(2) *Specific assumptions*

- a) It is assumed that the accounting policies to be adopted by Ningxia Heating after the Valuation Reference Date will be consistent in key aspects with the accounting policies adopted when this valuation report is prepared;
- b) It is assumed that the business scope and practice of Ningxia Heating will, after the Valuation Reference Date, remain consistent with what they are currently based on its existing management practice and management level;
- c) It is assumed that Ningxia Heating will have even cash inflow and cash outflow after the Valuation Reference Date;
- d) It is assumed that the products or services of Ningxia Heating will maintain current market competitiveness after the Valuation Reference Date;

LETTER FROM THE BOARD

- e) It is assumed that the heating franchise license of Ningxia Heating will be renewable upon expiry⁽¹⁾;
- f) Works of the Yinchuan intelligent central heating project (“Phase II”) undertaken by Ningxia Heating commenced in September 2019 and are expected to be completed in November 2022. Total investment of the project is approximately RMB3.445 billion⁽²⁾. As at the Valuation Reference Date, 25% of the project works have been completed. It is assumed that the Yinchuan intelligent central heating project (Phase II) undertaken by Ningxia Heating can be completed and enter the trial operation stage as expected by the management; and all heating-related operating parameters of the project can meet the planning and design as provided by Ningxia Heating in terms of heating area, heating index, heating load, annual heat supply, etc.;
- g) It is assumed that the Yinchuan intelligent central heating project undertaken by Ningxia Heating can be completed within the investment budget as provided by Ningxia Heating on the Valuation Reference Date;

Notes:

- (1) According to the relevant PRC regulations, the entities engaging in provision of heating services shall only be entitled to conduct their businesses after obtaining the heating franchise license. The heating franchise license held by Ningxia Heating has an effective term from 31 May 2018 to 31 May 2048 and is renewable upon expiry;
- (2) Ningxia Heating provides its users with heating service, sourcing from the coal-fired power generation units from Ningxia Lingwu;

Phase II is undertaken by Ningxia Heating. 30% of its total investment shall be funded by the capital contribution of Ningxia Heating’s shareholders. The other shareholders of Ningxia Heating have made their capital contribution in proportion to their equity interests after the Valuation Reference Date. The Company has contributed RMB254,400,000 as at the Latest Practicable Date, and as such amount were contributed by the Company after the Valuation Reference Date, the valuation and the consideration under the Ningxia Heating Agreement have not taken into account such capital contribution made by the Company, and therefore such contribution will be taken into account at the abovementioned pre-closing audit of the Transfers (where such contribution would be recorded as the cash assets of Ningxia Heating which would increase the net asset of Ningxia Heating, whereby the consideration under the Ningxia Heating Agreement would be adjusted accordingly). As compared with the aggregated consideration for the Transfers (i.e. RMB4,072,232,205), the Company is of the view that the abovementioned amount of capital contribution made by the Company, even to be taken into account in the possible adjustment of consideration upon the completion, will not constitute a material change during the Transition Period.

LETTER FROM THE BOARD

- h) It is assumed that the current preferential income tax policies for the “Western China Development” (西部大開發)⁽³⁾ and the value-added tax, real estate tax and urban land use tax related preferential policies for heating enterprises of China will remain unchanged in the coming years;
- i) It is assumed that all lease contracts entered into by Ningxia Heating will be renewable upon expiry⁽⁴⁾;
- j) The lands within the scope of valuation include 29 housing buildings of heat exchange stations in 29 locations, being used by Ningxia Heating for the heat exchange stations at no consideration, are owned by the community landlords or the government where each of the heat exchange stations is located. It is assumed that Ningxia Heating will continue to use the aforesaid lands at no consideration in the coming years.

BDO Limited, the reporting accountant of the Company, has reviewed the arithmetical accuracy of calculations of relevant forecasts by income approach in the valuation, which does not involve reasonableness for the adoption of accounting policies and assumptions. The Board has confirmed that the profit forecast of Ningxia Heating, including assumptions, contained in the valuation report has been made with due care and careful enquiry. Letters from BDO Limited and the Board are enclosed herein as Appendix III and Appendix IV to this circular.

IV. FINANCIAL IMPACT OF THE TRANSFERS AND USE OF PROCEEDS

Upon completion of the Transfers, the Company will no longer hold any interests in Ningxia Lingwu and Ningxia Heating, while Ningxia Lingwu and Ningxia Heating will cease to be the subsidiaries of the Company.

The gain arising from the Transfers (before deducting taxes and other expenses payable by the Company in respect of the Transfers) amounts to approximately RMB953,704,164.28 in total, of which, it is calculated in accordance with the difference between the total consideration of the transfer of 65% equity interests in Ningxia Lingwu and 53% equity interests in Ningxia Heating and their respective net book value at the Valuation Reference Date (namely 30 June 2020). The estimated gain from the disposal of 65% equity interests in Ningxia Lingwu and the disposal of 53% equity interests in Ningxia Heating is approximately

Notes:

- (3) “Western China Development” is a regional development strategy adopted by the PRC government.
- (4) The lease contracts comprise (i) the shop lease agreement, in which, the lease subject is the shop of Tower 1, Shi Dai Zhi Xing, High-tech Development Zone, Jinfeng District, Yinchuan City, the lessor is Zhao Yusheng, the lessee is Ningxia Heating, with a lease term from 22 July 2020 to 21 July 2022; (ii) several heat pumps lease agreements, in which, the lease subjects are heat pumps, the lessor to such heat pumps agreements is Ningxia Heating, the lessees are Ningxia Linsheng Heating Co., Ltd.* (寧夏林盛供熱有限公司), Ningxia Longkang Heating Co., Ltd.* (寧夏隆康供熱有限公司), Ningxia Tianyu Heating Co., Ltd.* (寧夏天煜供熱有限公司), Yinchuan Heating Co., Ltd.* (銀川市熱力有限公司), Ningxia Yongheng Energy Management Company Limited* (寧夏永恆能源管理有限公司) and Ningxia Zhengxiang Heating Co., Ltd.* (寧夏正祥供熱有限公司), respectively, each with a lease term of 18 years from 1 November 2018 to 31 October 2036.

LETTER FROM THE BOARD

RMB351,610,706.56 and RMB602,093,457.72, respectively. And it is expected that no gain or loss from the transfer of the Lingwu Dividend Receivable will be recorded by the Company. It is expected that no corporate income tax will be incurred from the Transfers, considering the gain from the Transfers will be less than the amount of loss recorded at the end of 2019 and the Company has not yet completed the settlement and payment of income tax for the year of 2020. Save for stamp tax amounting to RMB2,040,000, no other taxes or expenses will be incurred from the Transfers.

The Company intends to use the net proceeds arising from the Transfers for general working capital of the Group, mainly for repayment of loans, replenishment of working capital, and capital investment. And it is expected that the net proceeds will be fully utilized on or before 31 December 2021.

V. REASONS FOR AND BENEFITS OF ENTERING INTO THE TRANSFER AGREEMENTS

Upon the completion of the Transfers, despite the fact that the total installation capacity of the Group and operating revenue may decrease, the Board is of the view that the Transfers are fair and reasonable and in the interest of the Company and its shareholders as a whole, based on the following considerations: (i) such potential decrease of total installation capacity and operating revenue of the Group, considering the deal size of the Transfers (as compared with the overall size of the whole Group's business operation) and the classification of the Transfers, is not expected to be so material; and (ii) the proceeds from the Transfers will be utilized to invest in promising business or investment projects in other geographical or business areas which the Company believes will have more room for strategic development as well as brighter prospects for better profitability and cash flows, whereby the profit and cash flow of the Group for the financial year of 2021 and beyond will be increased and meanwhile the asset deployment of the Group will be further optimized in the longer run.

The Company considers that the profitability of coal-fired power generating units in Ningxia region has declined and its regional competitiveness was weak. The relatively high profitability of Ningxia Lingwu was due to the high level of utilization hours of power generation units in the past few years, which reached more than 7,000 hours at the highest. Since 2015, as (i) the installed capacity of clean energy power generating units has increased gradually and high-energy-consuming industries have been restricted; and (ii) the capacity of electricity consumption was not strong with a low electricity price due to differences in the overall economic level of Ningxia province as compared to central eastern regions in the PRC, and, as a result, utilization hours of Ningxia Lingwu moved in a general decreasing trend in recent years. In addition, coal prices in Ningxia province remained at high level due to the out-transportation of coal from Ningxia province to other regions, which further led to the decline in Ningxia Lingwu's profitability.

In addition, the Company takes into account that Ningxia Heating's operation was highly relied on Ningxia Lingwu as all heat sources of Ningxia Heating were procured from Ningxia Lingwu. After disposal of Ningxia Lingwu, the stability of Ningxia Heating's heat source would not be guaranteed.

LETTER FROM THE BOARD

As disclosed, the net profits of Ningxia Lingwu and Ningxia Heating recorded an increasing trend in recent two to three years, which was mainly due to the slight decrease of coal price since the year of 2019. However, given the fluctuation and unpredictabilities of coal price in the coming years, both Ningxia Lingwu and Ningxia Heating are facing uncertainties in profit making.

Given above, the Directors (including the independent non-executive Directors, who have provided their opinions in the circular after taking into account of the opinions of the Independent Financial Adviser on the Transfer Agreements and the Transfers contemplated thereunder) are of the view that the terms of the Transfer Agreements and the Transfers contemplated thereunder are on normal commercial terms, which are fair and reasonable and in the interest of the Company and its Shareholders as a whole.

VI. HONG KONG LISTING RULES IMPLICATIONS

China Huadian, being the Controlling Shareholder of the Company, is a connected person of the Company under the Hong Kong Listing Rules. Pursuant to the Chapter 14A of the Hong Kong Listing Rules, the Transfers will constitute connected transactions of the Company. Pursuant to Rule 14A.81, as one or more of the percentage ratios (as defined in Rule 14.07 of the Hong Kong Listing Rules) in respect of the Transfers, calculated on an aggregate basis, exceed 5%, the Transfers calculated on an aggregate basis are subject to the annual report, announcement, circular and Independent Shareholders' approval requirements under Chapter 14A of the Hong Kong Listing Rules.

In addition, as one or more of the percentage ratios in respect of the Transfers, when aggregated, exceed 5% but are less than 25%, pursuant to the Chapter 14 of the Hong Kong Listing Rules, the Transfers also constitute a discloseable transaction of the Company, and are subject to the reporting and announcement requirements but are exempted from Shareholders' approval requirement under Chapter 14 of the Hong Kong Listing Rules.

Given that Mr. Ding Huande, 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 abovementioned transactions at the seventh meeting of the ninth session of the Board. Save for the disclosed above, as at the date when the Board considered the abovementioned resolutions, no other Directors have any material interest in the Transfers contemplated under the Transfer Agreements and therefore no other Directors have abstained from voting on such resolutions of the Board.

LETTER FROM THE BOARD

VII. INFORMATION RELATING TO NINGXIA LINGWU AND NINGXIA HEATING

1. Ningxia Lingwu

Ningxia Lingwu was jointly established by the Company and Chalco Ningxia Energy Group Co., Ltd.* (中鋁寧夏能源集團有限公司) in 2006 with a registered capital of RMB1,332,655,261. It is principally engaged in coal-fired power generation and business related to power production and operation. As at the Latest Practicable Date, 65% and 35% equity interests of Ningxia Lingwu are held by the Company and Chalco Ningxia Energy Group Co., Ltd.* who is ultimately and beneficially owned by SASAC of State Council (國務院國有資產監督管理委員會) respectively. Chalco Ningxia Energy Group Co., Ltd.* and its ultimate beneficial owner are independent from the Company, its connected persons and their respective associates.

In accordance with the PRC Generally Accepted Accounting Principles, the audited profits (before and after taxation) of Ningxia Lingwu for the six months ended 30 June 2020 and the financial years ended 31 December 2019 and 31 December 2018 are set out as follows:

	Six months ended 30 June 2020	Year ended 31 December 2019	Year ended 31 December 2018
	(Audited)	(Audited)	(Audited)
	(RMB million)	(RMB million)	(RMB million)
Net profit before taxation	129.25	89.39	-167.28
Net profit after taxation	94.79	76.12	-141.97

The book value of the total assets and net assets of Ningxia Lingwu as at 30 June 2020 was approximately RMB7,837.24 million and RMB3,671.44 million respectively. The appraised value of owners' equity of Ningxia Lingwu as at 30 June 2020 was approximately RMB4,386.35 million.

2. Ningxia Heating

Ningxia Heating was jointly established by the Company and four other shareholders in 2017 with a registered capital of RMB1,050,000,000. It is principally engaged in the investment, construction and operation of heating supply projects in Yinchuan City by Ningxia Lingwu. As at the Latest Practicable Date, the Company holds 53% equity interests in Ningxia Heating, and the remaining equity interests are held by Yinchuan Municipal Construction Group Co., Ltd.* (銀川市政建設集團有限公司, who is ultimately and beneficially owned by SASAC of People's Government of Yinchuan City (銀川市人民政府國有資產監督管理委員會)), Ningxia Construction Investment Group Co., Ltd.* (寧夏建設投資集團有限公司, who is ultimately and beneficially owned by SASAC of People's Government of Ningxia Hui Autonomous Region (寧夏回族自治區人民政府國有資產監督管理委員會)), Yinchuan Gas Heating Co., Ltd.* (銀川市煤氣供熱有限公司, who is ultimately and beneficially owned by SASAC of People's Government of Yinchuan City (銀川市人民政府國有資產監督管理委員會)) and China Metallurgical

LETTER FROM THE BOARD

Huatian Nanjing Engineering Technology Co., Ltd.* (中冶華天南京工程技術有限公司 who is ultimately and beneficially owned by SASAC of State Council) as to 21%, 14%, 9% and 3%, respectively. The remaining shareholders Ningxia Heating and their respective ultimate beneficial owners are independent from the Company, its connected persons and their respective associates.

In accordance with the PRC Generally Accepted Accounting Principles, the audited profits (before and after taxation) of Ningxia Heating for the six months ended 30 June 2020 and the financial years ended 31 December 2019 and 31 December 2018 are set out as follows:

	Six months ended 30 June 2020	Year ended 31 December 2019	Year ended 31 December 2018
	(Audited)	(Audited)	(Audited)
	(RMB million)	(RMB million)	(RMB million)
Net profit before taxation	96.65	42.75	47.71
Net profit after taxation	87.95	38.86	43.42

The book value of the total assets and net assets of Ningxia Heating as at 30 June 2020 was approximately RMB3,833.41 million and RMB1,204.48 million respectively. The appraised value of owners' equity of Ningxia Heating as at 30 June 2020 was approximately RMB2,342.23 million.

VIII. GENERAL INFORMATION

Information relating to the Group

The Group is one of the largest comprehensive energy companies in the PRC, and is primarily 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

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

LETTER FROM THE BOARD

IX. INDEPENDENT BOARD COMMITTEE AND INDEPENDENT FINANCIAL ADVISER

The Independent Board Committee has been established pursuant to the Hong Kong Listing Rules to advise the Independent Shareholders on the Transfer Agreements and the Transfers contemplated thereunder.

The Company has appointed Gram Capital as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders on the Transfer Agreements and the Transfers contemplated thereunder.

X. EGM

The Directors propose to put forward the Transfer Agreements and the Transfers contemplated thereunder 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 on approving the Transfer Agreements and the Transfers contemplated thereunder.

A letter from the Board is set out on pages 4 to 27 of this circular. A letter from the Independent Board Committee, in relation to the Transfer Agreements and the Transfers contemplated thereunder, is set out on page 28 of this circular. A letter from Gram Capital, containing its advice to the Independent Board Committee and the Independent Shareholders in relation to the Transfer Agreements and the Transfers contemplated thereunder, and the relevant proposed cap, is set out on pages 29 to 49 of this circular.

XI. RECOMMENDATIONS

Given that Mr. Ding Huande, Mr. Peng Xingyu, Mr. Gou Wei and Mr. Hao Bin, the Directors of the Company, currently held positions in China Huadian, they have abstained from voting on the resolutions regarding the abovementioned transactions at the seventh meeting of the ninth session of the Board. Save as the disclosed above, no other Directors have any material interest in the abovementioned transactions at the date of the Board meeting approving the abovementioned board resolutions and therefore no other Directors have abstained from voting on such Board resolutions.

The Board (including the independent non-executive Directors) are of the view that: the Transfer Agreements and the Transfers contemplated thereunder are on normal commercial terms, which are fair and reasonable and in the interest of the Company and its Shareholders as a whole. Accordingly, the Directors recommend the Independent Shareholders to vote in favour of the relevant resolutions to be proposed at the EGM.

LETTER FROM THE BOARD

XII. 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 appendices to this circular.

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

* *For identification purposes 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)

31 March 2021

To the Independent Shareholders,

Dear Sir/Madam

**DISCLOSEABLE TRANSACTION AND
CONNECTED TRANSACTIONS**

We have been appointed to form the Independent Board Committee to consider and advise whether the Transfer Agreements and the Transfers contemplated thereunder are (i) fair and reasonable; (ii) on normal commercial terms although not 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 Transfer Agreements and the Transfers contemplated thereunder. Terms used herein shall have the same meanings as those defined in this Supplemental 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 27, pages 28 and pages 29 to 49 of this Supplemental 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 the Transfer Agreements and the Transfers contemplated thereunder are (i) fair and reasonable; (ii) on normal commercial terms although not 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. Accordingly, we recommend the Independent Shareholders to vote in favour of the aforementioned agreements, and the transactions contemplated thereunder 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 Transfers for the purpose of inclusion in this supplemental circular.



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

31 March 2021

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

Dear Sirs,

DISCLOSEABLE AND 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 Transfers, details of which are set out in the letter from the Board (the “**Board Letter**”) contained in the supplemental circular dated 31 March 2021 issued by the Company to the Shareholders (the “**Supplemental Circular**”), of which this letter forms part. Terms used in this letter shall have the same meanings as defined in the Supplemental Circular unless the context requires otherwise.

On 26 February 2021, the Company and China Huadian entered into (i) the Ningxia Lingwu Agreement, pursuant to which, the Company agreed to sell and China Huadian agreed to purchase 65% equity interests in Ningxia Lingwu held by the Company and the Lingwu Dividend Receivable; and (ii) the Ningxia Heating Agreement, pursuant to which, the Company agreed to sell and China Huadian agreed to purchase 53% equity interests in Ningxia Heating held by the Company, respectively. Upon the completion of the Transfers, the Company will no longer hold any interests in Ningxia Lingwu and Ningxia Heating, while Ningxia Lingwu and Ningxia Heating will cease to be the subsidiaries of the Company.

With reference to the Board Letter, the Transfers constitute discloseable and connected transactions of the Company, and are subject to the reporting, announcement, circular and independent Shareholders’ approval requirements under Chapters 14 and 14A of the Hong Kong Listing Rules.

The Independent Board Committee comprising Mr. Wang Dashu, Mr. Zong Wenlong, Mr. Feng Zhenping and Mr. Li Xingchun (all being independent non-executive Directors) has been established to advise the Independent Shareholders on (i) whether the terms of the Transfers are on normal commercial terms and are fair and reasonable; (ii) whether the Transfers 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

LETTER FROM GRAM CAPITAL

should vote in respect of the resolution(s) to approve the Transfers at the EGM. We, Gram Capital Limited, have been appointed as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in this respect. Your attention is also drawn to the letter from the Independent Board Committee, which contained the opinion of Independent Board Committee in respect of the Transfers.

INDEPENDENCE

During the past two years immediately preceding the Latest Practicable Date, Gram Capital was engaged as the independent financial adviser in respect of (i) continuing connected transactions (details of which are set out in the Company's circular dated 29 November 2019; (ii) continuing connected transactions (details of which are set out in the Company's circular dated 9 October 2020); and (iii) discloseable and continuing connected transactions (details of which are set out in the Company's circular dated 29 January 2021).

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 in respect of the Transactions.

Besides, apart from the advisory fee and expenses payable to us in connection with our aforesaid engagements and this engagement as the Independent Financial Adviser, there was no arrangement whereby we shall be entitled to receive any other fees or benefits from the Company.

Having considered the above, in particular (i) none of the circumstances as set out under the Rule 13.84 of the Hong Kong Listing Rules existed as at the Latest Practicable Date; and (ii) the aforesaid past engagements were only independent financial adviser engagements, we are of the view that we are independent to act as the Independent Financial Adviser.

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 Supplemental 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 Supplemental 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 Supplemental Circular, or the reasonableness of the opinions expressed by the Company, its advisers and/or the Directors, which have been provided to us. Our opinion is based on the Directors' representation and confirmation that there is no undisclosed private agreements/arrangements or implied understanding with anyone concerning the Transfers. We consider that we have taken sufficient and necessary steps (such

LETTER FROM GRAM CAPITAL

as review of the Transfer Agreements, the Ningxia Lingwu Valuation Report, the Ningxia Heating Valuation Report and conduct due diligence works with the Company, ZhongHe Appraisal and CEA, etc.) 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.

We have not made any independent evaluation or appraisal of the assets and liabilities of the Group, Ningxia Lingwu or Ningxia Heating, and we have not been furnished with any such evaluation or appraisal, save as and except for (i) the valuation report on Ningxia Lingwu (the “**Ningxia Lingwu Valuation Report**”) as set out in Appendix I to the Supplemental Circular as prepared by ZhongHe Appraisal Co., Ltd. (the “**ZhongHe Appraisal**”); and (ii) the valuation report on Ningxia Heating (the “**Ningxia Heating Valuation Report**”) as set out in Appendix II to the Supplemental Circular as prepared by the China Enterprise Appraisals Co., Ltd. (the “**CEA**”). Since we are not experts in the valuation of assets or business, we have relied solely upon the Ningxia Lingwu Valuation Report for the equity interests in Ningxia Lingwu as at 30 June 2020 and the Ningxia Heating Valuation Report for the equity interests in Ningxia Heating as at 30 June 2020.

The Supplemental 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 Supplemental 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 Supplemental Circular or the Supplemental Circular misleading. We, as the Independent Financial Adviser, take no responsibility for the contents of any part of the Supplemental 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 Transfers. 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 Transfers, 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 the PRC, and 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 is 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 year ended 31 December 2019 (the **"2019 Annual Report"**), respectively:

	For the six months ended 30 June 2020 ("1H2020") RMB'000 (unaudited)	For the year ended 31 December 2019 ("FY2019") RMB'000 (audited)	For the year ended 31 December 2018 ("FY2018") RMB'000 (audited)	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

As depicted from 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 substantially increased during FY2019, which was mainly due to the year-on-year decrease in coal prices. The Group recorded significant increase of approximately 134.16% in profit for the year attributable to the equity holders of the Company for FY2019.

Information on China Huadian

With reference to the Board Letter, China Huadian is the controlling Shareholder 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 GRAM CAPITAL

Information on Ningxia Lingwu

With reference to the Board Letter, Ningxia Lingwu is principally engaged in coal-fired power generation and business related to power production and operation. As at the Latest Practicable Date, 65% and 35% equity interests of Ningxia Lingwu are held by the Company and Chalco Ningxia Energy Group Co., Ltd.* (中鋁寧夏能源集團有限公司) respectively.

In accordance with the PRC Generally Accepted Accounting Principles, the audited profits (before and after taxation and extraordinary items) of Ningxia Lingwu for 1H2020 and the two years ended 31 December 2019 are set out as follows:

	For the six months ended 30 June 2020 <i>RMB'million</i>	For the year ended 31 December 2019 <i>RMB'million</i>	For the year ended 31 December 2018 <i>RMB'million</i>	Change from FY2018 to FY2019 %
Revenue	2,044.95	3,982.95	3,805.62	4.66
Net profit/(loss) attributable to shareholders of the company	94.79	76.12	(141.97)	N/A

As depicted from the above table, Ningxia Lingwu recorded an increase of approximately 4.66% in revenue from FY2018 to FY2019 and a turnaround from loss making position to profit making from FY2018 to FY2019. In addition, Ningxia Lingwu also recorded net profit attributable to shareholders of the company of approximately RMB94.79 million for 1H2020, which exceeds the net profit attributable to shareholders of the company for FY2019. As advised by the Directors, the aforesaid changes in Ningxia Lingwu's profit were mainly due to the increase in Ningxia Lingwu's gross profit as the results of the decrease in coal price in relevant periods.

The book value of the total assets and net assets of Ningxia Lingwu as at 30 June 2020 were approximately RMB7,837.24 million and RMB3,671.44 million respectively.

Information on Ningxia Heating

With reference to the Board Letter, Ningxia Heating is principally engaged in the investment, construction and operation of heating supply projects in Yinchuan City by Ningxia Lingwu.

LETTER FROM GRAM CAPITAL

In accordance with the PRC Generally Accepted Accounting Principles, the audited profits (before and after taxation and extraordinary items) of Ningxia Heating for 1H2020 and the two years ended 31 December 2019 are set out as follows:

	For the six months ended 30 June 2020	For the year ended 31 December 2019	For the year ended 31 December 2018	Change from FY2018 to FY2019
	<i>RMB'million</i>	<i>RMB'million</i>	<i>RMB'million</i>	<i>%</i>
Revenue	383.46	588.91	219.34	168.49
Net profit attributable to shareholders of the company	87.95	38.86	43.42	(10.50)

As depicted from the above table, despite that Ningxia Heating recorded a significant increase in revenue for FY2019 as compared to that for FY2018, Ningxia Heating recorded a substantial decrease in net profit attributable to shareholders of the company during FY2019. As advised by the Directors, the aforesaid substantial decrease was mainly due to the decrease in gross profit margin and gross profit, but offsetting by the significant increase in government subsidies. As further advised by the Directors, due to the increase in gross profit margin during 1H2020 as the result of the increase in heat supply price, Ningxia Heating's net profit attributable to shareholders of the company for 1H2020 exceeds those for FY2019 and FY2018.

The total assets and net assets of Ningxia Heating as at 30 June 2020 were approximately RMB3,833.41 million and RMB1,204.48 million respectively.

Reasons for and benefits of the Transfers

With reference to the Board Letter, upon completion of the Transfers, the asset deployment of the Group is expected to be further optimized in the longer run.

With reference to the 2020 Interim Report, the Group remains facing risks arising from the power market, coal market and environmental protection. In terms of the power market, the export-driven growth slows down due to the spread of international COVID-19 epidemic and the rise of trade protectionism. In the second half of the year, the electricity power demand will be subject to uncertainty, and the Group will face great downward pressure on power generation. The external electricity purchased by Shandong, Hebei and Henan has occupied the power generation space by coal-fired generating units in these provinces, with serious conflicts caused, and the number of utilization hours of coal-fired generating units is also declining, which will exert certain impact on the Group. As the reform further deepens, the power generation and utilization plan will be fully liberalized, and the medium & long term market and the spot market will be expanded and popularized, thereby leading to fiercer competition at the power market, increasing proportion of traded electricity, and lower overall electricity price level. The Group will strengthen marketing and further enhance the ability to increase income. The Group will make analysis, research and judgment on the power market situation, grasp the opportunity in accelerating recovery of electricity demand, formulate competitive strategies for differentiated markets, and make every effort to improve the power utilization efficiency per KWh.

LETTER FROM GRAM CAPITAL

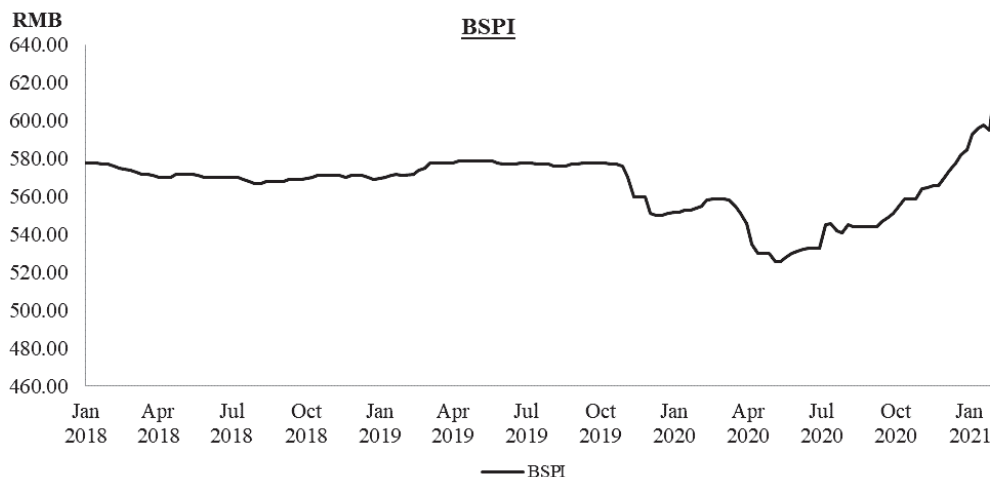
As advised by the Directors, during 2021, the Group will, among other things, continuously optimize regional industrial layout and enhance the Company's ability to resist risks.

As advised by the Directors, the profitability of coal-fire power generating units in Ningxia region declined and its regional competitiveness was weak. The relatively high profitability of Ningxia Lingwu was due to the high level of utilization hours of power generation units in the past few years. The highest utilization hours of power generating units reached more than 7,000 hours many years ago. Since 2015, as (i) the installed capacity of clean energy power generating units has increased gradually and high-energy-consuming industries have been restricted; and (ii) the capacity of electricity consumption and electricity price was not strong due to differences in the overall economic level of Ningxia as compared to central eastern regions in the PRC, utilization hours of Ningxia Lingwu's power generating units moved in a general decreasing trend in recent years. In addition, coal prices in Ningxia remained at high level as compared to the historical coal prices due to the out-transportation of coal from Ningxia Province to other regions, which further led to the decline in Ningxia Lingwu's profitability.

As further advised by the Directors, Ningxia Heating's operation was highly relied on Ningxia Lingwu as all heat sources of Ningxia Heating were procured from Ningxia Lingwu. After the disposal of Ningxia Lingwu, the stability of Ningxia Heating's heat sources would not be guaranteed.

Despite that the net profits of Ningxia Lingwu and Ningxia Heating recorded increasing trend in 2017 to 2019, the principal reason of which is the low level coal price (as compared to the current coal price). However, given the fluctuation and unpredictabilities of coal price in the coming years, Ningxia Lingwu is facing uncertainties in profit making.

Set out below is a summary of the Bohai-Bay Thermal Coal Price Index for 5,500 kcal/kg ("BSPI") from 2018 to 2021:



LETTER FROM GRAM CAPITAL

According to the chart and as also advised by the Directors, coal price surge since April 2020. As Ningxia Lingwu is principally engaged in coal-fired power generation and business related to power production and operation, the coal price increase will lead to the increase in cost of power generation of Ningxia Lingwu, which will cause the decrease in Ningxia Lingwu's profit assuming no other factors affect Ningxia Lingwu's operation.

With reference to the Board Letter, the Company intends to use the net proceeds arising from the Transfers for general working capital of the Group (mainly for repayment of loans, replenishment of working capital) or capital investment.

Upon completion of the Transfers, despite the fact that the Group's installation capacity will reduce and operating revenue will decrease, the profit and cash flow for that period of the Group will be increased. The proceeds from the transactions can then be used to invest in other projects in other areas where the Company believes to have better development prospects. Therefore, the asset deployment of the Group is expected to be further optimized in the longer run.

Having considered the above factors, including but not limited to:

- (i) upon completion of the Transfers, the asset deployment of the Group is expected to be further optimized in the longer run;
- (ii) utilization hours of Ningxia Lingwu's power generating units has been at a general decreasing trend in recent years;
- (iii) coal price surge since April 2020, which will adversely and directly affect Ningxia Lingwu's profitability;
- (iv) despite the fact that the Group's installation capacity will reduce and operating revenue will decrease, the proceeds from the Transfer should it be utilised by the Group as for (a) repayment of loans, the Group's finance cost will be reduced; or (b) invest in other projects in other areas where the Company believes to have better development prospects, the asset deployment of the Group is expected to be further optimized in the longer run (if this being the case, the Group's installation capacity and operating revenue will then increase); and
- (v) Ningxia Heating's operation was highly relied on Ningxia Lingwu as all heat sources of Ningxia Heating were procured from Ningxia Lingwu. After the disposal of Ningxia Lingwu, the stability of Ningxia Heating's heat sources would not be guaranteed,

we consider although the Transfers are not conducted in the ordinary and usual course of business of the Group, the Transfers are in the interest of the Company and the Shareholders as a whole.

LETTER FROM GRAM CAPITAL

1. Ningxia Lingwu Agreement

Set out below are the principal terms of the Ningxia Lingwu Agreement, details of which are set out under the section headed “NINGXIA LINGWU AGREEMENT” of the Board Letter:

Date: 26 February 2021

Parties: The Company (as the transferor); and China Huadian (as the transferee)

Subject matter: The Company agreed to sell and China Huadian agreed to purchase 65% equity interests in Ningxia Lingwu held by the Company and the Lingwu Dividend Receivable.

Consideration:

The consideration of the transactions contemplated under the Ningxia Lingwu Agreement is RMB2,822,503,971.45 (the “**Ningxia Lingwu Consideration**”), comprising the consideration of (i) the transfer of 65% equity interests in Ningxia Lingwu, being RMB2,095,704,651.68, determined with reference to the appraised value (the “**Ningxia Lingwu Appraised Value**”) (being approximately RMB4,386.347 million) of owners’ equity for Ningxia Lingwu as at 30 June 2020 as concluded in asset-based approach by Zhonghe Appraisal and the Proposal, according to which total dividends distributable to its shareholders amounted to RMB1,162,185,995.9; and (ii) the transfer of the Lingwu Dividend Receivable, being RMB726,799,319.77 determined with reference to the Proposal (according to which the dividends distributed to the Company from Ningxia Lingwu amounted to RMB771,328,762.86, of which RMB44,529,443.09 had been paid to the Company).

The consideration for the transactions contemplated under the Ningxia Lingwu Agreement will be paid in cash remittance by China Huadian to the Company in three instalments.

During the transition period commencing on the valuation reference date to the completion date (being the completion date of the industrial and commercial change registration for the shareholders in respect of the transfer of 65% equity interests in Ningxia Lingwu), the Company shall be entitled to assume the corresponding profit or loss attributable to the abovesaid 65% equity interests in Ningxia Lingwu. And the third instalment of consideration shall be adjusted based on such audited profit/loss, according to the audit report of Ningxia Lingwu for the period from the Valuation Reference Date (exclusive of such date) to the completion date (inclusive of such date). The adjusting events and adjustment mechanism on the Ningxia Lingwu Consideration was set out under the sub-section headed “Payments” of the section headed “NINGXIA LINGWU AGREEMENT” of the Board Letter. As at the Latest Practicable Date, the Company is still in the process of appointing an auditor to perform such audit and targets to finalize the appointment by the middle of April 2021.

LETTER FROM GRAM CAPITAL

In order to identify whether there were similar transition period arrangement existing among the PRC companies, we searched for transactions in relation to (i) the disposal of target companies (which were involved in independent electric power produce and energy trade industry, gas utilities industry and/or electric utilities industry) to unlisted state-owned enterprise (as buyer) by companies listed on PRC stock exchanges (as seller) during one-year period prior to the date the Transfer Agreements; and (ii) similar transition period arrangement existing among the PRC companies. We found two comparable transactions which met our criteria and they were exhaustive:

- Guangdong Electric Power Development Co., Ltd. (SH000539) announced on 5 December 2020 that company A (26% equity interests was held by the listed company) was proposed to be merged with company B (55% equity interests was held by company A). According to the announcement, the transition period is from valuation reference date to the settlement date and during the aforesaid period, their respective original shareholder will be entitled to the increase or decrease in net assets of the company A and company B.
- Jinko Power Technology Co., Ltd. (SH601778) announced on 26 December 2020 that its subsidiaries (as vendor) proposed to dispose 70% equity interests in two target companies. According to the announcement, (i) the profit or loss during the period between valuation reference date to the settlement date (which was decided as 31 December 2020) will be entitled by the vendor; (ii) if the settlement date was later than 31 December 2020, the profit or loss afterwards shall be entitled by the target companies; and (iii) if the net asset value of the target companies as at settlement date was lower than the net asset value as at valuation reference date, the difference will be made up by the vendor; if the net asset value of the target companies as at settlement date was higher than the net asset value as at valuation reference date, the vendor will be entitled to the difference.

Having considered that (i) there were similar transition period arrangement existing among the PRC companies; and (ii) Ningxia Lingwu Appraised Value was based on asset-based approach, Ningxia Lingwu's profit/loss making or (if any) capital increase, dividend distribution during the Transition Period will further affect Ningxia Lingwu's net asset value as at the completion date, which was previously not be considered in the Ningxia Lingwu Appraised Value, we consider the transition period arrangement are normal commercial terms.

Valuation of Ningxia Lingwu

For our due diligence purpose, we reviewed and enquired into (i) the terms of engagement of ZhongHe Appraisal with the Company; (ii) the ZhongHe Appraisal's qualification in relation to the preparation of the Ningxia Lingwu Valuation Report; and (iii) the steps and due diligence measures taken by ZhongHe Appraisal for conducting the Ningxia Lingwu Valuation Report. From the mandate letter and other relevant information provided by ZhongHe Appraisal and based on our interview with them, we were satisfied with the terms of engagement of ZhongHe Appraisal as well as their qualification for preparation of the Ningxia Lingwu Valuation Report. ZhongHe Appraisal also confirmed that they are independent to the Group, China Huadian and Ningxia Lingwu.

LETTER FROM GRAM CAPITAL

The Ningxia Lingwu Appraised Value was concluded by ZhongHe Appraisal by asset-based approach. We understood that ZhongHe Appraisal adopted asset-based approach after considering following factors:

- there were no appropriate transactions that were comparable with the subject and relating information necessary for comparing with the subject and analysing had been collected, and no operational conditions for the implementation of the valuation by adopting market approach had been satisfied, therefore market approach could not be adopted for this valuation.
- The valuation result as appraised by adopting income approach will be significantly affected by the extent of overall effectiveness of assets invested by the target entity and the fluctuation of fired coal's market price, while the asset-based approach is a basic method which estimates the value of a corporation from the perspective of asset investment and can clearly reflect the value of a corporation.
- Ningxia Lingwu is a company producing heat and electricity and falls into the heavy investment industry (重投資行業) with large portion of fixed asset investment, therefore it is more reliable to adopt the asset-based approach valuation result.

For our due diligence purpose, we conducted following analyses:

- upon our enquiry, the Directors advised us the fuel cost represented approximately 68.2% and 67.8% to Ningxia Lingwu's operating cost (營業成本) in respect of sales of electricity for FY2018 and FY2019 respective. The majority of fuel cost comprised cost for the procurement of coal.

Therefore, coal is important to Ningxia Lingwu's operation;

- as mentioned in the section headed "Reasons for and benefits of the Transfers" above, coal price surge since April 2020;
- review ZhongHe Appraisal's qualification and experience;
- as confirmed by ZhongHe, the Ningxia Lingwu Valuation Report was prepared in accordance with, among other things, 《資產評估準則—基本準則》(Asset Evaluation Standards – Basic Standards*) which was issued by Ministry of Finance of the PRC.

Having also considered the following factors, including,

- (i) **market approach could not be adopted:** there were no appropriate transactions that were comparable with the subject and relating information necessary for comparing with the subject and analysing had been collected, and no operational conditions for the implementation of the valuation by adopting market approach had been satisfied, therefore market approach could not be adopted for this valuation;

LETTER FROM GRAM CAPITAL

- (ii) **income approach is considered less feasible:** there will be various parameters to be considered when using the income approach and the accuracy of such parameters will directly affect the accuracy of the valuation. However, coal price surge since April 2020 (according to BSPI index), it became difficult to predict as compared to the stable coal prices trend. Therefore, the accuracy of valuation as result of prediction by adopting income approach will not be guaranteed. Accordingly, income approach is considered less feasible;
- (iii) **asset-based approach is a reliable approach:** Ningxia Lingwu is a company producing heat and electricity and falls into the heavy investment industry (重投資行業) with large portion of fixed asset investment (with fixed asset amount of approximately 88% to total assets according to Ningxia Lingwu's balance sheet as at 30 June 2020), asset-based approach is a reliable approach for such situation.

we consider the adoption of asset-based approach for the Ningxia Lingwu Appraised Value by ZhongHe Appraisal is reasonable.

Despite that the valuation approach adopted and finally concluded by ZhongHe Appraisal for Ningxia Lingwu Appraised Value was different from the valuation approach adopted and finally concluded by CEA for the appraised value of Ningxia Heating (the “**Ningxia Heating Appraised Value**”), having considered the following factors:

- our analyses in respect of the reasonableness of the adoption of asset-based approach for the Ningxia Lingwu Appraised Value above;
- according to Article 16 of 《資產評估準則—基本準則》 (Asset Evaluation Standards – Basic Standards*), the valuation methods for determining the value of assets include three basic approaches (i.e. market approach, income approach and cost approach) and their derivative methods. Asset appraisal professionals should analyse the applicability of the above three basic approaches according to the appraisal purpose, appraisal object, value type, data collection, etc., and select appraisal methods in accordance with the law;
- business models of Ningxia Lingwu and Ningxia Heating are different,

we are of view that the valuation approaches adopted by different valuers for different enterprises with different business models to be acceptable.

We further reviewed the Ningxia Lingwu Valuation Report and enquired into ZhongHe Appraisal on the methodology adopted and the basis and assumptions adopted in the Ningxia Lingwu Valuation Report in order for us to understand the Ningxia Lingwu Valuation Report. During our discussion with ZhongHe Appraisal, we did not identify any major factor which caused us to doubt the fairness and reasonableness of the methodology, principal bases, assumptions, and parameters adopted for the Ningxia Lingwu Valuation Report.

LETTER FROM GRAM CAPITAL

We understood that in arriving at the Ningxia Lingwu Appraised Value, ZhongHe Appraisal conducted various procedures, for instance:

- (i) made necessary investigations and verifications for all declared assets and liabilities during the period between 20 August 2020 and 2 September 2020, including checking on inventories, checking on buildings, checking on land use rights, etc.
- (ii) conducted valuation for each of assets and liabilities of the appraised entity based on necessary market researches and quotations so as to determine the values of shareholders' interests in the appraised entity.

For our due diligence purpose, we also obtained valuation breakdowns for each of assets and liabilities of Ningxia Lingwu. Having reviewed the valuation breakdowns and after considering the above factors, we consider that principal bases and assumptions adopted for Ningxia Lingwu Valuation Report to be fair and reasonable.

We also noted that the valuation reference date of Ningxia Lingwu Appraised Value was 30 June 2020. Having considered the following factors:

- (i) as confirmed by the Directors, as at the Latest Practicable Date, the Company is not aware of any subsequent material changes to circumstances and conditions of Ningxia Lingwu that will impact the results of the valuation of Ningxia Lingwu since the Valuation Reference Date,

For our due diligence purpose, we interviewed Ningxia Lingwu's staff (head of finance department) in respect of Ningxia Lingwu's financial position and trading position respectively. Based on our discussion, we did not identify any material information which would cause us to consider that there was any material change in Ningxia Lingwu's financial position and trading position since the Valuation Reference Date, save for the dividend pursuant to the Proposal.

In addition, we also obtained Ningxia Lingwu's financial information for the year ended 31 December 2020 and noted that there was no material difference between the net assets value of Ningxia Lingwu as at 31 December 2020 (excluding the impact of dividend as declared in second half year 2020); and

- (ii) according to Article 11 of the Principles for Asset Valuation – Valuation Report issued by the China Appraisal Society, “Valuation report shall clearly specify the valid period for using the report. Generally, the valuation report shall only be used where the period between the valuation date and the date on which the economic act executed is not more than one year”,

we do not doubt the reasonableness and meaningfulness of Ningxia Lingwu Appraised Value, the valuation reference date (i.e. 30 June 2020) of which is approximate eight months earlier than the date of Ningxia Lingwu Agreement.

LETTER FROM GRAM CAPITAL

Furthermore, we obtained Proposal of “Profit Distribution of the Company (2014-2019)” and noted that Ningxia Lingwu declared dividend for 2014-2019 of RMB1,162,185,995.9, of which the Company is entitled to RMB771,328,762.86. As confirmed by the Directors, the Company received RMB44,529,443.09 as part of the dividend in September 2020.

The adjusted Ningxia Lingwu Appraised Value will be RMB3,224,161,004.10.

Having considered the above factors (including our independent work performed on the Ningxia Lingwu Valuation Report) and that (i) the proportionate adjusted Ningxia Lingwu Appraised Value amounted to (i.e. $\text{RMB3,224,161,004.10} \times 65\% = \text{RMB2,095,704,651.68}$); (ii) the Company is entitled to receive dividend from Ningxia Lingwu of RMB771,328,762.86, of which RMB44,529,443.09 was received in September 2020 (outstanding entitled dividend is RMB726,799,319.77); (iii) the transition period arrangement as mentioned above, we are of the view that the Ningxia Lingwu Consideration (being the sum of proportionate adjusted Ningxia Lingwu Appraised Value and outstanding entitled dividend) is fair and reasonable.

2. *Ningxia Heating Agreement*

Set out below is the principal terms of the Ningxia Heating Agreement, details of which are set out under the section headed “NINGXIA HEATING AGREEMENT” of the Board Letter:

Date:	26 February 2021
Parties:	The Company (as the transferor); and China Huadian (as the transferee)
Subject matter:	The Company agreed to sell and China Huadian agreed to purchase the 53% equity interests in Ningxia Heating held by the Company.
Consideration:	

The consideration of transaction contemplated under the Ningxia Heating Agreement is determined with reference to the appraised value of owners' equity in Ningxia Heating as at 30 June 2020 (namely the valuation reference date) as concluded in income approach by CEA, being RMB2,342,227,800. Taking into account the insufficient capital contribution by minority shareholders to Ningxia Heating, the consideration for the disposal of 53% equity interests in Ningxia Heating arrived at RMB1,249,728,234. (the “**Ningxia Heating Consideration**”).

The consideration for the transaction contemplated under the Ningxia Heating Agreement will be paid in cash remittance by China Huadian to the Company in three instalments.

During the transition period commencing on the valuation reference date to the completion date (being the completion date of the industrial and commercial change registration for the shareholders in respect of the transfer of 53% equity interests in Ningxia Heating), the Company shall be entitled to assume the corresponding profit or loss attributable to the abovesaid 53% equity interests in Ningxia Heating. And the third instalment of consideration shall be adjusted based on such audited profit/loss, according to the audit report

LETTER FROM GRAM CAPITAL

of Ningxia Heating for the period from the Valuation Reference Date (exclusive of such date) to the completion date (inclusive of such date). The adjusting events and adjustment mechanism on the Ningxia Heating Consideration was set out under the sub-section headed “Payments” of the section headed “NINGXIA HEATING AGREEMENT” of the Board Letter. As at the Latest Practicable Date, the Company is still in the process of appointing an auditor to perform such audit and targets to finalize the appointment by the middle of April 2021.

(Note: Phase II is undertaken by Ningxia Heating. 30% of its total investment shall be funded by the capital contribution of Ningxia Heating’s shareholders. The Company has contributed RMB254,400,000 after the Valuation Reference Date (the “Capital Contribution”), the valuation and the consideration under the Ningxia Heating Agreement have not taken into account such capital contribution made by the Company, and therefore such contribution will be taken into account at the abovementioned pre-closing audit of the Transfers. As compared with the aggregated consideration for the Transfers (i.e. RMB4,072,232,205), the Company is of the view that the abovementioned amount of capital contribution made by the Company, even to be taken into account in the possible adjustment of consideration upon the completion, will not constitute a material change during the Transition Period. Having also considered the Capital Contribution represented approximately 6.2% to the aggregated consideration of the Transfers, we consider the adjustment in respect of the Capital Contribution is not material to the aggregated consideration of the Transfers.)

In order to identify whether there were similar transition period arrangement existing among the PRC companies, we searched for transactions in relation to the disposal of target companies by companies listed on PRC stock exchanges and found that there were similar transition period arrangement existing among the PRC companies. Details of which are set out in the section headed “Ningxia Lingwu Agreement” above.

Having considered that (i) there were similar transition period arrangement existing among the PRC companies; (ii) Ningxia Heating Appraised Value was based on income approach where the financial performance in the future (including the period from Valuation Reference Date to the completion date) was considered in the Ningxia Heating Valuation Report; and (iii) as mentioned below, CEA further adjusted the sum of discounted future cash flow based on, among other things, Ningxia Heating’s value of the surplus (i.e. monetary fund as at 30 June 2020) and non-operating assets and liabilities, we consider the transition period arrangement are normal commercial terms.

Valuation of Ningxia Heating

For our due diligence purpose, we reviewed and enquired into (i) the terms of engagement of CEA with the Company; (ii) CEA’s qualification in relation to the preparation of the Ningxia Heating Valuation Report; and (iii) the steps and due diligence measures taken by CEA for conducting the Ningxia Heating Valuation Report. From the mandate letter and other relevant information provided by CEA and based on our interview with them, we were satisfied with the terms of engagement of CEA as well as their qualification for preparation of the Ningxia Heating Valuation Report. CEA also confirmed that they are independent to the Group, China Huadian and Ningxia Heating.

LETTER FROM GRAM CAPITAL

The Ningxia Heating Appraised Value was concluded by CEA by income approach. Upon our further enquiry with CEA, we understood that market approach is not applicable to the Ningxia Heating Appraised Value due to the failure to find comparable historic transaction precedents in the market; and as compared to asset-based approach, the income approach may reflect the equity value of Ningxia Heating more completely and reasonably.

Having considered following factors,

- (i) the fact that a comfort letter was made by Directors regarding profit forecast;
- (ii) qualification and experience of CEA;
- (iii) as confirmed by CEA, the Ningxia Heating Valuation Report was prepared in accordance with, among other things, 《資產評估準則–基本準則》 (Asset Evaluation Standards – Basic Standards*) which was issued by Ministry of Finance of the PRC;
- (iv) **market approach is not applicable** to the Ningxia Heating Appraised Value due to the failure to find comparable historic transaction precedents in the market;
- (v) **asset-based approach is considered less feasible:** equipment assets for Ningxia Heating only involve heating pipelines, through which heating produced by Ningxia Lingwu is transported to thousands of household heating units;
- (vi) **income approach is a reliable approach:** it is more able to reflect the market value of Ningxia Heating on the Valuation Reference Date. In particular, for Phase II project of Ningxia Heating, the construction in progress under the asset-based approach only reflects the carry amount up to now. However, according to the enterprise historical data, it is known that upon the one-off investment in the heating project, considerable cash flow will be generated in the later stage since the heating price is government-guided and the heating area has been determined,

we consider the adoption of income approach for valuation of Ningxia Heating by CEA is reasonable.

Despite that the valuation approach adopted and finally concluded by CEA for Ningxia Heating Appraised Value was different from the valuation approach adopted and finally concluded by Zhonghe Appraisal for Ningxia Lingwu Appraised Value, having considered the following factors:

- our analyses in respect of the reasonableness of the adoption of income approach for the Ningxia Heating Appraised Value above;
- according to Article 16 of 《資產評估準則–基本準則》 (Asset Evaluation Standards – Basic Standards*), the valuation methods for determining the value of assets include three basic approaches (i.e. market approach, income approach and cost approach) and their derivative methods. Asset appraisal professionals should analyse

LETTER FROM GRAM CAPITAL

the applicability of the above three basic approaches according to the appraisal purpose, appraisal object, value type, data collection, etc., and select appraisal methods in accordance with the law;

- business models of Ningxia Lingwu and Ningxia Heating are different,

we are of view that the valuation approaches adopted by different valuers for different enterprises with different business models to be acceptable.

As CEA has adopted income approach to conclude the Ningxia Heating Appraised Value, in such cases, it is stipulated under Rule 14.62 of the Hong Kong Listing Rules that the Company is required to obtain:

- (i) a letter from the its auditors or reporting accountants confirming that they have reviewed the accounting policies and calculations for the forecast and containing their report; and
- (ii) a report from the its financial advisers confirming that they are satisfied that the forecast has been made by the directors after due and careful enquiry. If no financial advisers have been appointed in connection with the transaction, the Company must provide a letter from the board of directors confirming they have made the forecast after due and careful enquiry.

We consider that the above stipulation of the Hong Kong Listing Rules could safeguard the interest of the Shareholders. We noted that (i) the Company's auditor confirmed that in their opinion, so far as the arithmetical accuracy of the calculations is concerned, the discounted future cash flows have been properly compiled in accordance with the bases and assumptions adopted by the Directors as set out in the valuation of 100% equity interest in Ningxia Heating Appraised Value; and (ii) the Board confirmed that the forecast has been made after due and careful enquiry.

We further discussed with CEA in respect of the Ningxia Heating Valuation Report to understand the major evaluation parameters/assumptions (including forecast period, income, discount rate, etc.) and CEA's work-done in arriving at the valuation.

A. Determination of forecast period

According to the Ningxia Heating Valuation Report, the phase I of the intelligent centralized heat supply project for Yinchuan by Ningxia Lingwu which was mainly operated by Ningxia Heating has been completed and put into operation, while the phase II is still in progress. According to the construction plan of Ningxia Heating, the phase II is expected to complete by the end of 2022 and will go through trial operation and acceptance procedure, thus to realize centralized heat supply covering the entire planned region. Considering the completion time of the aforementioned phase II project and the plan to achieve centralized heat supply upon grid-connection, Ningxia Heating is expected to step into the stable period in 2025 and afterwards, and the forecast period is defined to last until the end of 2025.

LETTER FROM GRAM CAPITAL

For our due diligence purpose, we obtained documents showing the construction plan of Ningxia Heating.

B. Income

According to the Ningxia Heating Valuation Report, enterprise free cash flow is selected for the income approach valuation model.

We noted that the income adopted in arriving the valuation was determined with reference to user type, heating unit price, heating area, etc. Upon our request, we obtained those relevant figures.

We further noted that only five months of heating period was considered when determining the forecasted income. For our due diligence purpose, we searched over website of Yinchuan Government and noted that the mandatory heating supply period as issued by Yinchuan Government for 2019 winter season was 1 November 2019 to 31 March 2020 and for 2020 winter season was 1 November 2020 to 31 March 2021, both winter seasons being five months.

Upon our request, the Directors provided us the income for the six months ended 31 December 2020. We noted that there was no material difference between the actual income for the six months ended 31 December 2020 and the forecast income for the six months ended 31 December 2020.

Based on the above, we consider the basis for determining of income to be reasonable.

C. Discount rate

According to the Ningxia Heating Valuation Report, the weighted average cost of capital is chosen as the discount rate.

We note that CEA used the Capital Asset Pricing Model (“CAPM”) to assess the cost of equity for Ningxia Heating. In arriving at the cost of equity, CEA took into account a number of factors including (i) risk free rate; (ii) market risk premium; (iii) β ; (iv) specific corporate risk adjustment coefficient.

For our due diligence purposes, we performed the following analysis/research:

- we understood that the CAPM technique is widely accepted for the purpose of estimating required rate of return on equity.
- CEA adopted 2.82% as risk free rate, which was determined with reference to 10-year yield of PRC sovereign debt. We noted from the website of China Foreign Exchange Trade System – National Interbank Funding Center” that 10-year yield of PRC sovereign debt was approximately 2.9341% as at 30 June 2020. Therefore, we consider the risk free rate of 2.82% adopted by CEA, to be justifiable.

LETTER FROM GRAM CAPITAL

- Furthermore, we noted that CEA calculated re-levered beta based on comparable companies with certain criteria. We discussed with CEA in respect of their basis for selecting comparable companies. We also searched the background information on the comparable companies and noted that all the comparable companies are engaged in, among other things, heat supply. As confirmed by CEA, the comparable companies are exhaustive, fair and representative.

Based on the above, we consider the basis for determining of re-levered beta to be reasonable.

- according to the Ningxia Heating Valuation Report, CEA adopted 7.12% as market risk premium (i.e. market expectation rate of return – risk free rate), the percentage of which was determined according to CEA's experience.

We noted from “Country Risk: Determinants, Measures and Implications – The 2019 Edition” updated on 27 July 2020, the author of which is Aswath Damodaran (being a Professor of Finance at New York University Stern School of Business), equity risk premium of China was 6.26%. The market risk premium as adopted by CEA (i.e. market expectation rate of return – risk free rate) was close to equity risk premium of China as mentioned above. Accordingly, we consider the market risk premium as adopted by CEA is acceptable.

In addition, as advised by CEA, cost of debt capital was determined based on Ningxia Heating's cost of borrowing as at 30 June 2020.

CEA further adjusted the sum of discounted future cash flow based on Ningxia Heating's value of the surplus (i.e. monetary fund as at 30 June 2020), non-operating assets and liabilities.

Based on the above our analyses on key parameters and information/documents in respect of the Ningxia Heating Valuation Report provided to us by CEA/Company and having considered CEA's qualification and experience, we did not identify any major factors which caused us to doubt the fairness and reasonableness of the principal bases and assumptions adopted for the Ningxia Heating Valuation Report.

Having also considered (i) our due diligence work on CEA in respect of the Ningxia Heating Valuation Report; (ii) the Rule 14.62 of Hong Kong Listing Rules requirement, we, after reviewing the principal bases and assumptions of the Ningxia Heating Appraised Value, consider that the principal bases and assumptions adopted for the Ningxia Heating Appraised Value as at the valuation reference date to be fair and reasonable.

LETTER FROM GRAM CAPITAL

We also noted that the valuation reference date of Ningxia Heating Appraised Value was 30 June 2020. Having considered the following factors:

- (i) as confirmed by the Directors, as at the Latest Practicable Date, the Company is not aware of any subsequent material changes to circumstances and conditions of Ningxia Heating that will impact the results of the valuation of Ningxia Heating since the Valuation Reference Date but was not considered when conduct the profit forecast; and

For our due diligence purpose, we interviewed Ningxia Heating's staff (head of finance department) in respect of Ningxia Heating's financial position and trading position respectively. Based on our discussion, we did not identify any material information which would cause us to consider that there was any material change in Ningxia Heating's financial position and trading position since the Valuation Reference Date, save for the Capital Contribution.

- (ii) according to Article 11 of the Principles for Asset Valuation – Valuation Report issued by the China Appraisal Society, “Valuation report shall clearly specify the valid period for using the report. Generally, the valuation report shall only be used where the period between the valuation date and the date on which the economic act executed is not more than one year”,

we do not doubt the reasonableness and meaningfulness of Ningxia Heating Appraised Value, the valuation reference date (i.e. 30 June 2020) of which is approximate eight months earlier than the date of Ningxia Heating Agreement.

In addition, according to the audited financial report of Ningxia Heating for 1H2020, the paid-in capital of Ningxia Heating amounted to RMB1,034,250,000 as at 30 June 2020 while the insufficient capital contribution amounted to RMB15,750,000 (calculated by registered capital – paid-in capital) (“**Outstanding Capital Contribution**”). As confirmed by the Directors, should the relevant minor shareholders of Ningxia Heating make the Outstanding Capital Contribution, Ningxia Heating's monetary fund should immediately increase by the same amounts. As mentioned above, CEA further adjusted the sum of discounted future cash flow based on, among other things, Ningxia Heating's value of the surplus (i.e. monetary fund as at 30 June 2020). Accordingly, it is reasonable to include the Outstanding Capital Contribution amounts as part of the Ningxia Heating Consideration.

Having considered (i) the proportionate sum of Ningxia Heating Appraised Value and the Outstanding Capital Contribution (i.e. $(\text{RMB}2,342,227,800 + \text{RMB}15,750,000) \times 53\% = \text{RMB}1,249,728,234$) equals to the Ningxia Heating Consideration of RMB1,249,728,234; (ii) our independent work performed on the Ningxia Heating Valuation Report; and (iii) the transition period arrangement as mentioned above (including the proposed adjustment pursuant to the Capital Contribution), we are of the view that the Ningxia Heating Consideration is fair and reasonable.

Taking into account the principal terms of the Ningxia Lingwu Agreement and the Ningxia Heating Agreement, we consider that the terms of the Transfers are fair and reasonable.

LETTER FROM GRAM CAPITAL

3. *Financial impact of the Transfers and use of proceeds*

With reference to the Board Letter, upon completion of the Transfers, the Company will no longer hold any interests in Ningxia Lingwu and Ningxia Heating, while Ningxia Lingwu and Ningxia Heating will cease to be the subsidiaries of the Company.

The gain arising from the Transfer (before deducting taxes and other expenses payable by the Company in respect of the Transfers) amounts to approximately RMB953.7 million (calculated in accordance with the difference between the total consideration of the transfer of 65% equity interests in Ningxia Lingwu and 53% equity interests in Ningxia Heating and their respective net book value at the valuation reference date (i.e. 30 June 2020)). The estimated gain from the disposal of 65% equity interests in Ningxia Lingwu and the disposal of 53% equity interests in Ningxia Heating are approximately RMB351.6 million and RMB602.1 million, respectively. It is also expected that no gain or loss from the transfer of the Lingwu Dividend Receivable will be recorded by the Company. The Company intends to use the net proceeds arising from the Transfers for general working capital of the Group.

It should be noted that the aforementioned analyses are for illustrative purposes only and do not purport to represent how the financial position of the Group will be upon completion of the Transfers.

RECOMMENDATION

Having taken into consideration the factors and reasons as stated above, we are of the opinion that (i) the terms of the Transfers (including the Ningxia Lingwu Consideration and the Ningxia Heating Consideration) are on normal commercial terms and are fair and reasonable; and (ii) although the Transfers are not conducted in the ordinary and usual course of business of the Group, the Transfers are 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 Transfers 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

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.

* *For identification purpose only*

**Assets valuation report on
the entire shareholders' interest in Huadian Ningxia Lingwu Power
Generation Company Limited involved in the proposed equity transfer by
Huadian Power International Corporation Limited**

Zhong He Ping Bao Zi (2020) No. YCV1133

Dear Ningxia Branch of Huadian Power International Corporation Limited,

ZhongHe Appraisal Co., Ltd. (hereinafter as “**the agency of this assets valuation**”) has been engaged by the Company to conduct the valuation on the market value of the entire shareholders' interests in Huadian Ningxia Lingwu Power Generation Company Limited on the Valuation Reference Date following necessary valuation procedures, using asset-based approach and adhering to principles of independence, objectivity and fairness in accordance with the requirements of laws, administrative regulations and assets valuation standards. The assets valuation is reported as follows:

I. CONSIGNOR, APPRAISED ENTITY AND OTHER USERS OF VALUATION REPORT

Consignor: Ningxia Branch of Huadian Power International Corporation Limited

Appraised entity: Huadian Ningxia Lingwu Power Generation Company Limited

(1) Overview of the Consignor

Name:	Ningxia Branch of Huadian Power International Corporation Limited
Unified Social Credit Code:	9164000075081496XJ
Address:	Operation room, Tower 1, Shi Dai Zhi Xing Jia Yuan (south side of Xin Chang West Road), Yinchuan Hi-tech Development Zone
Person in charge:	Li Jiwen
Type of company:	Branch company of a foreign-invested enterprise
Scope of business:	Coordinates the businesses of the Company, implementing the development, construction and management of projects in Ningxia on behalf of the Company. (For those projects subject to approval in accordance with laws, operation can only begin after approvals are obtained from relevant departments)

Ningxia Branch of Huadian Power International Corporation Limited was established on 8 September 2003 and is the branch institution located in Ningxia under Huadian Power International Corporation Limited.

(2) Overview of the appraised entity**1. Basic profile**

Name:	Huadian Ningxia Lingwu Power Generation Company Limited
Unified Social Credit Code:	91640000774928697L
Address:	Lingwu, Ningxia Hui Nationality Autonomous Region
Legal representative:	Han Kezhen (韩克珍)
Registered capital:	RMB130,000,000
Type of company:	Limited company (state-owned)
Scope of business:	Production and sales of electricity, as well as businesses related to electricity production and operation. (For those projects subject to approval in accordance with laws, operations can only begin after approvals are obtained from relevant departments)

Huadian Ningxia Lingwu Power Generation Company Limited was established on 26 February 2006, and was co-invested and co-founded by Huadian Power International Corporation Limited and China Aluminum Ningxia Energy Group Co., Ltd.. The shareholding structure as of the Valuation Reference Date is shown on the table below:

Names of shareholders	Invested amounts	% of shareholding
Huadian Power International Corporation Limited	1,332,655,261.60	65.00
China Aluminum Ningxia Energy Group Co., Ltd.	717,583,602.40	35.00
Total	<u>2,050,238,864.00</u>	<u>100.00</u>

2. Production capacity

The existing installed capacity of Huadian Ningxia Lingwu Power Generation Company Limited is 3,320,000 kw, of which: two 600,000 kw coal-fired air-cooling generating units of phase I (no. 1 and no. 2) commenced operation in power generation in June and September 2007, respectively; two 1,060,000 kw ultra super-critical power generating units of phase II (no. 3 and no. 4) commenced their operation in power generation in January and May 2011, respectively.

Huadian Ningxia Lingwu Power Generation Company Limited conducted the in-house technical transformation work (phase I) for the intelligent heat supply plant in Yinchuan, which commenced its operation in heat supply on 1 November 2018, with the heat supply area of approximately 36,600,000 square metres, it replaced 155 units of coal-fired boilers in urban areas; in March 2019, the phase II project of “Heat Distribution from East to West” in Yinchuan was commenced, where an additional heat supply area of 31,790,000 square metres was planned for heat supply coverage in various regions of Yinchuan such as Jinfeng District, Yongning County, Wangyuan Town, Desheng Industrial Park.

3. *Operation model*

Currently, the principal operation model of Huadian Ningxia Lingwu Power Generation Company Limited is production and sales, i.e. procurement of raw materials such as coal for electricity and heat production, followed by sales of electricity and heat.

Procurement model:	To determine the point of time and amount for procurement of coal based on the coal market trend, internal inventory and amount of coal necessary for production.
Production model:	With fired coal as primary source of energy, power is generated through the burning of pulverized coal to heat up boilers, thereby transforming water into steam in the boilers, turbines are then driven by the steam; meanwhile, through high backpressure remodeling of 2×600MW generation units to recycle the exhaust gas of power plants and remodeling 2×1060MW generation units for extraction condensing, which provides gas sources for peak-load heating thus realizing long-distance intelligent heat supply.
Sales model:	Through entering into electricity sales and purchase contract with State Network Ningxia Electric Power Company Limited (國網寧夏電力有限公司) to supply electricity; through entering into heat supply contract with Lingwu Energy Company Limited (靈武市能源有限公司) and Ningxia Huadian Heating Corporation Limited to supply heat to residents in regions such as Ningwu City and Yinchuan City.

4. Assets, financial and operating conditions**Assets and the statement of financial condition***Unit: RMB0'000*

Items	31 December 2018	31 December 2019	30 June 2020
Total assets	900,571.60	841,972.60	783,724.29
Total liabilities	550,518.31	484,307.44	416,580.56
Shareholders' interests	350,053.29	357,665.16	367,143.73

Items	2018	2019	Jan – Jun 2020
Operating revenue	380,562.12	398,294.73	204,495.18
Total profits	-16,727.85	8,938.56	12,924.62
Net profits	-14,196.70	7,611.87	10,985.93
Auditing institution	Grant Thornton (Special General Partnership) (Henan branch)	Grant Thornton (Special General Partnership) (Henan branch)	Grant Thornton (Special General Partnership) (Henan branch)

(3) Relationship between the consignor and the appraised entity

Ningxia Branch of Huadian Power International Corporation Limited, the consignor, is the branch institution located in Ningxia and was established by the shareholders of Huadian Ningxia Lingwu Power Generation Company Limited, the appraised entity.

(4) Other users of the valuation report

This valuation report is only for the use by the consignor, Huadian Power International Corporation Limited and the users of valuation report stipulated by laws and administrative regulations.

II. PURPOSES OF VALUATION

For the matters of the proposed transfer of equity in Huadian Ningxia Lingwu Power Generation Company Limited held by Huadian Power International Corporation Limited, Ningxia Branch of Huadian Power International Corporation Limited engaged ZhongHe Appraisal Co., Ltd. to conduct a valuation on the entire shareholders' interests in Huadian Ningxia Lingwu Power Generation Company Limited involved, in order to determine its market value as of 30 June 2020 (the Valuation Reference Date), thereby providing a basis of reference for the value in connection with this act of equity transfer.

The resolution of this economic activity has been passed and recorded in the meeting minutes of meeting of Huadian Ningxia Company (華電寧夏公司) ("Zong Ban Hui Ji Yao (2020) No. 16").

III. SUBJECT AND SCOPE OF VALUATION

Based on the objectives of this valuation, the subject is the entire shareholders' interests in Huadian Ningxia Lingwu Power Generation Company Limited. The scope of valuation is all assets and liabilities of Huadian Ningxia Lingwu Power Generation Company Limited.

The total assets being appraised is RMB7,837,242,851.74, where: current assets of RMB666,846,502.56, fixed assets of RMB6,872,085,815.42, construction in progress of RMB169,939,102.51, intangible assets of RMB107,443,082.47, deferred income tax assets of RMB20,928,348.78; total liabilities of RMB4,165,805,595.92, where: current liabilities of RMB2,923,868,239.32, long-term borrowings of RMB1,234,675,000.00, long-term payables of RMB491,259.00, deferred gains of RMB6,771,097.60; owners' interests (or shareholders' interests) of RMB3,671,437,255.82. Details are shown in the table below:

Balance sheet

Valuation Reference Date: 30 June 2020

Unit of amount: RMB

Names of items	Carrying amounts
I. Current assets in aggregate	666,846,502.56
Monetary capital	1,536,965.53
Bills receivable	70,380,000.00
Amounts receivable	391,489,705.93
Prepayments	6,826,448.65
Other receivables	2,454,319.69
Inventories	179,524,179.98
Other current assets	14,634,882.78
II. Non-current assets in aggregate	7,170,396,349.18
Fixed assets	6,872,085,815.42
Construction in progress	169,939,102.51
Intangible assets	107,443,082.47
Deferred income tax assets	20,928,348.78
III. Assets in aggregate	7,837,242,851.74
IV. Current liabilities in aggregate	2,923,868,239.32
Short-term borrowings	1,410,000,000.00
Amounts payable	393,744,474.90
Contract liabilities	696,514.81
Wages payable	8,487,088.29
Taxes payable	7,870,061.22
Interests payable	18,192,955.76
Other payables	58,077,144.34
Non-current liabilities due within 1 year	1,026,800,000.00

Names of items	Carrying amounts
V. Non-current liabilities in aggregate	1,241,937,356.60
Long-term borrowings	1,234,675,000.00
Long-term payables	491,259.00
Deferred gains	6,771,097.60
VI. Liabilities in aggregate	4,165,805,595.92
VII. Owners' interests (or shareholders' interests)	3,671,437,255.82
Paid-in capital (or share capital)	2,050,238,864.00
Capital reserve	5,560,000.00
Surplus reserve	358,666,665.45
Undistributed profits	1,256,971,726.37
VIII. Liabilities and owners' interests (or shareholders' interests) in aggregate	7,837,242,851.74
(1) The appraised subject and scope of valuation are consistent with the subject and scope of valuation involved in the economic actions, for which the carrying amounts have been audited by the Grant Thornton (Special General Partnership) (Henan branch), using 30 June 2020 as the audit reference date, and for which the audit report without qualified opinions (GTCNZZ (2020) No. 410FC00154) has been issued.	
(2) The profile of assets in kind of the appraised entity	

The assets in kind declared by Huadian Ningxia Lingwu Power Generation Company Limited for valuation include inventories, assets in building category, assets in equipment category, construction in progress, etc..

1. Inventories

The carrying amount of inventories is RMB179,524,179.98. All of them are raw materials, mainly including spare parts, coal, diesel and other materials, etc., among which, coal storage is located at the coal yard of Huadian Ningxia Lingwu Power Generation Company Limited; diesel storage is located at the oil tank of Huadian Ningxia Lingwu Power Generation Company Limited; storage of other raw materials and spare parts is located at the warehouse of Huadian Ningxia Lingwu Power Generation Company Limited. All storage environments are of satisfactory condition. Except some parts of raw materials are considered as scrap, other raw materials are all purchased recently, with an age of less than one year in general.

2. Assets in building category

The original carrying amount of assets in building category is RMB2,832,901,355.56, with the net carrying amount of RMB1,837,558,737.92, representing 297 items therein, where: 140 items in aggregate are house buildings, with total gross floor area of 144,986.98 square metres (gross floor area of 92,636.82 square

metres with Real Estate Certificate, while gross floor area of 52,350.16 square metres without Real Estate Certificate), mainly comprising production and administration complex, main plant building, maintenance building, air-cooling training centre, centralised control building, suction room, etc.; 157 items in aggregate are structures and ancillary facilities, mainly comprising coal unloading ditches for vehicles, chimneys, air-cooling islands, coal trestles, roads and squares in factory areas, pipelines of heat network in factory areas, etc.. Lands occupied by buildings are lands for industrial use assigned and transferred by Huadian Ningxia Lingwu Power Generation Company Limited.

3. *Assets in equipment category*

The original carrying amount of assets in equipment category is RMB10,092,688,576.74, with the net carrying amount of RMB5,034,527,077.50, representing 3,083 items therein, where: 2,364 items are machinery equipment, mainly comprising ancillary equipment such as boilers (1#、2#、3#、4#), turbines (1#、2#、3#、4#), turbine generators (1#、2#、3#、4#), main transformers, medium-speed coal pulverizer, bucket wheel reclaimers, indirect air-cooling system for boiler feed pump turbines, bundles of pipelines for air-cooling and condensing machines (including headers), vapour distribution pipelines, absorption towers for desulfurization islands, SCR reactors, distributed control systems (DCS), belt conveyors, circulating pumps, air compressors, heaters for heating network, circulating pumps for heating network, air-cooling and condensing systems, distributed control systems (DCS), pipeline systems for heat supply, high-pressure transformers for factory uses, fire alarm as well as fire prevention and control systems, equipment system for heat control, all of which were purchased during the period between 2005 and 2019, and they were in relatively fair condition in terms of operation and maintenance; 70 items in aggregate are vehicles, mainly comprising cars for office uses, business cars, medium-sized buses and large-sized buses for traffic staff to and from work, etc., all of which were purchased during the period between 2006 and 2019, where 3 vehicles will be scrapped and the rest of them are under normal use; 649 items in aggregate are electronic equipment, mainly comprising digital cameras, computers, projectors, printers, photocopiers, service devices, air conditionings, etc., all of which were purchased during the period between 2005 and 2019 and are under normal use.

4. *Construction in progress*

The carrying amount of construction in progress is RMB169,939,102.51, being the fees to be amortised for installation works of equipment, mainly including the charges for development of Ningxia Lingwu Coal-fired Power Project (Phase III), Ningxia Lingwu Biomass Gasification Power Generation Project, expansion fee for Multi-purpose Synergetic Project of Lingwu Biomass Planning Department, the upfront payment, civil engineering charge, equipment acquisition charge, materials charge, installation charge, etc., incurred during the new or alteration works for the Ningxia Huadian Tongxin 100MW Wind Farm Project, as well as projects such as Ningxia Huadian Wuzhong Yanchi 50MW Solar Thermal, preliminary connection works for existing railways of Ningxia Lingwu and state-owned railways, technical transformation – alteration for dust control in coal yards, etc..

(3) Intangible Assets Profile of the appraised entity

1. Land Use Rights

Huadian Ningxia Lingwu Power Generation Company Limited declared a total of 14 land use rights, with an original recorded value of RMB96,985,380.90 and a book value of 88,209,953.50 yuan. The specific land registration status, land certificate number, parcel location, intended use, parcel area, expiration date, type of use right, etc. are shown in the following table:

List of Land Registration Status

No.	No. of land use right certificate	Land use right holder	Location	Expiration date	Usage	Area (m ²)	Type of land use right
L1	Ning (2017) Lingwu Real Estate Property Certificate No. 0000487	Huadian Ningxia Lingwu Power Generation Company Limited	East of Xiabai Road, Lingwu	8 June 2065	Industrial land	236,821.00	Assignment
L2	Ning (2017) Lingwu Real Estate Property Certificate No. 0000482	Huadian Ningxia Lingwu Power Generation Company Limited	East of Xiabai Road, Lingwu	8 June 2065	Industrial land	257,772.00 ⁽¹⁾	Assignment
L3	Ning (2017) Lingwu Real Estate Property Certificate No. 0000483	Huadian Ningxia Lingwu Power Generation Company Limited	East of Xiabai Road, Lingwu	8 June 2065	Industrial land		Assignment
L4	Ning (2017) Lingwu Real Estate Property Certificate No. 0000485	Huadian Ningxia Lingwu Power Generation Company Limited	East of Xiabai Road, Lingwu	8 June 2065	Industrial land		Assignment
L5	Ning (2017) Lingwu Real Estate Property Certificate No. 0000488	Huadian Ningxia Lingwu Power Generation Company Limited	East of Xiabai Road, Lingwu	8 June 2065	Industrial land		Assignment
L6	Ning (2017) Lingwu Real Estate Property Certificate No. 0000489	Huadian Ningxia Lingwu Power Generation Company Limited	East of Xiabai Road, Lingwu	8 June 2065	Industrial land		Assignment

APPENDIX I SUMMARY OF VALUATION REPORT OF NINGXIA LINGWU

No.	No. of land use right certificate	Land use right holder	Location	Expiration date	Usage	Area (m ²)	Type of land use right
L7	Ning (2017) Lingwu Real Estate Property Certificate No. 0000486	Huadian Ningxia Lingwu Power Generation Company Limited	East of Xiabai Road, Lingwu	8 June 2065	Industrial land	213,689.00	Assignment
L8	Ning (2020) Lingwu Real Estate Property Certificate No. L0000703	Huadian Ningxia Lingwu Power Generation Company Limited	East of Xiabai Road, Lingwu	8 June 2065	Industrial land	49,887.00	Assignment
L9	Ning (2017) Lingwu Real Estate Property Certificate No. 0000484	Huadian Ningxia Lingwu Power Generation Company Limited	Dong Ta Town, Lingwu	/	Industrial land	345,000.00	Transfer
L10	Ning (2020) Lingwu Real Estate Property Certificate No. L0000704	Huadian Ningxia Lingwu Power Generation Company Limited	East of Ling Lin Highway, Lingwu	/	Industrial land	242,333.00	Transfer
L11	Ning (2020) Lingwu Real Estate Property Certificate No. L0000705	Huadian Ningxia Lingwu Power Generation Company Limited	Sha Ba Tou Cun, Wu Tong Shu Xiang, Lingwu	/	Industrial land	7,009.60	Transfer
L12	Ning Guo Yong (2007) No. 0438	Huadian Ningxia Lingwu Power Generation Company Limited (Special Railway Lines)	East of Ling Lin Highway	/	Industrial land	428,306.00	Transfer
L13	Ning (2020) Lingwu Real Estate Property Certificate No. L0000716	Huadian Ningxia Lingwu Power Generation Company Limited	East of Ling Lin Highway, Dong Ta Town, Lingwu	/	Industrial land	35,682.00	Transfer
L14	Ning (2018) Lingwu Real Estate Property Certificate No. L0006925	Huadian Ningxia Lingwu Power Generation Company Limited	41 households of six km north of Lingwu (East of Ling Lin Highway)	/	Industrial land	431,590.00	Transfer

Note:

1. The total area of No. L2-L6

The above 14 parcels to be evaluated have all obtained land use rights by way of assignment and transfer, and the Real Estate Property Certificate and the State-owned Land Use Right Certificate have been processed. As of the Valuation Reference Date, there were no mortgages, guarantees and other rights in the 14 land parcels.

2. Other Intangible Assets

There are a total of 38 other intangible assets, with an original recorded value of RMB26,662,279.70 and a book value of RMB19,233,128.97, including 37 software and systems, and 1 water rights transfer fee. Among which, software and systems were purchased from December 2008 to December 2019, and water rights transfer fee assets were formed in January 2011, among them the anti-virus software (capacity expansion and upgrade) Rising (瑞星) and network management software have been discontinued to use.

Huadian Ningxia Lingwu Power Generation Company Limited applied 15 patented technologies for assessment. See the table below for details:

List of Patented Technologies

No.	Content or name	Patent application date	Patent type	Patent number	Patentee
1	A Hough connector for steam turbine with high, intermediate pressure main stop valve (一種汽輪機高、中壓主汽門的哈夫連接件)	27 May 2017	Invention	ZL201710389893.7	Huadian Ningxia Lingwu Power Generation Company Limited (華電寧夏靈武發電有限公司)
2	A kind of oil sample calibration device of online monitoring device for dissolved gas in transformer oil (一種變壓器油中溶解氣體在線監測裝置的油樣校淮裝置)	19 July 2016	Invention	ZL201610575505.X	Huadian Ningxia Lingwu Power Generation Company Limited (華電寧夏靈武發電有限公司); Jiangsu Guodian Nanjing Automation Haiji Technology Company Limited (江蘇國電南自海吉科技有限公司); Anhui Huadian Lu'an Power Plant Company (安徽華電六安電廠公司)
3	A condensed water descending pipe buffer device of direct air cooling system (直接空冷系統凝結水下降管緩沖裝置)	29 May 2019	Utility model	ZL201920875348.3	Huadian Ningxia Lingwu Power Generation Company Limited (華電寧夏靈武發電有限公司)

No.	Content or name	Patent application date	Patent type	Patent number	Patentee
4	A kind of air cooling fan (一種空冷風機)	13 September 2017	Utility model	ZL201721168477.6	Huadian Ningxia Lingwu Power Generation Company Limited (華電寧夏靈武發電有限公司); Beijing BKC Technology Co., Ltd. (北京必可測科技股份有限公司)
5	A powdery material batcher that enable micro-feed (一種可微量給料的粉狀物料給料機)	19 September 2016	Utility model	ZL201621060028.5	Jiangsu Guodian Nanjing Automation Haiji Technology Company Limited (江蘇國電南自海吉科技有限公司); Huadian Ningxia Lingwu Power Generation Company Limited (華電寧夏靈武發電有限公司); Anhui Huadian Lu'an Power Plant Company (安徽華電六安電廠公司)
6	A transformer online monitoring system based on the principle of optoacoustic spectroscopy to eliminate cross influence (一種基於消除交叉影響的光聲光譜原理變壓器在線監測系統)	19 July 2016	Utility model	ZL201620763873.2	Anhui Huadian Lu'an Power Plant Company (安徽華電六安電廠公司); Jiangsu Guodian Nanjing Automation Haiji Technology Company Limited (江蘇國電南自海吉科技有限公司); Huadian Ningxia Lingwu Power Generation Company Limited (華電寧夏靈武發電有限公司)

No.	Content or name	Patent application date	Patent type	Patent number	Patentee
7	An online treatment system for micro-water in transformer oil (一種變壓器油中微水在線處理系統)	19 July 2016	Utility model	ZL20162-759486.1	Huadian Ningxia Lingwu Power Generation Company Limited (華電寧夏靈武發電有限公司); Jiangsu Guodian Nanjing Automation Haiji Technology Company Limited (江蘇國電南自海吉科技有限公司); Anhui Huadian Lu'an Power Plant Company (安徽華電六安電廠公司)
8	A laser transmitter that enable micro-adjusting emission direction (一種可微量調整發射方向的激光發射器)	19 September 2016	Utility model	ZL201621063469.0	Jiangsu Guodian Nanjing Automation Haiji Technology Company Limited (江蘇國電南自海吉科技有限公司); Anhui Huadian Lu'an Power Plant Company (安徽華電六安電廠公司); Huadian Ningxia Lingwu Power Generation Company Limited (華電寧夏靈武發電有限公司)
9	An Intelligent transformer monitoring and micro-water integrated processing system based on Vxworks (基於Vxworks的變壓器智能監測及微水綜合處理系統)	19 July 2016	Utility model	ZL201620759482.3	Huadian Ningxia Lingwu Power Generation Company Limited (華電寧夏靈武發電有限公司); Jiangsu Guodian Nanjing Automation Haiji Technology Company Limited (江蘇國電南自海吉科技有限公司)
10	A kind of air cooling fan that equips with vertical motor support (一種採用電機立式支架支撐的空冷風機)	14 October 2015	Utility model	ZL201520792813.9	Beijing BKC Technology Co., Ltd. (北京必可測科技股份有限公司); Huadian Ningxia Lingwu Power Generation Company Limited (華電寧夏靈武發電有限公司)

No.	Content or name	Patent application date	Patent type	Patent number	Patentee
11	A kind of air cooling fan that adopts speed reducer slot install shell (一種採用減速機槽式安裝箱殼的空冷風機)	14 October 2015	Utility model	ZL201520792811.X	Beijing BKC Technology Co., Ltd. (北京必可測科技股份有限公司); Huadian Ningxia Lingwu Power Generation Company Limited (華電寧夏靈武發電有限公司)
12	A kind of air cooling condenser that can improve cooling efficiency (一種能夠提高冷卻效率的空冷凝汽器)	14 October 2015	Utility model	ZL201520792528.7	Beijing BKC Technology Co., Ltd. (北京必可測科技股份有限公司); Huadian Ningxia Lingwu Power Generation Company Limited (華電寧夏靈武發電有限公司)
13	An novel automatic control system for denitration SCR exports multiple spot flue gas sampling (一種新型脫硝SCR出口多點煙氣採樣自動控制系統)	14 November 2016	Utility model	ZL201621241961.2	Huadian Ningxia Lingwu Power Generation Company Limited (華電寧夏靈武發電有限公司)
14	Condenser temperature field monitoring device for 1000MW air cooling generator set (1000MW級空冷發電機組凝汽器溫度場監測裝置)	9 April 2013	Utility model	ZL201320174170.2	Huadian Ningxia Lingwu Power Generation Company Limited (華電寧夏靈武發電有限公司); Beijing Jutuo Technology Development Co., Ltd. (北京巨拓科技發展有限公司)
15	A kind of air cooling fan (一種空冷風機)	28 September 2019	Utility model	ZL201621086636.3	Huadian Ningxia Lingwu Power Generation Company Limited (華電寧夏靈武發電有限公司); Beijing BKC Technology Co., Ltd. (北京必可測科技股份有限公司)

IV. TYPE OF VALUE AND ITS DEFINITION

The type of value for this valuation conclusion is defined as market value based on objective of this valuation and features of the assets entrusted for the valuation. Market value refers to the estimated valuated amount of the subject dealt in normal and fair transaction on the Valuation Reference Date in the case of rational conduct of volunteering purchaser and seller without any force.

V. VALUATION REFERENCE DATE

- (1) The Valuation Reference Date for this valuation report is 30 June 2020.
- (2) This Valuation Reference Date is determined by the consignor taking into account factors such as the end of the accounting period and benefit to facilitate this economic activity.
- (3) The Valuation Reference Date of this valuation report is consistent with the Valuation Reference Date agreed upon in the engagement contract for assets valuation.

VI. BASIS OF VALUATION

Basis of economic activity: Meeting minutes of Ningxia Branch of Huadian (ZBHJY[2020]16).

Basis of laws and regulations:

- (1) Asset Appraisal Law of the People's Republic of China, as passed at the 21st Session of the Standing Committee of the Twelfth National People's Congress on 2 July 2016;
- (2) Company Law of the People's Republic of China, as amended and passed at the 6th Session of the Standing Committee of the Thirteenth National People's Congress on 26 October 2018;
- (3) Urban Real Estate Administration Law of the People's Republic of China, as amended and passed at the 12th session of the Standing Committee of the Thirteenth National People's Congress on 26 August 2019;
- (4) Land Administration Law of the People's Republic of China, as amended and adopted at the 12th Session of the Standing Committee of the Thirteenth National People's Congress on 26 August 2019;
- (5) Rules on the Evaluation and Management of State Assets (Order No. 91 [1991] of the State Council);
- (6) (Order No. 12 of the State-owned Assets Supervision and Administration Commission of the State Council) Measures for the Enterprises' State-owned Assets Appraisal Management;
- (7) (Order No. 14 of the Ministry of Finance) Regulation of Certain Issues of the State-owned Assets Appraisal Management;
- (8) Property Law of the People's Republic of China, as passed at the 5th session of the Tenth National People's Congress on 16 March 2007;

- (9) Measures for the Fiscal Supervision and Administration of the Asset Appraisal Industry, as promulgated by Order No. 86 of the Ministry of Finance on 21 April 2017 and amended according to the Decision of the Ministry of Finance to Amend Two Departmental Rules including the Measures for the Practice Licensing and Supervision and Administration of Accounting Firms on 2 January 2019;
- (10) Guidelines for the Filing for Recordation of the Assessment Projects of State-owned Assets of Enterprises (Guo Zi Fa Chan Quan [2013] No. 64);
- (11) Circular Regarding Improvement of Administration on Valuation of Enterprise State-owned Assets (Guo Zi Wei Chan Quan [2006] No.274);
- (12) Circular Relating to Review on Valuation Report for Enterprise State-owned Assets (Guo Zi Chan Quan [2009] No.941);
- (13) Measures for the Supervision and Administration of the Transactions of State-Owned Assets of Enterprises (Order No. 32 of the State-owned Assets Supervision and Administration Commission of the State Council and the Ministry of Finance);
- (14) Enterprise Income Tax Law of the People's Republic of China, as amended at the 7th Session of the Standing Committee of the Thirteenth National People's Congress on 29 December 2018;
- (15) Accounting Standards for Business Enterprises – Basic Standards (Order No.33 of the Ministry of Finance), the Decision of the Ministry of Finance Concerning Amendment to the Accounting Standards for Business Enterprises – Basic Standards (Order No.76 of the Ministry of Finance);
- (16) Interim Regulations for the Value-added Tax of the People's Republic of China (Order No. 691 of the State Council);
- (17) Notice on Implementing the Pilot Program of Replacing Business Tax with Value-Added Tax in an All-round Manner (Order No. 36 [2016] of the Ministry of Finance and the State Administration of Taxation);
- (18) Announcement on Relevant Policies for Deepening the Value-Added Tax Reform (No. 39 [2019] of the Ministry of Finance, the State Taxation Administration and the General Administration of Customs);
- (19) Interim Regulations of the People's Republic of China on Urban and Town Land Use Tax (Order No. 645 of the State Council, revised for the third time on 7 December 2013);
- (20) Current Land Use Classification for National Standard of the People's Republic of China (GB/T21010-2007);
- (21) Regulations for Gradation and Classification on Urban Land for National Standard of the People's Republic of China (GB/T 18507-2014);

(22) Other laws and regulations related to this valuation.

Basis of criteria:

- (1) Assets Valuation Basic Standards (Cai Zi [2017] No. 43);
- (2) Code of Ethics for Assets Assessment (CAS [2017] No. 30);
- (3) Assets Valuation Practicing Standards – Assets Valuation Procedures (CAS [2018] No. 36);
- (4) Assets Valuation Practicing Standards – Assets Valuation Report (CAS [2018] No. 35);
- (5) Assets Valuation Practicing Standards – Engagement Contract for Assets Valuation (CAS [2017] No. 33);
- (6) Assets Valuation Practicing Standards – Assets Valuation Files (CAS [2018] No. 37);
- (7) Assets Valuation Practicing Standards – Enterprise Value (CAS [2018] No. 38);
- (8) Assets Valuation Practicing Standards – Real Estate (CAS [2017] No. 38);
- (9) Assets Valuation Practicing Standards – Machinery and Equipment (CAS [2017] No. 39);
- (10) Assets Valuation Practicing Standards – Approaches of Assets Valuation (CAS [2019] No. 35);
- (11) Guidelines on Business Quality Guarantee of Assets Appraisal Institutions (CAS [2017] No. 46);
- (12) Guidelines on Valuation Report of Business State-owned Assets (CAS [2017] No. 42);
- (13) Guidelines on Type of Value for Assets Valuation (CAS [2017] No. 47);
- (14) Guiding Opinions on Valuation of Patent Assets (Zhong Ping Xie [2017] No. 49);
- (15) Guidelines on Legal Title of Assets Valuation Target (CAS [2017] No. 48).

Basis of asset ownership:

- (1) The real estate property right certificates, motor vehicle driving licenses and patent certificates provided by Huadian Ningxia Lingwu Power Generation Company Limited;
- (2) Other supporting documents on ownerships provided by Huadian Ningxia Lingwu Power Generation Company Limited.

Pricing Basis:

- (1) ZhongHe Appraisal Co., Ltd., “Evaluation Information Network” (《評估資訊網》);
- (2) Regulations on Preparation and Calculation of Construction Budgets of Thermal Power Generation Projects (2018 Edition) promulgated by the National Energy Administration;
- (3) Notice of Electric Power Construction Engineering Quota and Cost Calculation Rules promulgated by the National Energy Administration (Guo Neng Fa Dian Li [2019] No. 81);
- (4) Ratios of Cost Estimates for Power Construction Projects (2018 Edition);
- (5) Reference Cost Indicators for Limitation Design of Thermal Power Projects (2007 Standard), as edited by the China Electric Power Planning & Engineering Institute;
- (6) Reference Cost Indicators for Limitation Design of Thermal Power Projects (2011 Standard), as edited by the China Electric Power Planning & Engineering Institute;
- (7) Reference Cost Indicators for Limitation Design of Thermal Power Projects (2018 Standard), as edited by the China Electric Power Planning & Engineering Institute;
- (8) Housing Maintenance Grade and Evaluation Criteria (Trial) promulgated by former Ministry of Urban and Rural Construction and Environmental Protection of the PRC in 1985;
- (9) Provisions on the Standards for Compulsory Retirement of Motor Vehicles (Decree [2012] No. 12 of the Ministry of Commerce, the National Development and Reform Commission, the Ministry of Public Security and the Ministry of Environmental Protection, with effect from 1 May 2013);
- (10) Information on project feasibility research report provided by Huadian Ningxia Lingwu Power Generation Company Limited;
- (11) Electric Power Business Licenses provided by Huadian Ningxia Lingwu Power Generation Company Limited;

- (12) Permits for Planning Parcels of Land for Construction Purpose, Planning Permit for Construction Works and Permit for Commencement of Construction Works provided by Huadian Ningxia Lingwu Power Generation Company Limited;
- (13) Real Estate Survey Report (《房產測繪成果報告書》) provided by Huadian Ningxia Lingwu Power Generation Company Limited;
- (14) Information on related project settlement provided by Huadian Ningxia Lingwu Power Generation Company Limited;
- (15) Raw materials purchasing contracts provided by Huadian Ningxia Lingwu Power Generation Company Limited;
- (16) Manual of Assets Valuation Methods and Parameters (《資產評估常用數據與參數手冊》) published by China Machine Press;
- (17) Boiler inspection report, equipment procurement contract and invoice provided by Huadian Ningxia Lingwu Power Generation Company Limited;
- (18) Notice by the People's Government of the Autonomous Region on issuing Land Requisition Compensation Standard for Ningxia Hui Autonomous Region (Ning Zheng Fa [2015] No. 101);
- (19) Notice of the Ministry of Finance and the National Development and Reform Commission on Cancellation, Suspension and Exemption of a Group of Administrative Charges (No. 101 [2014] of the Ministry of Finance);
- (20) Decision of the Standing Committee of the People's Congress of Ningxia Hui Autonomous Region on the Applicable Rates of Farmland Occupation Tax for Ningxia Hui Autonomous Region (as adopted at the 14th Session of the Standing Committee of the Twelfth People's Congress of Ningxia Hui Autonomous Region on 14 August 2019);
- (21) Notice by the Finance Department of Ningxia Hui Autonomous Region, Price Department of Ningxia Hui Autonomous Region, Land Resources Department of Ningxia Hui Autonomous Region and the Agriculture and Animal Husbandry Department of Ningxia Hui Autonomous Region on reissuing the Administrative Measures of Ningxia Hui Autonomous Region for the Collection and Use of Farmland Reclamation Fees (Ning Cai (Zong) Fa [2012] No. 13);
- (22) Notice by the People's Government of the Autonomous Region on promulgating the Administrative Measures of Ningxia Hui Autonomous Region for Unified Land Requisition (Ning Zheng Fa [1997] No. 120);
- (23) Record of the appraiser's survey and verification of the subject;

- (24) Financial statements such as balance sheets, income statements, production statements, and historical annual audit reports provided by Huadian Ningxia Lingwu Power Generation Company Limited;
- (25) Historical annual economic activity analysis materials provided by Huadian Ningxia Lingwu Power Generation Company Limited;
- (26) 2020 fiscal budget and corporate future development planning provided by Huadian Ningxia Lingwu Power Generation Company Limited;
- (27) Contract for sales of electricity and contract for thermal supply provided by Huadian Ningxia Lingwu Power Generation Company Limited;
- (28) Relevant industry and market information collected by the appraiser;
- (29) Information on Wind;
- (30) Other information relevant to this assets valuation in general.

Other Basis:

- (1) Audit report on the Valuation Reference Date of the appraised entity;
- (2) The valuation declaration form on the Valuation Reference Date provided by the appraised entity;
- (3) Engagement Contract for Assets Valuation.

VII. VALUATION METHOD

Asset-based approach

- (1) **Current assets:** it is classified into the following categories in this valuation, each adopting different valuation methods.
 - 1. *Physical current assets:* mainly refers to inventories-raw materials. Raw materials such as diesel with greater price fluctuation are valued based on their market price on valuation reference date; scrapped raw materials are valued based on their residual value; other raw materials are valued based on their verified carrying values due to large consumption, quick turnover and their carrying values are close to the market price on Valuation Reference Date.
 - 2. *Monetary current assets:* refers to bank deposit. It is valued at the verified value after checking of bank statements and bank confirmations.

3. *Receivables and prepaid current assets:* including bills receivable, accounts receivable, prepayments and other receivables. Current assets receivables are valued based on the recoverable amounts upon checking and verifying the balance of carrying amount; prepayments are valued based on the recoverable goods or services and assets of rights generated thereof;
 4. *Other current assets:* refers to deductible value-added tax and prepaid corporate income tax, urban maintenance and construction tax, etc. to be offset, and is valued based on verified carrying values.
- (2) **Non-current assets:** it is classified into the following categories in this valuation, each adopting different valuation methods:

1. *Buildings*

The replacement cost approach is adopted.

The result of appraised buildings is calculated as follow:

Appraised value = Replacement value × newness rate

The replacement value excludes deductible input value-added tax permitted by the Interim Regulations for the Value-added Tax of the People's Republic of China.

- (1) Determination of replacement value

Replacement value= comprehensive cost of construction and installation projects + upfront fee and other expenses + cost of capital

Among which:

Comprehensive cost of construction and installation projects refers to the construction expenses directly put into construction and paid to the contractor by the construction unit.

Comprehensive cost of construction and installation projects= construction cost + decoration cost + installation cost

Index adjustment method, namely index adjustment method for investment price of construction and installation projects, is mainly adopted for buildings. The cost of construction and installation projects is arrived at by first verifying the composition of its carrying value, deducted by expenses for amortization and calculating the price index on valuation reference date with reference to the price index (yuan/KW) of similar assets at the year of construction according to the Thermal Power Project Quote Reference and adjusting the original price components of the valuation subject to the price level of the Valuation Reference Date.

For individual building which complete pre-budget information could be obtained, the price of such construction and installation project is calculated adopting adjustment method for pre-budget, where the appraiser determined the comprehensive cost of construction and installation projects on Valuation Reference Date according to gathered information, including pre-budget and contract which reflect the volume of construction, and with reference to the Quota for Duration of Power Construction Projects (2018 edition) and the information on project costs where the buildings are located.

Upfront fee and other expenses refer to other expenses should be incurred during the construction and paid to the unit and government department other than contractor. Those amounts are determined respectively according to the charge items and standards and charge of professional service set by the State and the local competent departments where the buildings are located and the characteristics of the assessed construction project.

Capital cost is calculated using the method for settlement upon completion of a single generating unit of an electric power project, any interest incurred for the investment in the first unit and utility system is to be accounted into the quarter preceding the commencement of operation of the first unit, any interest incurred for the investment in the second unit is to be accounted for until the commencement of operation of the second unit and so on. The formula for calculation is as follows:

Loan interest during construction = Loan interest during construction before the operation of the first unit + Loan interest during construction after the operation of the first unit

Among which, Loan interest during construction before the operation of the first unit = $\sum [(Accumulated\ principal\ and\ interest\ on\ loan\ at\ the\ beginning\ of\ the\ year + loan\ of\ the\ year/2) \times interest\ rate\ per\ annum]$

Loan interest during construction after the operation of the first unit = $\sum [(loan\ of\ the\ year/2) \times interest\ rate\ per\ annum]$

(2) Determination of newness rate

Newness rate = Remaining useful life of the building $\div$ (used life of the building + remaining useful life of the building) $\times 100\%$

The remaining useful life is determined according to the economic life of the building and the usage condition and maintenance.

3. *Equipment*

According to the purpose of valuation and the characteristics of appraised equipment, the replacement cost method is adopted for valuation.

$$\text{Appraised value} = \text{Replacement value} \times \text{newness rate}$$

The replacement value excludes deductible input value-added tax permitted by the Interim Regulations for the Value-added Tax of the People's Republic of China.

(1) Determination of replacement cost

① Machines and equipment

Replacement value generally includes equipment purchasing fee, transportation and miscellaneous fee, installation and commissioning fee, upfront and other fees and capital cost; for consideration and way of fee (cost) other than equipment purchasing fee, it is determined based on the characteristics of such equipment, price composition of equipment during the valuation and transaction conditions.

Among which:

Equipment purchasing fee is determined based on the recent transaction price of relevant equipment, quotation result from supplier and other public price information gathered by the appraiser. For equipment that direct price information were not available, it shall be revised according to the information of replace product; for equipment that were unable to implement replacement revision, it is determined adopting the price index adjustment method based on the reasonable verification implemented on its original purchasing cost.

Transportation and miscellaneous fee mainly comprises of purchasing fee, transportation fee, offload fee and safekeeping fee, and is determined based on the type, distance and transportation method of appraised equipment.

Installation and commissioning fee is determined based on the usage, characteristics and difficulty of installation of appraised equipment. For equipment that are required to set up separately, its basis fee is also calculated based on its usage and loading, except for those constructed in the plant which are considered in a centralized manner.

② Vehicles

It is determined based on the prevailing market price of the same type of vehicle on the Valuation Reference Date, and taking into account of fees such as purchasing tax, license fee and procedural fee.

③ Electronic equipment

It is determined mainly based on the relevant quotation information enquired as at the Valuation Reference Date.

(2) Determination of newness rate

① Machines and equipment, electronic equipment

Newness rate = Remaining useful life of equipment ÷ (used life of equipment + remaining useful life of equipment) × 100%

② Vehicles

Newness rate is calculated using the useful life method and mileage approach, taking whichever is lower as the basis for adjustment. It is then amended based on the result of onsite survey of the vehicle and the amended result is considered as the comprehensive newness rate.

Comprehensive newness rate = Min (Newness rate under the useful life method, Newness rate under the mileage rate) × correction coefficient

Among which:

Newness rate under the useful life method = (Economic useful life – Used life) / Economic useful life × 100%

Newness rate under the mileage method = (Statutory driving mileage – Travelled mileage) / Statutory driving mileage × 100%

4. *Construction in progress*

It is classified into the following different categories for valuation:

- (1) For postponed projects where the corporate was unable to provide relevant information on whether the projects will be resumed or suspended, as there are no information for determining if they will be resumed or suspended in the future, expenses incurred during such portion of construction are listed at verified carrying value in this valuation.

- (2) For terminated projects, as the expenses incurred during construction are yet to be confirmed by both parties, it is listed at verified carrying value in this valuation.
 - (3) For construction in progress, it is valued based on the verified carrying value plus reasonable capital cost. For capital cost that are determined based on the reasonable construction period and capital investment made on an evenly basis, where the construction period of the project is within the time specified in the plan, the reasonable construction period shall be determined based on the period from the commencement date of construction until the Valuation Reference Date (where the construction period spans over 3 months, the capital cost will be calculated), otherwise the reasonable construction period shall be determined based on the planned construction period.
5. *Land use rights:* The valuation method is determined based on the title condition, usage, location and using condition of appraised land and determined based on the requirements of the Standards for Asset Appraisal-Property. Market comparison approach is adopted for valuation of similar transferred land with active dealing of land use rights. Cost approximation approach is adopted for valuation of allotted land where information regarding development cost of the local land are available.

(1) Market comparison approach

Value of appraised land use rights= Price of comparable transactions of land use rights × transaction correction coefficient × correction coefficient for transaction date × correction coefficient for regional factor × correction coefficient for specific factor

(2) Cost approximation approach

Cost approximation method is a valuation method mainly based on the sum of all expenses incurred in the development of land, plus a certain amount of interest, return, tax payable and land appreciation gains in determining the land premium. Its basic calculation formula is as follows:

Land price = land acquisition cost + relevant tax expense + land development cost + interest on investment + investment return + appreciation gain of land

On this basis, revision is conducted to the land premium according to the location and individual conditions of the appraised land in the area and its statutory land useful life to arrive at the appraised value of land use right of the appraised land.

6. *Other intangible assets:* For acquired softwares, the appraised value is verified based on the market price (net of tax) on the Valuation Reference Date. Transfer fee of water rights is valued at the verified amortised amount. Cost approach is adopted in the valuation of proprietary technology.
7. *Deferred income tax assets:* Refers to deferred income tax assets arose from the impact of bad debt provision for other receivables, provisions for impairment of fixed assets. Deferred income tax assets are valued at the verified carrying value in this valuation.

(3) **Liabilities:** The appraised value is based on the liability items and amounts to be undertaken by the appraised entity.

VIII. PROCESSES AND CONDITIONS OF IMPLEMENTATION OF VALUATION PROCEDURES

The appraisers have assessed the assets and liabilities included in the scope of this valuation. The main processes of valuation are as follows:

(i) Acceptance of the engagement

Before accepting of the engagement, being the agency of this assets valuation, we have met and discussed with the relevant personnel from Ningxia Branch of Huadian Power International Corporation Limited and Huadian Ningxia Lingwu Power Generation Company Limited for discussions, and communicated with the responsible accountants for the auditing of this project and gained understanding on various factors such as the purpose, subject and scope of this valuation, the Valuation Reference Date, etc., in detail. With these as the bases, we, being the agency of this assets valuation, have signed the Engagement Contract for Asset Valuation with Ningxia Branch of Huadian Power International Corporation Limited and formulated a corresponding plan for valuation in accordance with relevant regulations of the country.

(ii) Checkings on assets

According to the declaration for valuation provided by Huadian Ningxia Lingwu Power Generation Company Limited, the appraisers made necessary investigations and verifications for all declared assets and liabilities during the period between 20 August 2020 and 2 September 2020. We listened to the briefings on the historical and current conditions of the assets to be appraised from the relevant personnel of Huadian Ningxia Lingwu Power Generation Company Limited, and performed verifications on the accounts and records, accounts and statements, and accounts and physical assets in respect of the assets declared.

1. Checkings on inventories

For the inventories, namely raw materials, declared by the appraised entity, the appraisers have checked to the relevant procurement contracts, invoices of purchased goods and other accounting information according to the detail lists in the declaration, and conducted assets verifications by random checks. For raw materials over 40% of the

total quantity was randomly checked and the carrying amount of the inventories randomly checked accounted for above 60% of its total value. This declared information about inventories after checkings and verifications serves as the basis of calculation for the valuation.

2. *Checkings on buildings*

For the houses and structures declared by the appraised entity, the appraisers have inspected each item of physical objects, verified the area of structures, had an understanding of the details such as the structure and quality of the building, completion date, etc., according to the detail lists of declaration. The information collected and relevant working records will serve as important basis of valuation.

3. *Checkings on equipment*

For the equipment declared by appraised entity, the appraisers have conducted necessary checkings and verifications according to the detail lists of declared valuation; the appraisers have had an understanding of the utilisation, workload, maintenance, natural wear and tear, repair and maintenance of the equipment through approaches such as enquiries, observation, investigation, etc.; and they have also investigated the management and usage of the equipment, and the consistent implementation of relevant management system through contacting the personnel of management and operation for the equipment. The appraisers have required the appraised entity to conduct corresponding verification, modification or explanation on any issues found during those checkings.

4. *Checkings on construction in progress*

The appraisers have checked the relevant information according to the detail lists of declared valuation provided by the appraised entity; they have reviewed the contents of declaration according to the declared projects of construction in progress; and they have also had an understanding of the actual progress and payments for works through talking to the personnel of asset management.

5. *Checkings on land use rights*

For the checkings on land use rights, the appraisers have verified the information related to land use rights such as ownership certificates, contracts, evidence of payments, etc., according to the detail lists of declared valuation, and they have carried out investigations on the four boundaries of the brownfield sites to be appraised and their current utilisations.

6. *Checkings on other intangible assets*

For the checkings on other intangible assets, the appraisers have verified information such as relevant contracts, patents certificates, evidence of payments, etc., and conducted investigations on the utilisations of the intangible assets such as software, patented technologies, etc..

7. *Checkings on current accounts, other assets and liabilities*

For current accounts, other assets and liabilities, the appraisers have collected their relevant primary information, documents of certification, and accounting information based on the detail lists of declaration, and they have verified the external confirmations for material current accounts, while having examined the intangible assets and liabilities by accounts verifications, using relevant declared information which has been checked and examined as the basis for valuation.

(iii) Assessed valuation

If the asset-based approach is adopted, the appraiser shall conduct valuation and projection for each of assets and liabilities of the appraised entity based on necessary market researches and quotations performed, so as to determine the values of shareholders' interests in the appraised entity.

(iv) Valuation consolidation and reports

This valuation is made by consolidating and analysing the valuation results, while compiling the assets valuation report and its explanation, as well as internal audits on the valuation report in accordance with the requirements in Asset Appraisal Criterion – Appraisal Report and Enterprise State-owned Property Appraisal Report Guidelines.

IX. VALUATION ASSUMPTIONS**(1) General assumptions**

1. There are no material changes in the relevant existing laws, regulations and policies, and the macroeconomic conditions of the PRC as well as in the local political, economic and social environment of the region where the parties to the transaction are located;
2. There are no material changes to the interest rates, exchange rates, tax benchmark and tax rates, electricity supply policy, electricity tariffs and policy-based levies, etc.;
3. It is assumed that the appraised entity will continue as a going concern and have the same manner and level of management, direction and scope of operation as the Valuation Reference Date;

4. Unless otherwise stated, it is assumed the appraised entity will comply with the relevant laws and regulations, and that the key operational, management and technical personnel are competent, responsible and stable in performing their duties;
5. It is assumed the accounting policies to be adopted by the appraised entity in the future will be consistent with the accounting policies adopted in preparation of this valuation report in all material aspects;
6. It is assumed that there will be no force majeure or unforeseeable factors that may have material and adverse impact on the appraised entity.

(2) Specific assumptions

1. It is assumed there will be no material turnover of core and professional employees, and the technical team and senior management of the appraised entity will remain stable for each year;
2. It is assumed the existing and future operator of each operating entities of the appraised entity will be responsible, and the management of the Company can promote the Company's development plan smoothly and maintain a favorable mode of operation;
3. As at the Valuation Reference Date, the heating project (Phase II) of Huadian Ningxia Lingwu Power Generation Company Limited is in progress and is expected to supply heat to the relevant area of Yinchuan upon completion of construction in November 2020. For this valuation, it is assumed the heating project (Phase II) of Huadian Ningxia Lingwu Power Generation Company Limited could be completed in November 2020 and provide stable heat supply.

If discrepancy exists between the actual conditions and the above valuation assumptions in the future, the conclusion of valuation will be affected. As such, the consignor and users of this valuation report should give sufficient consideration to the impact of valuation assumptions on the valuation conclusion when using this report.

X. VALUATION CONCLUSION

With valuation using asset-based approach, the total carrying value of the assets of Huadian Ningxia Lingwu Power Generation Company Limited was RMB7,837,242,900, which are valued at RMB8,546,397,200, representing an increase of RMB709,154,300 at the rate of 9.05%; the total carrying value of liabilities was RMB4,165,805,600, which is valued at RMB4,160,050,200, representing a decrease of RMB5,755,400 at the rate of -0.14 %; the carrying amount of shareholders' equity was RMB3,671,437,300 and total shareholders' equity was valued at RMB4,386,347,000, representing an increase of RMB714,909,700 at the rate of 19.47%. For details of valuation results, please refer to the following table of valuation result summary:

Table of Assets Valuation Result Summary

Valuation Reference Date: 30 June 2020

Unit: RMB10,000

	Item	Carrying value A	Valuation B	Increase or decrease C=B-A	Change% D=C/A×100%
1	Current assets	66,684.65	66,661.14	-23.51	-0.04
2	Non-current assets	717,039.63	787,978.57	70,938.94	9.89
3	Of which: Fixed assets	687,208.58	740,844.85	53,636.27	7.80
4	Construction in progress	16,993.91	17,230.54	236.63	1.39
5	Intangible assets	10,744.31	27,810.35	17,066.04	158.84
6	Deferred income tax assets	2,092.83	2,092.83	0.00	0.00
7	Total assets	783,724.29	854,639.72	70,915.43	9.05
8	Current liabilities	292,386.82	292,386.82	0.00	0.00
9	Non-current liabilities	124,193.74	123,618.19	-575.55	-0.46
10	Total liabilities	416,580.56	416,005.02	-575.54	-0.14
11	Shareholders' equity (Net assets)	367,143.73	438,634.70	71,490.97	19.47

The valuation conclusion of this valuation adopts the asset-based approach valuation result, that is the total shareholders' equity of Huadian Ningxia Lingwu Power Generation Company Limited is valued at RMB4,386,347,000.

XI. NOTES ON SPECIAL MATTERS

The special matters described in this assets valuation report refers to the matters which, on the premise of the result confirmed of valuation, appraisers found that may affect the valuation conclusion, yet it is beyond the professional ability of appraisers to value such matters.

1. The assets and liabilities included in this scope of valuation have been audited by Grant Thornton Henan Branch on 30 June 2020 as the audit reference date, and they issued an unqualified opinion audit report (GTCNZZ (2020) No.410FC00154).
2. The value of land use rights occupied by building is excluded in the result of buildings valuation by using asset-based approach.
3. During the process of this valuation, being limited by objective conditions and measurement methods, detailed inspection cannot be conducted on hidden constructions such as foundations of building, water and drainage work, foundations of facility. The valuation was verified and judged by the relevant information provided by Huadian Ningxia Lingwu Power Generation Company Limited and briefing from asset management personnel.
4. The valuation result of land transfer by asset-based approach intangible – land use rights includes deed tax.
5. Among the land use rights commissioned for valuation, the use as specified in the Real Estate Certificates “Ning (2017) Lingwu City Real Estate Certificates No. 0000486”, “Ning (2017) Lingwu City Real Estate Certificates No. 0000488” is urban residential use. However, according to the original land certificate and result of application for information of real estate registration, it is stated as industrial land use. By investigation on Lingwu City Real Estate Registry (靈武市不動產登記事務中心), as no transfer fee was paid during certificate renewal, the actual usage of the land is industrial use and currently the Real Estate Certificates have been retrieved by Lingwu City Real Estate Registry for preparation of re-registration of Real Estate Certificates. It is recommended that users of this valuation report pay attention to this valuation appraised by the land use set forth by the inquiry result of real estate registration information.
6. Construction in progress include Ningxia Lingwu Coal-Fired Power Project (Phase III), Ningxia Lingwu Biomass Gasification Power Generation Project, expansion fee of Multi-purpose Synergetic Project of Lingwu Biomass Planning Department, Ningxia Huadian Tongxin 100MW Wind Farm Project, Ningxia Huadian Wuzhong Yanchi 50MW Solar Thermal, preliminary connection work of existing railways of Ningxia Lingwu and the state-owned railways, technological reforms – #2 air conditioning unit capacity increase modification project belong to suspended projects and approval is required for the construction to continue; Project of Technology – Intelligent Unmanned System for anti-abrasion and explosion checking has been terminated. However, as to the Valuation Reference Date of assets appraisal, both parties have not confirmed the construction fees incurred. It is recommended that users of this valuation report pay attention to the fact that the estimated value of aforesaid suspended and terminated projects are listed as book value after verification in this valuation.

7. The area of housing building with in scope of declaration in this valuation is 144,986.98 square metre, as of the Valuation Reference Date of assets appraisal, 92,636.82 square metre of building areas have registered for Real Estate Certificate and 52,350.16 square metre of building areas have not apply for Real Estate Certificate. To this end, Huadian Ningxia Lingwu Power Generation Company Limited issued written explanation about its equity ownership, and promised to bear the relevant legal and economic responsibilities if equity dispute appears.
8. On 31 May 2017, Huadian Ningxia Lingwu Power Generation Company Limited entered into a fly ash sales contract with Ningxia Shengbaida Railway and Highway Materials Supply and Marketing Co., Ltd. (寧夏聖百達鐵路公路物資供銷有限公司, renamed as Li Ningxia Shengbaida Environmental Engineering Co., Ltd. (力寧夏聖百達環保工程有限公司) on 5 March 2018, the “**Shengbaida Company**”), pursuant to which, the fly ash sales project of Huadian Ningxia Lingwu Power Generation Company Limited was contracted to Shengbaida Company with a contract period from 1 June 2017 to 30 November 2017. On 16 June 2017, Shengbaida Company filed an application for contract termination with Huadian Ningxia Lingwu Power Generation Company Limited and requested the return of the remaining deposit of RMB1,263,656.12. Since in the course of execution of the contract, Shengbaida Company failed to complete the corresponding underwriting plan in accordance with the minimum underwriting volume promised in the bidding documents, Huadian Ningxia Lingwu Power Generation Company Limited carried out an assessment in accordance with provisions of the contract and deducted the deposit of RMB1,211,788.00. On 29 April 2020, Shengbaida Company filed a lawsuit with the People’s Court of Lingwu City, requiring Huadian Lingwu Power Generation Company Limited to return a performance bond of RMB1,263,656.12 and an interest of RMB179,266.00 (calculated until 30 April 2020); and for the interest after 30 April 2020, it should be calculated based on RMB1,263,656.12 with an annual interest rate of 6% until the date of payment determined by the effective legal documents. As of the date of this report, the People’s Court of Lingwu City has not yet made a judgment on the case, and thus this valuation did not consider the impact of the aforementioned pending litigation on the valuation conclusion.
9. In April 2018, Huadian Ningxia Lingwu Power Generation Company Limited entered into Commercial Contract for Construction and Installation of the Main Body of On-site Heating Technology Transformation with SEPCOIII Electric Power Construction Co., Ltd. (山東電力建設第三工程有限公司). In August 2018, Shandong Electric Power Construction Third Engineering Co., Ltd. subcontracted the color steel plate enclosed for heating external wall, steel plate cover production and installation project in the contract to Henan D.R. Construction Group Co., Ltd. (河南省第二建設集團有限公司). Afterwards, Henan D.R. Construction Group Co., Ltd. subcontracted the color steel plate enclosed for heating external wall, steel plate cover production and installation project in the contract to Ningxia Guangshengde Industry and Trade Co., Ltd. (寧夏廣盛德工貿有限公司). Currently, Henan D.R. Construction Group Co., Ltd. is sued for RMB195,700 of project payment and interest owed to Henan D.R. Construction Group Co., Ltd. and Huadian Ningxia

Lingwu Power Generation Company Limited is involved as the project contracting party. As of the date of the issuance of this report, the case has not yet been in court, and this valuation did not consider the impact of the aforementioned litigation issues on the valuation conclusion.

10. The possible premium and discount resulting from controlling shares rights and minority share rights is not taken into consideration in this valuation conclusion.
11. Influence of lack of liquidity on the valuation conclusion has not been taken into consideration in this valuation conclusion.
12. No substantial matters influence valuation conclusion after the Valuation Reference Date has been identified by the appraisers. In the case of changes in quantity and price of assets included in valuation range, position and the basis of pricing, which have significant impact on the results of this evaluation, within the period of validity for the evaluation and after the Valuation Reference Date of assets appraisal, the consignor shall promptly appoint the evaluation agency to reappraise it.

XII. LIMITATIONS ON THE USE OF THE VALUATION REPORT

1. This assets valuation report is only used for the objective and purposes stated in the valuation report.
2. The appraisal agency and its appraisers will not bear any responsibilities if the consignor or other users of this assets valuation report do not use this assets valuation report in accordance with the laws, administrative regulations and the scope set out in the assets valuation report.
3. Apart from the consignor, other users of this assets valuation report as specified in the assets valuation engagement contract, and the report users stipulated under laws and administrative regulations, any other entity or individual shall not be a user hereof.
4. The users of this assets valuation report should establish a proper understand and use the valuation conclusion properly. The valuation conclusion is not equal to, and should not be regarded as a guarantee for, the realizable value of the subject.
5. According to the related regulations, the assets valuation report is required to be submitted to the competent department of state-owned assets for archival filing. Therefore, specified economic activities can only be performed after going through the procedures for archival filing.
6. Apart from the laws and administrative regulations and the other provisions stipulated by relevant parties, without the permission of appraisal agency which issued this appraisal report, the contents of the appraisal report cannot be excerpted, quoted or disclosed in the public media.

7. The conclusion of the assets valuation report is valid for one year calculated from the Valuation Reference Date of assets appraisal, namely the conclusion of the assets valuation report will be lapsed after 29 June 2021.
8. This assets valuation report is only valid when used in this entirety. The agency of this assets valuation is not responsible for the possible losses caused by partial adoption of the report.

XIII. ASSETS VALUATION REPORTING DATE

The valuation reporting date is 26 November 2020.

**The Assets Valuation Report on the value of
the entire shareholders' interests in
Ningxia Huadian Heating Corporation Limited
involved in the proposed disposal of the equity interest of
Ningxia Huadian Heating Corporation Limited by
Ningxia Branch of Huadian Power International Corporation Limited**

Dear Ningxia Branch of Huadian Power International Corporation Limited,

We, Beijing China Enterprise Appraisals Co., Ltd.* (北京中企華資產評估有限責任公司), as entrusted by the Ningxia Branch of Huadian Power International Corporation Limited (the “**Company**”), valued the market value of the entire shareholders’ interests of Ningxia Huadian Heating Corporation Limited as of the Valuation Reference Date as involved in the proposed disposal of Ningxia Huadian Heating Corporation Limited by the Company, pursuant to relevant laws, administrative regulations and assets valuation standards with adoption of income approach under necessary valuation procedures independently, objectively and fairly. Details are as follows:

I. CONSIGNOR, APPRAISED ENTITY AND OTHERS WHO ARE ENTITLED TO USE THE ASSETS VALUATION REPORT AS AGREED IN THE ASSETS VALUATION ENTRUST CONTRACT

The Company and Ningxia Huadian Heating Corporation Limited are the consignor and appraised entity for this valuation, respectively. No one is entitled to use this report other than the superior institutions of the consignor and those who are entitled to do so by national laws and regulations.

(i) Briefings about the consignor

Name:	Ningxia Branch of Huadian Power International Corporation Limited
Registered address:	Operation Room of Block 1, Times Star Home, south of Xinchang West Road, High-tech Development Zone, Yinchuan
Operating premise:	Operation Room of Block 1, Times Star Home, south of Xinchang West Road, High-tech Development Zone, Yinchuan
Legal representative:	Li Jiwen
Date of incorporation:	8 September 2003
Operating term:	Long term since 8 September 2003
Type of company:	Branch
Stock code of the headquarter company:	600027.SH

APPENDIX II SUMMARY OF VALUATION REPORT OF NINGXIA HEATING

Major operating scope: To develop, construct and manage the projects on behalf of the parent company in Ningxia as a liaison point thereof. As for the items subject to authorization by laws, they can only be carried out once the authorization is available from competent authorities.

(ii) Briefings about the appraised entity

1. General information

Name:	Ningxia Huadian Heating Corporation Limited
Registered address:	Office 309, 3rd floor, the Western CBD Financial Center, Wanshou Road 142, Yuehaiwan Central Business District, Jinfeng District, Yinchuan, Ningxia
Operating premise:	Office 309, 3rd floor, the Western CBD Financial Center, Wanshou Road 142, Yuehaiwan Central Business District, Jinfeng District, Yinchuan, Ningxia
Legal representative:	Wang Libo
Registered capital:	RMB1,050,000,000
Paid-in capital:	RMB1,034,250,000
Date of incorporation:	23 October 2017
Operating term:	Long term since 23 October 2017
Type of company:	Other companies of limited liability
Major operating scope:	Investment construction, operation and maintenance of pipe network and related facilities for urban central heating supply (forbidden to engage in financial activities such as illegal fund-raising and public funds absorption); central heating; thermal production, purchase and sale; design, construction and installation of heating projects; supply of heating equipment and materials; heating related technology development and consulting services; property management. (For those projects subject to approval in accordance with laws, operation can only begin after approvals are obtained from relevant departments)

APPENDIX II SUMMARY OF VALUATION REPORT OF NINGXIA HEATING

2. Particulars about the shareholders, shareholding and change of equity interest

Ningxia Huadian Heating Corporation Limited was incorporated on 23 October 2017 jointly invested and founded by Huadian Power International Corporation Limited, Yinchuan Municipal Development and Comprehensive Pipeline Investment Management Co., Ltd.* (銀川市市政建設和綜合管廊投資建設管理有限公司), Ningxia Construction Investment Group Co., Ltd.* (寧夏建設投資集團有限公司), Yinchuan Gas Heating Co., Ltd.* (銀川市煤氣供熱有限公司), China Metallurgical Huatian Nanjing Engineering Technology Co., Ltd.* (中冶華天南京工程技術有限公司). The registered capital of the Company is RMB1,050,000,000, and the paid-in capital is RMB1,034,250,000 as of the Valuation Reference Date. Details about the shareholding structure are set out in the table below:

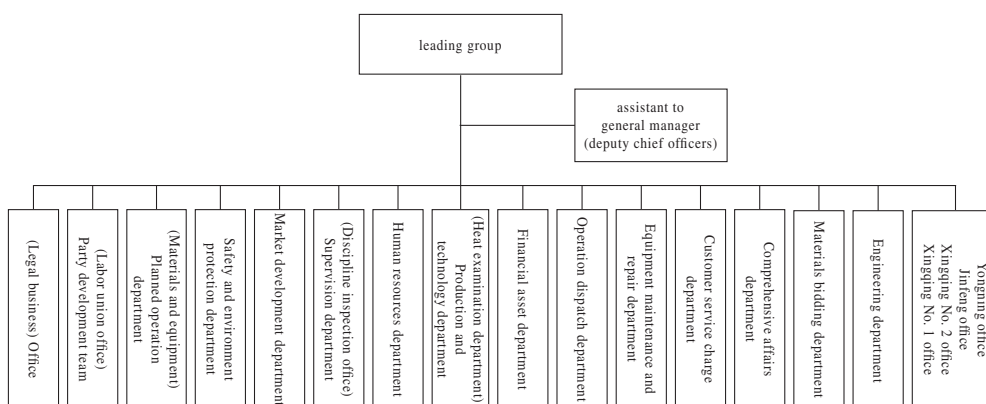
Unit: RMB0'000

No.	Name of shareholder	Amount of capital contribution subscribed	Subscription proportion	Amount of the actual capital contribution	Paid-in proportion
1	Ningxia Construction Investment Group Co., Ltd.* (寧夏建設投資集團有限公司)	14,700.00	14.00%	14,700.00	14.21%
2	Yinchuan Municipal Development and Comprehensive Pipeline Investment Management Co., Ltd.* (銀川市市政建設和綜合管廊投資建設管理有限公司)	22,050.00	21.00%	22,050.00	21.32%
3	Yinchuan Gas Heating Co., Ltd.* (銀川市煤氣供熱有限公司)	9,450.00	9.00%	9,450.00	9.14%
4	Huadian Power International Corporation Limited	55,650.00	53.00%	55,650.00	53.81%
5	China Metallurgical Huatian Nanjing Engineering Technology Co., Ltd.* (中冶華天南京工程技術有限公司)	3,150.00	3.00%	1,575.00	1.52%
Total		105,000.00	100.00%	103,425.00	100.00%

As of the Valuation Reference Date, there is no change in the shareholding structure of the appraised entity.

3. Particulars about the equity investment and operation and management structure

As of the Valuation Reference Date, the appraised entity has not made any external equity investment. Pursuant to the Company Law of the People's Republic of China and the Articles of Association, the general meeting shall be the highest authority of the company, and shareholders are entitled to exercise voting rights as per the proportion of their respective capital contribution. The Company has set the board of directors, the board of supervisors and general manager. The specific organizational structure is as follows:



4. Operation model and management

(1) Purchase model

Purchases conducted by the appraised entity mainly involve those for various materials, equipment and engineering. In order to regulate purchase behavior while considering satisfying quality and cost, Ningxia Huadian Heating Corporation Limited has made relevant system to establish certain provisions on way of purchase, purchase procedure and supplier management, etc. Purchases for those equipment and engineering projects in substantial amount must be conducted via bidding, whereas purchases for consumable logistics materials shall be made on a collective basis by competent department from selected and qualified suppliers based on the prevailing market conditions.

(2) Sales model

The Phase II of the heating project carried out by the appraised entity has yet been completed up to now, and heating are currently supplied mainly under the combination of bulk sale and direct supply.

APPENDIX II SUMMARY OF VALUATION REPORT OF NINGXIA HEATING

(3) *Human resource particulars*

As of the Valuation Reference Date, the appraised entity has officially employed 146 staff, including 3 senior engineers, 13 engineers and 82 assistant engineers.

(4) *Franchise, planning permit and construction commencement permit*

As of the Valuation Reference Date, the appraised entity has obtained the following franchise:

Type	Term	Operating scope
Heat supply franchise permit	31 May 2018 – 31 May 2048	As stipulated in the heat supply franchise agreement

As of the Valuation Reference Date, the appraised entity has obtained the following planning and construction commencement permits:

Type	Certificate No.	Date of issue	Name of project
Construction work planning permit	He Jian Zi No.2020039	2 June 2020	Intelligent centralized heat supply project for Yinchuan by Huadian Lingwu Power Plant (Phase II) Helan County
Construction land planning permit	Yong Shen Fu Di Zi No.<2020>001	5 March 2020	Intelligent centralized heat supply project for Yinchuan by Huadian Lingwu Power Plant (Phase II) 2# relay pump station and 4# relay pump station
Construction work commencement permit	No. 642103201912130103	13 December 2019	Intelligent centralized heat supply project for Yinchuan by Huadian Lingwu Power Plant (Phase II) Hedong main pipeline work section

APPENDIX II SUMMARY OF VALUATION REPORT OF NINGXIA HEATING

5. Particulars about the assets, financial and operating conditions for the latest two years

Set out below is the financial conditions of the appraised entity for the latest two years:

Unit: RMB0'000

Items	31 December 2018	31 December 2019	30 June 2020
Current assets	42,412.86	28,257.42	34,451.63
Financial assets available			
for sale	0.00	0.00	0.00
Held-to-maturity investment	0.00	0.00	0.00
Long-term receivables	0.00	0.00	0.00
Long-term equity investment	0.00	0.00	0.00
Investment property	0.00	0.00	0.00
Fixed assets	0.00	258,042.45	251,502.14
Construction in progress	0.00	2,519.84	68,353.35
Engineering materials	0.00	0.00	0.00
Disposal of fixed assets	0.00	0.00	0.00
Productive biological assets	0.00	0.00	0.00
Oil and gas assets	0.00	0.00	0.00
Rights of use assets	0.00	161.79	130.98
Development expense	0.00	0.00	0.00
Goodwill	0.00	0.00	0.00
Long-term deferred expense	0.00	0.00	0.00
Deferred income tax assets	0.00	4.47	0.08
Other non-current assets	23,693.55	22,319.83	28,902.45
Total assets	333,334.16	311,305.80	383,340.63
Current liabilities	120,443.28	85,416.79	103,487.24
Non-current liabilities	105,124.04	114,235.69	159,405.22
Total liabilities	225,567.32	199,652.48	262,892.46
Equity attributable to owners	107,766.83	111,653.32	120,448.17

Set out below is the operating conditions of the appraised entity for the latest two years:

Unit: RMB0'000

Items	2018	2019	Jan-June 2020
I. Total revenue	21,934.13	58,891.00	38,346.31
Less: total cost	18,895.12	58,416.57	27,419.97
Tax and surcharge	34.01	47.92	31.76
Selling expense	0.00	0.00	0.00

APPENDIX II SUMMARY OF VALUATION REPORT OF NINGXIA HEATING

Items	2018	2019	Jan-June 2020
Administrative expense	0.00	0.00	0.00
Financial cost	580.17	4,573.70	2,189.82
Asset impairment loss	0.00	0.00	11.21
Other	0.00	0.00	0.00
Add: gain arising from change of fair value (loss is indicated in “-”)	0.00	0.00	0.00
Investment income (loss is indicated in “-”)	0.00	0.00	0.00
Other income	1,732.24	3,874.13	947.11
II. Operating profit (loss is indicated in “-”)	4,771.25	4,348.55	9,640.66
Add: non-operating income	0.00	4.88	26.52
Less: non-operating expense	0.00	78.11	2.23
III. Total profit (total loss is indicated in “-”)	4,771.25	4,275.33	9,664.94
Less: income tax expense	429.41	388.84	870.09
IV. Net profit (net loss is indicated in “-”)	4,341.83	3,886.48	8,794.85

The financial statements of the appraised entity as of the Valuation Reference Date and for the years 2018 and 2019 have all been audited by the Henan Branch of Grant Thornton China (Special General Partner) which issued the unqualified reports with respective No., namely GTCNZZ No.(2020) 410FC00196, Zhi Tong Shen Zi No.(2020) 410FC0019 and Zhi Tong Shen Zi No.(2019) 410FC0051.

6. Relationship between the consignor and the appraised entity

The consignor, also Ningxia Branch of Huadian Power International Corporation Limited, is one of the branches of the controlling parent company of Ningxia Huadian Heating Corporation Limited (the appraised entity) in Ningxia.

(iii) Others who are entitled to use the Assets Valuation Report as agreed in the assets valuation entrust contract

This Assets Valuation Report could be exclusively used by the consignor and its superior institutions and those who are entitled to do so by national laws and regulations, and could not be used or relied on by any third party.

II. PURPOSES OF VALUATION

Proposing to dispose the equity interest of Ningxia Huadian Heating Corporation Limited, Ningxia Branch of Huadian Power International Corporation Limited has entrusted Beijing China Enterprise Appraisals Co., Ltd.* (北京中企華資產評估有限責任公司) to value the market value of the entire equity interest of Ningxia Huadian Heating Corporation Limited as of 30 June 2020, i.e. the Valuation Reference Date, so as to provide value reference in respect of the proposed equity disposal by Ningxia Branch of Huadian Power International Corporation Limited.

Ningxia Branch of China Huadian Corporation Limited* (中國華電集團有限公司) has given instruction on this valuation in the No.16 General Manager Meeting Minutes for 2020 (ZBHJY[2020]16), pursuant to which, Ningxia Branch of Huadian Power International Corporation Limited was authorised to carry out this economic activity.

III. SUBJECT AND SCOPE OF VALUATION**(i) Subject**

The subject is the entire shareholders' interests of Ningxia Huadian Heating Corporation Limited.

(ii) Scope of valuation

Valuation scope for this engagement refers to all the assets and liabilities declared by the appraised entity. As of the Valuation Reference Date, the assets within the valuation scope comprise current assets, fixed assets, construction in progress, intangible assets, deferred income tax assets, use right assets and other non-current assets, while liabilities within that scope are comprise of current liabilities and non-current liabilities. The carrying value of total assets, total liabilities and net assets are RMB3,833,406,300, RMB2,628,924,600 and RMB1,204,481,700, respectively.

The subject and scope under the engagement are the same as those involved in the aforementioned economic activity. The carrying value of the assets and liabilities within the valuation scope as of the Valuation Reference Date has been audited by the Henan Branch of Grant Thornton China (Special General Partner) with issuance of unqualified report.

(iii) Major assets within the valuation scope:

The major assets declared by the enterprise subject to valuation include: inventories, building assets, equipment assets, construction in progress, intangible assets and use right assets, etc., which have the following types and features:

1. Inventories

The inventories included in the valuation scope refer to the spare parts purchased by the appraised entity such as industrial automatic control instrument system module, industrial automatic control instrument system integrator as well as meat, eggs, sauce and other kitchen materials.

2. Building assets

The building assets included in the valuation scope comprise buildings, structures and other auxiliary facilities, pipelines and grooves.

A total of 34 buildings are included in this valuation scope, including 30 housing assets in 30 heat exchange stations and 4 housing assets in 1# and 3# relay pump stations in Yinchuan, for which, housing ownership certificate has yet been obtained. The gross floor area in aggregate for these buildings is 36,053.77 square metres, which is declared by the appraised entity and verified by the valuation staff. In detail, among the assets within the valuation scope, the building assets of 13 heat exchange stations are only enhancement projects, and assets of 3 heat exchange stations are new and enhancement projects. That means, the ownership of the enhanced subjects (also the original building subjects) do not belong to the appraised entity. Official statement has been issued by the appraised entity to undertake the truth about the ownership and to confirm there is no dispute in respect thereof.

As for the 4 housing assets in 1# and 3# relay pump stations and the new central heat power station project in Yongning south district included in the valuation scope, the land occupied by these 5 housing assets all belongs to the appraised entity allocated from the state-owned land with land use as public facilities. In particular, the land occupied by the 4 housing assets in 1# and 3# relay pump stations has obtained the state-owned land use right certificate, while that for the new central heat power station project in Yongning south district is still in process. Except for the aforementioned properties, the land occupied by the 29 buildings and structures in the rest 29 heat exchange stations, which the appraised entity is entitled to use for free, is all held by property owners of the communities or relevant governments in which the stations locate.

The structures and other auxiliary facilities mainly refer to the roads within 1# station, 3# walls, 3# relay pump and sedimentation tank in 3# station.

The pipelines and grooves mainly refer to the heating pipelines of the Phase I of intelligent centralized heat supply project for Yinchuan by Huadian Lingwu Power Plant, particularly referring to the Hedong section of the major pipeline network and branches for Yongning County.

As of the Valuation Reference Date, the above assets incorporated in the valuation scope are not involved in any mortgages, guarantees and other rights.

3. *Equipment assets*

(1) Machinery

The machinery subject to the valuation scope mainly includes heat exchange sets for heat pumps, relay pump station equipment, power supply equipment, intelligent management information system for heat network, etc. There are a total of 14 items of equipment, which were purchased and put into operation in 2018 or 2019. These equipments are distributed in Ningxia with complete and correct ownership related information.

(2) Vehicles

The vehicles are mainly light general trucks, medium-sized buses and small cars, with a total number of 50. The vehicles, for which the driving permits have been all obtained which set out that Ningxia Huadian Heating Corporation Limited is the authorised holder thereof, were acquired and put into use in 2018 or 2019. Four of the vehicles have been disposed after the Valuation Reference Date. The vehicles included in the valuation scope are not involved in any mortgages, guarantees and other rights, and they are all in normal use.

(3) Electric equipment

Electric equipment, a total of 31 items which were acquired in 2018 to 2020, mainly comprises computers, printers and electric motors. They are in normal use currently.

4. *Construction in progress*

The construction in progress included in this valuation scope refers to the Phase II of the intelligent centralized heat supply project for Yinchuan by Huadian Lingwu Power Plant which is comprised of civil construction and equipment installation works. The total investment size of this project is approximately RMB3.445 billion, and the area planned to be accessed to is 31,790,000 square metres. The length of the newly developed main and branch lines (one for supply and one for return) for this heat project is about 127.6 kilometers, and an aggregate of 79 heat power stations are planned to be newly built and enhanced. The civil construction work under the construction in progress commenced in September 2019 and is expected to be completed by the end of 2022. As of the Valuation Reference Date, 25% of the civil construction work has been completed.

APPENDIX II SUMMARY OF VALUATION REPORT OF NINGXIA HEATING

The equipment installation work under the construction in progress included in this valuation scope mainly refers to the equipment in progress for Phase II of the above project. The work commenced in September 2019 and is expected to be completed by the end of 2022. As per the contract-based estimate, the payment proportion has reached 9.97% as of the Valuation Reference Date, which are all charged as equipment expense.

5. *Intangible assets declared*

The intangible assets declared by the enterprise represent the land use right and other intangible assets, with details as follows:

(1) *Intangible assets – land use right*

A total of four land use right has been included in the valuation scope, among which, three have been granted the state-owned land use right certificates and one has obtained the reply and approval from Yongning County People's Government as land for construction. As of the Valuation Reference Date, the state-owned land use right certificate is in the process therefor. Set out below are the details of the land registration:

Name	Authorised user	No. of land use certificate	Location	Area (m ²)	Official use	Type of the land use right
A parcel of land in Lingwu Hedongjing	Ningxia Huadian Heating Corporation Limited	Ning (2018) Lingwu Real Estate Property Certificate No. L0007454	Beitan village, Wutongshu Country	3,223.00	Public facilities	Transfer
A parcel of land in 3# Relay Pump Station	Ningxia Huadian Heating Corporation Limited	Ning (2018) Xingqing Real Estate Property Certificate No. 0058611	South of Weijiu Road and east of Daxin Canal, Xingqing District	32,001.39	Public facilities	Transfer
A parcel of land in 1# Relay Pump Station	Ningxia Huadian Heating Corporation Limited	Ning (2018) Yongning Real Estate Property Certificate No. Y0003844	East of Yongning East Venue and north of Yonghuang Road, Huifeng Village, Yanghe Town, Yongning County	11,422.00	Public facilities	Transfer
Yongning South District Heat Exchange Station	Ningxia Huadian Heating Corporation Limited	In process	Ninghui Street, south of Zhonggangou, Yongning County (with an site area of 3.69 mu)	2,460.01	Supply facilities (heat supply)	Transfer

APPENDIX II SUMMARY OF VALUATION REPORT OF NINGXIA HEATING

(2) *Other intangible assets – software copyright*

The other intangible asset declared by the enterprise and included in the valuation scope refers to one software copyright which belongs to off-balance sheet asset. Details are as follows:

No.	Name	No. of certificate	Date of development completion	Date of initial release	Date of authorisation announcement	Owner of copyright
1	Data Transfer to Heat Office Level-2 Platform V1.0* (向供熱辦傳數二級平台V1.0)	RZDZ No.4678361	15 November 2019	15 November 2019	2 December 2019	Ningxia Huadian Heating Corporation Limited

6. *Use right assets*

The use right assets included in the valuation scope mean the right of the appraised entity to use corresponding office premise during the lease term due to its lease of the relevant office and business lobby. Details are as follows:

No.	Lessor	Premise leased	Commencement date of the lease	Maturity date of the lease
1	Xin Yaohui	Business lobby	17 November 2019	17 November 2021
2	China Great Wall Asset Management Co., Ltd.	Office building	18 October 2019	18 October 2022

7. *Other off-balance sheet assets declared by the enterprise*

There is no off-balance sheet asset declared by the enterprise other than the other intangible asset – software copyright which is not recorded as aforementioned.

8. *Assets involved due to cite of report conclusions issued by other institutions*

No report from other institutions is cited in this valuation report.

IV. TYPE OF VALUE

This valuation is conducted to provide value reference for the entire interests of shareholders of Ningxia Huadian Heating Corporation Limited as involved in the proposal disposal of the equity interest of Ningxia Huadian Heating Corporation Limited by Ningxia Branch of Huadian Power International Corporation Limited. Market value of the subject is determined as the type of value based on the valuation purpose.

Market value refers to the estimated amount of the value of normal and fair transactions of the subject on the Valuation Reference Date when the voluntary buyer and the voluntary seller act rationally without any coercion.

V. VALUATION REFERENCE DATE

The Valuation Reference Date for the assets valuation is 30 June 2020.

This Valuation Reference Date is determined by the consignor mainly taking into account the end of the accounting period and benefit to facilitate this economic activity.

VI. BASIS OF VALUATION**(i) Basis of economic activity**

Ningxia Branch of Huadian Power International Corporation Limited No.16 General Manager Meeting Minutes for 2020 (ZBHJY[2020]16).

(ii) Basis of laws and regulations

1. Asset Appraisal Law of the People's Republic of China (passed at the 21st session of the 12th Standing Committee of the National People's Congress on 2 July 2016);
2. Company Law of the People's Republic of China (amended at the 6th session of the 13th Standing Committee of the National People's Congress on 26 October 2018);
3. Securities Law of the People's Republic of China (amended in 2019) (the Presidential Decree No.37 of the People's Republic of China);
4. Financial Supervision and Administration Measures on the Assets Evaluation Industry (Order No. 86 of the Ministry of Finance of the People's Republic of China);
5. Administration Measures on Urban Property of the People's Republic of China (amended at the 12th session of the 13th Standing Committee of the National People's Congress on 26 August 2019);
6. Land Administration Measures of the People's Republic of China (passed at the 12th session of the 13th Standing Committee of the National People's Congress on 26 August 2019);

APPENDIX II SUMMARY OF VALUATION REPORT OF NINGXIA HEATING

7. Enterprise Income Tax Law of the People's Republic of China (amended at the 7th session of the 13th Standing Committee of the National People's Congress on 29 December 2018);
8. Implementation Rules of the Enterprise Income Tax Law of the People's Republic of China (passed at the 197th executive meeting of the State Council on 28 November 2007);
9. Enterprise State-owned Assets Law of the People's Republic of China (passed at the 5th session of the 11th Standing Committee of the National People's Congress on 28 October 2008);
10. Interim Regulations for the Supervision and Administration of Enterprise State-Owned Assets (Order No. 378 of the State Council and amendment and Order No. 588 of the State Council);
11. Supervision and Administration Measures on the Trading of Enterprise State-owned Assets (Order No. 32 of the State-owned Assets Supervision and Administration Commission of the State Council and the Ministry of Finance);
12. Administration Measures on Evaluation of State-owned Assets (Order No. 91 of the State Council);
13. Circular Regarding Issue of the Implementation Rules of the Administration Measures on Evaluation of State-owned Assets (Guo Zi Ban Fa [1992] No.36);
14. Interim Regulations for Administration of Valuation of Enterprise State-owned Assets (Order No. 12 of the State-owned Assets Supervision and Administration Commission of the State Council);
15. Circular Regarding Improvement of Administration on Valuation of Enterprise State-owned Assets (Guo Zi Wei Chan Quan [2006] No.274);
16. Measures on Supervision and Administration of Listed Company State-owned Equity Interest (Order No. 36 of the State-owned Assets Supervision and Administration Commission of the State Council and China Securities Regulatory Commission);
17. Circular Relating to Review on Valuation Report for Enterprise State-owned Assets (Guo Zi Chan Quan [2009] No.941);
18. Guidelines on Filing for Valuation of Enterprise State-owned Assets (Guo Zi Fa Chan Quan [2013] No.64);
19. Accounting Standards for Business Enterprises – Basic Standards (Order No.33 of the Ministry of Finance), the Decision of the Ministry of Finance Concerning Amendment to the Accounting Standards for Business Enterprises – Basic Standards (Order No.76 of the Ministry of Finance);

APPENDIX II SUMMARY OF VALUATION REPORT OF NINGXIA HEATING

20. Interim Regulations for the Value-added Tax of the People's Republic of China (Order No. 538 of the State Council of the People's Republic of China which is amended as per the Order No. 691 of the State Council of the People's Republic of China);
21. Implementation Rules to the Interim Regulations for the Value-added Tax of the People's Republic of China (Order No. 50 of the Ministry of Finance and the State Taxation Administration and amended by the Order No. 65 of the Ministry of Finance and the State Taxation Administration);
22. Circular Relating to Furthering Relevant Policies on Reform of Value-added Tax (Circular [2019] No.39 jointly issued by the Ministry of Finance, the State Taxation Administration and the General Administration of Customs);
23. Notice on the Comprehensive Rollout of the Business Tax to Value Added Tax Transformation Pilot Program (Cai Shui [2016] No. 36);
24. Copyright Law of the People's Republic of China (passed at the 13th session of the 11th Standing Committee of the National People's Congress on 26 February 2010 and the Presidential Decree No.26 of the People's Republic of China);
25. Notice Regarding Further Regulation on Bank Letters and Reply (Cai Kuai [2016] No.13 issued by the Ministry of Finance);
26. Notice Regarding Improvement in Policies for Pre-tax Charge or Deduction of Research and Development Expense (Cai Shui [2015] No. 119);
27. Provisional Regulations on Urban Land Use Tax of the People's Republic of China (the third amendment to the Order No.645 of the State Council dated 7 December 2013)
28. Measures on Material Assets Reorganization of Listed Company (the Order No. 109 of China Securities Regulatory Commission and amendment to the Order No. 127 of China Securities Regulatory Commission);
29. Copyright Law of the People's Republic of China (the Presidential Decree No.26 of the People's Republic of China);
30. Other relevant laws, regulations and circulars.

(iii) Basis of valuation criteria

1. Assets Valuation Basic Standards (Cai Zi [2017] No. 43);
2. Code of Ethics for Assets Assessment (CAS [2017] No. 30);
3. Assets Valuation Practicing Standards – Assets Valuation Report (CAS [2018] No. 35);

4. Assets Valuation Practicing Standards – Assets Valuation Procedures (CAS [2018] No. 36);
5. Assets Valuation Practicing Standards – Contract on Assets Valuation Entrustment (CAS [2017] No. 33);
6. Assets Valuation Practicing Standards – Assets Valuation Files (CAS [2018] No. 37);
7. Assets Valuation Practicing Standards – Engagement of Experts and Relevant Reports (CAS [2017] No. 35);
8. Assets Valuation Practicing Standards – Enterprise Value (CAS [2018] No. 38);
9. Assets Valuation Practicing Standards – Intangible Assets (CAS [2017] No. 37);
10. Assets Valuation Practicing Standards – Real Estate (CAS [2017] No. 38);
11. Assets Valuation Practicing Standards – Machinery and Equipment (CAS [2017] No. 39);
12. Guidelines on Valuation Report of Business State-owned Assets (CAS [2017] No. 42);
13. Guidelines on Valuation of Intellectual Property Assets (CAS [2017] No. 44);
14. Guidelines on Business Quality Guarantee of Assets Appraisal Institutions (CAS [2017] No. 46);
15. Guidelines on Type of Value for Assets Valuation (CAS [2017] No. 47);
16. Guidelines on Legal Title of Assets Valuation Target (CAS [2017] No. 48);
17. Guidelines on Valuation of Copyright Asset(CAS [2017] No. 50);
18. Assets Valuation Practicing Standards – Approaches of Assets Valuation (CAS [2019] No. 35).

(iv) Basis of asset ownership

1. State-owned land use right certificates;
2. Building ownership certificates or real estate title certificates;
3. Registration Letter of Software Copyright;
4. Driving permits for vehicles;

5. Other related ownership certificates.

(v) Pricing basis

1. Basic Construction Financial Rules (the Order No.81 of the Ministry of Finance of the People's Republic of China which came into effect from 1 September 2016);
2. Provisions on the Criteria for Compulsory Discard of Motor Vehicles (the Order [2012] No.12 of the Ministry of Commerce, the NDRC, the Ministry of Public Security and the Ministry of Environment Protection which came into effect from 1 May 2013);
3. Notice Relating to Further Easing Management over Professional Service Pricing for Construction Projects (The No. 299 Circular of the NDRC (Fa Gai Jia Ge [2015] No.299));
4. LPR for the corresponding period released by the People's Bank of China;
5. Pricing Quota for Construction Works of Ningxia Hui Autonomous Region (2013 version);
6. Pricing Quota for Installation Works of Ningxia Hui Autonomous Region (2013 version);
7. Manual of Common Data and Parameter for Assets Valuation;
8. Pricing Manual for Machinery and Electronic Products (2020);
9. Information relating to feasibility study, estimate of investment size and estimate of design provided by the enterprise;
10. Information relating to project budget provided by the enterprise;
11. The project contracts executed by relevant parties and the enterprise as contractor;
12. The information indicating the progress of payment for construction in progress and relevant payment evidence provided by the enterprise;
13. The financial statements or audit reports for the previous years provided by the enterprise;
14. The operating plan for coming years provided by relevant departments of the enterprise;
15. The market prediction for the current and future years in respect of the major products provided by the enterprise;

APPENDIX II SUMMARY OF VALUATION REPORT OF NINGXIA HEATING

16. The heat procurement contracts entered into between the enterprise and other parties;
17. The on-site investigation record and other related valuation information collected by the appraisers;
18. Notice of the Ministry of Finance on Issue of the Measures for Construction Cost Management for Basic Construction Works (Cai Jian [2016] No.504);
19. Circular of the NDRC Relating to Lowering Charging Criteria for Certain Construction Projects and Regulating Charging Behavior (Fa Gai Jia Ge [2011] No.534);
20. Circular issued by the Ministry of Finance, the General Administration of Customs and the State Administration of Taxation Regarding Taxation Policies for Further Implementation of the Western Development Strategy (Cai Shui [2011] No.58);
21. Notice on Extending the Enterprise Income Tax Policies for the Western Development (the Circular [2020] No.23 of the Ministry of Finance, the State Administration of Taxation and the NDRC);
22. Investment Attraction Preferential Policies of Ningxia Hui Autonomous Region (Amendment) (Ning Zheng Fa [2012] No.97);
23. Notice on Extending the Preferential Policies for Heat Supply Enterprises in Value-added Tax, Property Tax and Urban Land Use Tax (Cai Shui [2019] No.38);
24. Notice on Adjustment of Urban Heat Pricing of Yinchuan (Yin Fa Gai Fa [2019] No.311);
25. Notice on Wholesale Gas Pricing issued by Yinchuan Heat & Gas Service Center (Yin Gong Ran Tong [2019] No. 57);
26. Wind Financial Terminal;
27. Other documents in relation to the valuation.

(vi) Other reference information

1. Regulation for Valuation of Urban Land (GB/T 18508-2014);
2. Regulation for Gradation and Classification on Urban Land (GB/T 18507-2014);
3. Regulation for Property Valuation (GB/T 50291-2015);
4. Rating Standard for Condition of Houses (For Trial Implementation) (Cheng Zhu Zi [1984] No. 678);

5. The list of assets and valuation declaration provided by the appraised entity;
6. The audit report issued by Grant Thornton;
7. The information bank of Beijing China Enterprise Appraisals Co., Ltd.* (北京中企華資產評估有限責任公司).

VII. VALUATION METHOD

1. Selection of particular method and model under income approach

(1) Models under income approach

Enterprise discounted free cash flow method is adopted as this income approach model.

Cash flow discounted method under the income approach is adopted to acquire indirectly the value of the entire interest of shareholders through valuating the enterprise as a whole.

Enterprise value comprises operating asset value generated from normal operating activities and non-operating asset value not generated from non-normal operating activities.

Enterprise value as a whole = Operating asset value + surplus asset value + non-operating assets and liabilities value + long-term equity investment value (appraised on a standalone basis)

Value of total equity interests of shareholders = Enterprise value as a whole – interest-bearing debts

Interest-bearing debts refer to debts that require interest payment as recorded on the book on the valuation reference date, which include short-term borrowings, interest-bearing notes payable, long-term borrowings due within one year, long-term borrowings, and other payables carrying the nature of borrowings.

Where operating assets refer to the assets and liabilities relating to production and operation of the appraised entity and involved in the free cash flow forecast of the entity after the Valuation Reference Date. Value of operating assets is calculated as follows:

$$P = \frac{F_0}{(1 + r_1)^{0.25}} + \sum_{i=1}^3 \frac{F_i}{(1 + r_2)^i} + \sum_{i=4}^n \frac{F_n}{(1 + r_3)^i} + \frac{F_n}{r_3(1 + r_3)^n}$$

Where: P: operating asset value of the enterprise as of the Valuation Reference Date;

F_o : cash flow of the enterprise for the rest period of 2020 occurred during the assumed period;

F_i : estimated free cash flow of the enterprise for the i^{th} year after the Valuation Reference Date;

F_n : free cash flow of the enterprise for the perpetual period;

r_1 : discount rate in case of exempt from local enterprise income tax (weighted average cost of capital (WACC));

r_2 : discount rate in case of 50% reduction of the local enterprise income tax (weighted average cost of capital (WACC));

r_3 : discount rate in case of normal payment of income tax (weighted average cost of capital (WACC));

n: forecast period;

i: the i^{th} year during the forecast period.

Among which, enterprise free cash flow is calculated as follows:

Enterprise free cash flow = EBIT x (1 – income tax rate) + depreciation and amortisation – capital expenditure – increase in working capital

(2) *Determination of the forecast period*

As the enterprise's short-term earnings can be relatively reasonably forecast while the forward earnings is relatively harder to reasonably forecast, the sectioning method is applied, as per customary practice, to predict the cash flows of the enterprise, i.e. dividing future cash flows of the enterprise into cash flows during and after the specific forecast period. The forecast period shall cover the years during which the enterprise record stable production and operation.

At the current stage, the phase I of the intelligent centralized heat supply project for Yinchuan by Huadian Lingwu Power Plant which was mainly operated by the appraised entity has been completed and put into operation, while the phase II is still in progress. According to the construction plan of the appraised entity, the phase II is expected to complete by the end of 2022 and will go through trial operation and acceptance procedure, thus to realize centralized heat supply upon grid-connection covering the entire planned region. Considering the completion time of the aforementioned phase II project and the plan to achieve centralized heat supply upon grid-connection, the appraised entity is expected to step into the stable period in 2025 and afterwards, and that's why the forecast period is defined to last until the end of 2025.

(3) Determination of the income period

As the appraised entity operated normally on the Valuation Reference Date, no restriction was imposed on the service life of the core assets that would affect the continued operation of the enterprise, the term of production and operation of the enterprise, and the valid term of the investors' right as owners, or restrictions thereon can be lifted, and the assets can be perpetually used in a sustainable manner. Therefore, the valuation assumes that the appraised entity is able to operate perpetually after the Valuation Reference Date, and the corresponding income period is limitless.

(4) Determination of net cash flow

Enterprise free cash flow is selected for the income approach valuation model. The calculation formula for free cash flow is as follows:

Free cash flow = EBIT $\times$ (1 – income tax rate) + depreciation and amortisation – capital expenditure – additional amount of working capital

= Operating income – operating cost – business tax and surcharge – expenses for the period (administration expense, selling expense) + net non-operating income and expense – income tax + depreciation and amortization – capital expenditure – additional amount of working capital

(5) Determination of discount rate

According to the principle of consistent basis for the income amount and the discount rate, the basis to determine the income amount for this valuation is the net cash flow of the enterprise and the weighted average cost of capital is chosen as the discount rate.

Formula:

$$WACC = K_e \times [E/(E + D)] + K_d \times (1 - T) \times [D/(E + D)]$$

Where: E: market value of equity

D: market value of debts

K_e : cost of equity capital

K_d : cost of debts capital

T: income tax rate for the appraised entity

Cost of equity capital is calculated using the Capital Asset Pricing Model (CAPM) as an international practice. The calculation formula is as follows:

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

Where: r_f : risk-free interest rate;

MRP: market risk premium;

β : system risk coefficient of equity;

r_c : specific corporate risk adjustment coefficient.

(6) *Determination of value of surplus assets*

Surplus assets are the monetary assets in excess of those necessary for the enterprise's operation on the Valuation Reference Date and which are not involved in the free cash flow forecast of the enterprise after the Valuation Reference Date.

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

Non-operating assets include property lease deposit under prepayment, deposit, earnest money and insurance claim under other receivables, deferred income tax assets arising from projected liabilities, input retained value added tax under other non-current assets and vehicles disposed after the reference date. Non-operating liabilities include earnest money, retention money and contract examination and acceptance payment under other payables, infrastructural technical enhancement construction under trade payables, projected liabilities arising from pending lawsuits, interests under long-term and short-term borrowings and deferred income.

(8) *Long-term equity investment appraised on a standalone basis*

Long-term equity investment appraised on a standalone basis refers to external equity investment that the enterprise has formed as of the Valuation Reference Date. As of the Valuation Reference Date, there is no external long-term equity investment conducted by the appraised entity.

2. Value of interest-bearing debts

Interest-bearing debts are debts for which the appraised entity is required to pay interests on the Valuation Reference Date. The interest-bearing debts of the appraised entity include short term borrowings, non-current liabilities matured within one year and long term borrowings. Verified carrying value of the interest-bearing debts shall be deemed as the appraised value.

VIII. PROCESS AND CONDITIONS OF IMPLEMENTATION OF VALUATION PROCEDURES

The appraisers carried out a valuation on the assets and liabilities of the subject from 20 October 2020 to 10 November 2020. Set out below are the process and conditions of the implementation of the main valuation procedures:

(i) Acceptance of engagement

On 20 October 2020, we and the consignor have reached an agreement on the purpose, subject and scope of valuation, the Valuation Reference Date and other general matters involved in valuation business, as well as the rights and obligations of each party, and negotiated and developed relevant valuation plan.

(ii) Preliminary preparation

1. Developing the valuation plan
2. Establishing the valuation team
3. Carrying out training on the appraisers

In order to ensure the quality of the valuation project, enhance working efficiency, and implement the finalized assets valuation plan, we explained to the team members of the project the background of the economic behavior, the characteristics of the assets of the subject, technical thinking on the valuation and specific operational requirements.

(iii) On-site investigation

From 21 October 2020 to 29 October 2020, the appraisers conducted the necessary inspection and verification for the assets and liabilities of the subject and performed the necessary due diligence on the operation and management positions of the appraised entity.

1. Asset verification

- (1) Guiding the appraised entity to fill out forms and prepare the materials to be provided to the valuation agency*

The appraisers guided the relevant financial and asset management personnel of the appraised entity, on the basis of conducting an asset inventory check, to declare the assets within the scope of valuation accurately based on the “Declaration Form of Assets Valuation” provided by the valuation agency, the filling requirements thereon and the Data List, and to collect and prepare property ownership documents on such assets, and any other documents reflecting the performance, status, and economic and technical indicators.

(2) Preliminary review and modification of assets valuation declaration forms provided by the appraised entity

The appraisers gained knowledge of the detailed conditions of the specific assets within the valuation scope by reviewing relevant materials. Afterwards, they carefully reviewed various “Declaration Form of Assets Valuation”, checked whether there were incomplete, mistaken or unclear asset items, and examined whether there were any omissions in the “Declaration Form of Assets Valuation” according to their experience and the on-hand materials. Then they fed back the result to the appraised entity so that it could improve the “Declaration Form of Assets Valuation”.

(3) Site surveys

According to the type, quantity and distribution of the assets within the valuation scope, the appraisers, with the cooperation from relevant personnel of the appraised entity, conducted site surveys of various assets in accordance with relevant requirements of the assets valuation standards, and adopted different survey methods according to the different nature and characteristics of such assets.

(4) Supplementation, revision and improvement of the assets valuation declaration forms

Based on the result of site surveys, the appraisers fully communicated with relevant personnel of the appraised entity and further improved the “Declaration Form of Assets Valuation”, so as to make the accounts and forms match up with the actual conditions.

(5) Verification of property ownership documents

The appraisers checked the property ownership documents for the buildings, vehicles, lands and other assets within the valuation scope, and requested the enterprise to verify in the case of incomplete ownership materials or unclear ownership, or to present relevant explanatory documents on ownership.

2. Due diligence

The appraisers conducted a necessary due-diligence investigation in order to fully understand the operation and management conditions of the appraised entity and the risks it faced. The main contents of such investigation are as follows:

- (1) the historical development, substantial shareholders and their shareholdings, necessary title of ownership and operation and management structure of the appraised entity;
- (2) the assets and the financial, production, operation and management conditions of the appraised entity;

- (3) the business plan, development planning and financial forecasts of the appraised entity;
- (4) the previous valuations and transactions of the subject and the appraised entity;
- (5) the macro and regional economic factors affecting the production and operation of the appraised entity;
- (6) the development status and prospects of the industry where the appraised entity operates;
- (7) Other relevant information.

(iv) Collection of materials

The appraisers collected the valuation materials based on the specific conditions of the valuation project, by directly obtaining materials from the market and other independent channels, from the consignor and other related parties, and from government departments, various professional institutions and other related departments, and analysed and sorted out such valuation materials before forming the basis for the evaluation of estimates.

(v) Evaluation of estimates

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

(vi) Internal review

According to the requirements of our Administrative Measures for Valuation Procedures (評估業務流程管理辦法), upon the completion of the initial draft of the valuation report, the person-in-charge of the project shall submit the report to our company for internal review. Upon the completion of the internal review, the person-in-charge of the project shall communicate with the consignor or other parties as agreed by the consignor on the relevant contents of the valuation report. After reasonable amendments based on the feedback, the valuation report will be issued and submitted to the consignor.

IX. VALUATION ASSUMPTION

Analysis and estimation in this Assets Valuation Report are conditional upon following assumptions:

(i) General assumptions

1. It is assumed that the appraised entity will continue to operate as a going concern after the Valuation Reference Date;
2. It is assumed that there will be no material changes in the political, economic and social environment of the country and region in which the appraised entity is located after the Valuation Reference Date;
3. It is assumed that there will be no material changes to the macro-economic policies, industrial policies or regional development policies of the country after the Valuation Reference Date;
4. It is assumed that there will be no material changes to the interest rates, exchange rates, tax bases, tax rates and policy-imposed levies in relation to the appraised entity after the Valuation Reference Date;
5. It is assumed that the management of the appraised entity will be responsible, stable, and capable of assuming their duties after the Valuation Reference Date;
6. It is assumed that the company will fully comply with all relevant laws and regulations;
7. It is assumed that there will be no force majeure and unforeseen factors that may have material adverse impact on the appraised entity after the Valuation Reference Date.

(ii) Specific assumptions

1. It is assumed that the accounting policies to be adopted by the appraised entity after the Valuation Reference Date will be consistent in key aspects with the accounting policies adopted when this Assets Valuation Report is prepared;
2. It is assumed that the business scope and practice of the appraised entity will, after the Valuation Reference Date, remain consistent with what they are currently based on its existing management practice and management level;
3. It is assumed that the appraised entity will have even cash inflow and cash outflow after the Valuation Reference Date;
4. It is assumed that the products or services of the appraised entity will maintain current market competitiveness after the Valuation Reference Date;

APPENDIX II SUMMARY OF VALUATION REPORT OF NINGXIA HEATING

5. It is assumed that the heating franchise license of the appraised entity will be renewable upon expiry;
6. Works of the Yinchuan intelligent central heating project (Phase II) undertaken by Huadian Lingwu Power Plant, the appraised entity commenced in September 2019 and are expected to be completed by the end of 2022. Total investment of the project is approximately RMB3.445 billion. As at the Valuation Reference Date, 25% of the project works have been completed. It is assumed that the Yinchuan intelligent central heating project (Phase II) undertaken by Huadian Lingwu Power Plant, the appraised entity can be completed and enter the trial operation stage as expected by the management; and all heating-related operating parameters of the project can meet the planning and design as provided by the appraised entity in terms of heating area, heating index, heating load, annual heat supply, etc.;
7. It is assumed that the Yinchuan intelligent central heating project undertaken by Huadian Lingwu Power Plant, the appraised entity can be completed within the investment budget as provided by the appraised entity on the Valuation Reference Date;
8. It is assumed that the current preferential income tax policies for the Western Development and the value-added tax, real estate tax and urban land use tax related preferential policies for heating enterprises of China will remain unchanged in the coming years;
9. It is assumed that all lease contracts entered into by the appraised entity will be renewable upon expiry;
10. The land parcels occupied by the 29 buildings of the 29 heat exchange stations as included in the valuation scope all belong to the owners or governments in the communities where these heat exchange stations locate, and have been used by the appraised entity for free. This valuation assumes that the appraised entity continues to use the above land parcels for free in the coming years.

The valuation conclusion of this Assets Valuation Report is established at the Valuation Reference Date under the above assumptions, and in the event of a significant change in the above assumptions, the undersigning asset appraiser and this valuation agency shall not be liable for deriving a different valuation conclusion as a result of the change in the assumptions.

X. VALUATION CONCLUSION

As of the Valuation Reference Date, the carrying value of total assets of Ningxia Huadian Heating Corporation Limited was RMB3,833,406,300; the carrying value of total liabilities was RMB2,628,924,600; the carrying value of net assets was RMB1,204,481,700.

The value of entire shareholders' equity as valued by income approach is RMB2,342,227,800, the value-added amount is RMB1,137,746,100, and the value-added rate is 94.46%.

Ningxia Huadian Heating Corporation Limited is a company specializing in urban central heating supply, which falls within the category of franchising. Phase I of the project has been fully completed and put into operation; the completed portion of Phase II has also commenced heating operation. The remaining works of the project are scheduled to be completed and put into operation by the end of 2022. In addition to the existing fixed asset investments and a large amount of working capital, the company also has relatively stable customer resources, stable suppliers, a strong management and operation team, a good reputation, experienced industry management talents, and relatively full qualifications among the industry. The industry prospects faced by the company are promising, considering its competitiveness in the same area and the same industry, the company's estimated future profits are achievable. Taking into account the purpose of this evaluation, the income approach may reflect the equity value of the appraised entity more completely and reasonably.

According to the above analysis, valuation conclusion of this assets valuation report adopts the income approach valuation result, that is: the valuation result of the entire shareholders' equity of Ningxia Huadian Heating Corporation Limited is RMB2,342,227,800.

Impact of liquidity on the appraised value of the Subject was not considered in this Assets Valuation Report.

XI. NOTES ON SPECIAL MATTERS

It was discovered in the course of valuation that the following matters may affect the conclusion of valuation; however, they are beyond the evaluation and estimation of the appraisers by virtue of the standard of valuation practice and professional competence:

- (i) According to the Assets Valuation Law, relevant valuation standards and the Guidelines for Legal Ownership of Subject of Assets Appraisal, the consignor shall be responsible for the truthfulness, completeness and legality of the ownership certificates, financial accounting information and other information provided by it for assets appraisal purpose. The purpose of assets appraisal is to estimate the value of the subject of assets appraisal and thereby express professional opinions, and it is beyond the working scope of the asset appraising professionals to confirm or express an opinion on the legal ownership of the subject of assets appraisal. Asset appraising professionals shall not provide guarantees for the legal ownership of the subject of assets appraisal.
- (ii) In this Assets Valuation Report, for all tables or textual expressions denominated in RMB ten thousands, difference between the total amount and the sum of the individual sub-values (if any) is due to rounding off.
- (iii) This assets valuation has made use of the audit report issued by Grant Thornton (Special General Partnership), Henan Branch on 30 June 2020, namely, GTCNZZ (2020) No. 410FC00196. The asset appraising professionals analysed and judged the financial statements in accordance with the requirements of the valuation method used, but it is not the responsibility of the asset appraising professionals to express

a professional opinion as to whether the relevant financial statements present fairly the financial position and the results of operations and cash flows for the period as at the Valuation Reference Date.

- (iv) The accounts receivable included in the scope of valuation on the Valuation Reference Date are heating charges receivable by the appraised entity from resident and non-resident units, the carrying value of which represent the cumulative amount from the company's commencement of operation in 2018 to the Valuation Reference Date. Due to the large number of units and residents involved, the appraised entity cannot provide all the specific details. The appraised entity has issued a statement that the carrying value of the accounts receivable as of the valuation reference date reflects the accounts receivable of the appraised entity, and the amount is correct. The accounts receivable included this time are presented at their audited carrying value.
- (v) The contract liabilities included in the scope of valuation on the valuation reference date are residential heating fees collected in advance by the appraised entity as required. Due to the large number of residents involved, the appraised entity cannot provide specific details. The appraised entity has issued a statement that the carrying value of the contracts as of the Valuation Reference Date reflects the advance receipts for which the appraised entity has not provided relevant services, and the amount is correct. The contract liabilities included this time are presented at their audited carrying value.
- (vi) A total of 34 buildings are included in the scope of this assets valuation, including 30 housing assets for the 30 heat exchange stations in Yinchuan City and 4 housing assets for 1# and 3# relay pump stations. None of the above-mentioned houses has been issued with a house ownership certificate, and the total gross floor area involved is 36,053.77 square metres, which is declared by the appraised entity and verified by the appraiser. Among the assets included in the scope of valuation, the housing assets for 13 heat exchange stations are merely reconstruction projects, and the housing assets for 3 heat exchange stations are construction and reconstruction projects. For the main bodies of the reconstruction projects, being the main bodies of the original houses, the ownership rights are not owned by the appraised entity, regarding which the appraised entity has issued an explanation, promising that the above-mentioned situation is true and there is no dispute.

For the 4 housing assets for 1# and 3# relay pump stations and the central heating station of Yongning South District (newly built) included in the scope of valuation, the land parcels occupied by the 5 buildings belong to the appraised entity and are all state-owned allocated land for public facility usage. Among them, the appraised entity has obtained the state-owned land use right certificates for the land parcels occupied by the 4 buildings for 1# and 3# relay pump stations; and is in the process of obtaining the state-owned land use right certificate for the land parcel occupied by the central heating station of Yongning South District (newly built).

APPENDIX II SUMMARY OF VALUATION REPORT OF NINGXIA HEATING

In addition to the above-mentioned buildings, the land parcels occupied by the 29 buildings for the remaining 29 heat exchange stations all belong to the owners or governments in the communities where these heat exchange stations locate, and have been used by the appraised entity for free. This valuation assumes that the appraised entity continues to use the above land parcels for free in the coming years.

As of the Valuation Reference Date, all of the above assets included in the scope of valuation were found free from encumbrances like mortgages or guarantees.

(vii) The pipelines and trenches included in the scope of this assets valuation represent mainly the heating pipelines of the Yinchuan intelligent central heating project (Phase I) undertaken by Huadian Lingwu Power Plant. For concealed projects such as the underground main pipelines and trenches listed on the pipeline and trench appraisal schedules, due to the particularity and complexity of the project, appraisers verify their existence, technical status and ownership mainly by checking drawings, construction contracts, budget and final accounts, inspection reports, etc..

(viii) As of the Valuation Reference Date, the appraised entity was involved in the following pending litigation:

No.	Case name	Sued on	Plaintiff	Defendant	Cause	Receiving court	Update
1	Putianyou Clinic suing the company for cable damage caused by our urban pipeline network construction, leading to dispute over compensation for economic loss	14 September 2018	Putianyou Clinic, Xingqing District, Yinchuan City	Ningxia Huadian Heating Corporation Limited	Dispute over property damage compensation	Judgment of People's Court of Xingqing District, Yinchuan City	Closed
2	Case involving project construction contract dispute with Najinshan	19 January 2019	Najinshan	Ningxia Rongye Construction Engineering Co., Ltd., Yinchuan Branch; Ningxia Rongye Construction Engineering Co., Ltd.; China Railway Construction Bridge Engineering Bureau Group Co., Ltd.; Ningxia Huadian Heating Corporation Limited	Dispute over project construction contract	First instance judgment of People's Court of Yongning County	Pending

APPENDIX II SUMMARY OF VALUATION REPORT OF NINGXIA HEATING

No.	Case name	Sued on	Plaintiff	Defendant	Cause	Receiving court	Update
3	Case regarding the dispute over damage compensation for water leakage of heating facilities sued by heat user Lu Xiang	30 April 2019	Lu Xiang	Ningxia Huadian Heating Corporation Limited	Dispute over property damage compensation	People's Court of Yongning County	Pending

Impact of the above pending litigation on the appraised value was not considered in this assets valuation.

(ix) Pledge of accounts receivable (right to charge)

1. On 15 August 2018, Ningxia Huadian Heating Corporation Limited entered into a fixed assets-backed loan contract with the Yinchuan Development Zone Branch of Industrial and Commercial Bank of China Limited (Contract No.: 0290100007-2018 Nian (Kai Fa) Zi No. 00069), in relation to the borrowings with a principal of RMB800,000,000.00 for a term from 26 September 2018 to 20 June 2033. The loan contract was secured by pledges of the accounts receivable (right to charge) under the franchise of the central heating project (Phase I) of Ningxia Huadian Heating Corporation Limited (Pledge contract No.: 0290100007-2018 Nian Kai Fa (Zhi) Zi No. 0042);
2. On 23 October 2018, Ningxia Huadian Heating Corporation Limited entered into a fixed assets-backed loan contract with the Ningxia Hui Autonomous Region Branch of Postal Savings Bank of China Co., Ltd., in relation to the borrowings with a principal of RMB1,000,000,000.00 for a term from 23 October 2018 to 21 October 2033. The loan contract was secured by pledges of the right to charge for heating of Ningxia Huadian Heating Corporation Limited;
3. On 30 November 2018, Ningxia Huadian Heating Corporation Limited entered into a fixed assets-backed loan contract with the Ningxia Hui Autonomous Region Branch of China Construction Bank Corporation (Contract No.: HTWBTZ640120000201800096), in relation to the borrowings with a principal of RMB1,400,000,000.00 for a term from 20 November 2018 to 19 November 2032. The loan contract was secured by pledges of the accounts receivable (right to charge) of Ningxia Huadian Heating Corporation Limited (Pledge contract No.: HTWBTZ640120000201800098); on 12 March 2020, according to the supplementary agreement of the fixed assets-backed loan contract entered into between both parties (Agreement No.: HTWBTZ640120000201800096-01), principal of the borrowings was changed to RMB600,000,000.00;

APPENDIX II SUMMARY OF VALUATION REPORT OF NINGXIA HEATING

4. On 26 March 2020, Ningxia Huadian Heating Corporation Limited entered into a current assets-backed loan contract with the Yinchuan Development Zone Branch of China Construction Bank Corporation (Contract No.: HTZ640112342LDZJ202000001), in relation to the borrowings with a principal of RMB50,000,000.00 for a term from 26 March 2020 to 25 March 2021. The loan contract was secured by pledges of the accounts receivable (right to charge) of Ningxia Huadian Heating Corporation Limited (Pledge contract No.: HTC640112342YSZK202000001 and HTC640112342YSZK202000002);
5. On 21 April 2020, Ningxia Huadian Heating Corporation Limited entered into a current assets-backed loan contract with the Yinchuan Development Zone Branch of China Construction Bank Corporation (Contract No.: HTZ640112342LDZJ202000005), in relation to the borrowings with a principal of RMB42,000,000.00 for a term from 21 April 2020 to 20 April 2021. The loan contract was secured by pledges of the accounts receivable (right to charge) of Ningxia Huadian Heating Corporation Limited (Pledge contract No.: HTC640112342YSZK202000005);
6. On 16 April 2020, Ningxia Huadian Heating Corporation Limited entered into a fixed assets-backed loan contract with the Yinchuan Branch of China Minsheng Banking Corp., Ltd. (Contract No.: Gong Jie Dai Zi No. YC202000005), in relation to the borrowings with a principal of RMB200,000,000.00 for a term from 16 April 2020 to 7 April 2035. The loan contract was secured by pledges of the heating franchise of Ningxia Huadian Heating Corporation Limited and the accounts receivable under such franchise (Pledge contract No.: Gong Dan Zhi Zi No. YC202000001).

Impact of the above pledges of accounts receivable (right to charge) on the appraised value was not considered in this assets valuation.

- (x) According to the “Letter of the Yinchuan Municipal People’s Government on Issues Related to the Yinchuan Central Heating Project Undertaken by Huadian Lingwu Power Plant” (Yin Zheng Han [2017] No. 123), Ningxia Huadian Heating Corporation Limited proposed to Yinchuan Municipal Government with a self-operated area of 20,000,000 square metres, therefore, according to the prevailing coal-fired boiler subsidy policy of Yinchuan (RMB40/square metre), an one-off subsidy of RMB800 million can be expected from Yinchuan Municipal Government.

The government subsidy involved in the reply has been taken into account in the forecast of other revenue in this assets valuation, and the estimated amount for each year is predicted based on the amount of government subsidy for the coming years provided by the appraised entity.

APPENDIX II SUMMARY OF VALUATION REPORT OF NINGXIA HEATING

- (xi) After the Valuation Reference Date, all the 4 vehicles included in the scope of this assets valuation have been disposed of. The vehicles disposed of after the valuation reference date will be valued based on the amount of disposal proceeds in this assets valuation. The specific vehicle information is as follows:

Unit: RMB

License plate number	Vehicle name	Speci./Model	Original carrying value	Net carrying value	Disposal price
寧AR927E	Compact SUV	Grand Cherokee 1J8HC58N	178,145.00	140,536.61	80,000.00
寧AJ632F	Small ordinary passenger car	Liebao CFA6501AA	119,377.00	94,175.19	24,000.00
寧A51421	Small ordinary passenger car	Liebao CFA6501AA	119,377.00	94,175.19	21,500.00
寧A5D703	Small ordinary passenger car	Dodge DN6512M	171,171.00	135,034.90	45,000.00

- (xii) According to the resolution passed at the 2019 general meeting of Ningxia Huadian Heating Corporation Limited held on 30 June 2020, shareholders of Ningxia Huadian Heating Corporation Limited proposed to increase the registered capital of Ningxia Huadian Heating Corporation Limited from RMB1,050,000,000 to RMB1,548,330,000. The increased portion shall be subscribed and contributed by each shareholder according to their original shareholding ratio. The specific subscription amount and actual capital contribution before the reporting date are shown in the following table:

Unit: RMB0'000

No.	Name of shareholder	Subscription ratio	Subscription amount	Actual capital contribution	Note
1	Huadian Power International Corporation Limited	53%	55,650.00 25,440.00	55,650.00 25,440.00	Phase I Phase II
2	Yinchuan Municipal Development and Comprehensive Pipeline Investment Management Co., Ltd.*	21%	22,050.00 10,899.00	22,050.00 5,460.00	Phase I Phase II

APPENDIX II SUMMARY OF VALUATION REPORT OF NINGXIA HEATING

No.	Name of shareholder	Subscription ratio	Subscription amount	Actual capital contribution	Note
3	Ningxia Construction Investment Group Corp., Ltd.	14%	14,700.00 7,266.00	14,700.00 0.00	Phase I Phase II
4	Yinchuan Coal gas Heat Co., Ltd.*	9%	9,450.00 4,671.00	9,450.00 2,340.00	Phase I Phase II
5	MCC Huatian Nanjing Engineering & Technology Corporation	3%	3,150.00 1,557.00	1575 0.00	Phase I Phase II
Total		100%	154,833.00	136,665.00	

As of the valuation report date, registration for the industrial and commercial changes has not yet been completed. This assets valuation therefore did not consider the impact of the above capital increase on the appraised value.

Users of the Assets Valuation Report should pay attention to the impact of the above special matters on the valuation conclusions.

XII. LIMITATIONS ON USE OF THE ASSETS VALUATION REPORT

(i) Scope of use of the Assets Valuation Report

1. Users of the Assets Valuation Report are: Ningxia branch of Huadian Power International Corporation Limited and its superior administrative unit, and users of the Assets Valuation Report as stipulated by national laws and administrative regulations.
2. The valuation conclusions disclosed in the Assets Valuation Report are only applicable to economic activities corresponding to this project.
3. Validity period of the valuation conclusions disclosed in the Assets Valuation Report is one year from the Valuation Reference Date. The consignor or other users of the Assets Valuation Report shall use the Assets Valuation Report within the stated validity period of the valuation conclusions.
4. Without written permission of the consignor, the assets appraisal institution and its asset appraisal professionals shall not provide or disclose content of the Assets Valuation Report to any third party, unless otherwise provided by laws and administrative regulations.

5. Without the consent of the assets appraisal institution, content of the Assets Valuation Report must not be extracted, quoted or disclosed on public media, unless otherwise permitted by laws, administrative regulations or agreed among relevant parties.
- (ii) The valuation agency and its asset appraisers take no responsibility if the consignor or other users of the Assets Valuation Report fail to use this Report in accordance relevant laws and administrative regulations and the scope of use set out in this report;
- (iii) Except for the consignor, the other users of the Assets Valuation Report as agreed in the assets valuation engagement contract and the users of the Assets Valuation Report as entitled by relevant laws and administrative regulations, no other institution or individual could use this report;
- (iv) Users of the Assets Valuation Report should correctly interpret and use the valuation conclusion, which is not equivalent to the realizable value of the subject and should not be considered as a guarantee for the realizable value of the subject.
- (v) The Assets Valuation Report is a professional report issued by the valuation agency and its assets appraisers in compliance with relevant laws, administrative regulations and generally accepted valuation standards by performing necessary assets valuation procedures as per the engagement. The Report can not be officially used unless signed by the assets appraiser undertaking this valuation work, sealed by the valuation agency and filed with the competent state-owned assets supervision and administration authority or enterprises funded thereby.

XIII. ASSETS VALUATION REPORTING DATE

The Assets Valuation Report is dated 10 November 2020.

**INDEPENDENT ASSURANCE REPORT ON THE ARITHMETICAL ACCURACY OF
THE CALCULATIONS OF THE DISCOUNTED FUTURE CASH FLOWS IN
CONNECTION WITH THE VALUATION OF NINGXIA HUADIAN HEATING
CORPORATION LIMITED**

**To the Board of Directors of Huadian Power International Corporation Limited (the
“Company”)**

We refer to the discounted future cash flows on which the valuation (“**Valuation**”) dated 10 November 2020 prepared by Beijing China Enterprise Appraisal Co., Ltd. with respect to the valuation of 100% equity interest in Ningxia Huadian Heating Corporation Limited (“**Ningxia Heating**”) as at 30 June 2020 is based. The Valuation is prepared based in part on discounted future cash flows and is regarded as a profit forecast under paragraph 14.61 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “**Listing Rules**”).

Directors’ Responsibility for the Discounted Future Cash Flows

The directors of the Company (the “**Directors**”) are solely responsible for the preparation of the discounted future cash flows in accordance with the bases and assumptions adopted by the Directors and set out in the Valuation. This responsibility includes carrying out appropriate procedures relevant to the preparation of the discounted future cash flows for the Valuation and applying an appropriate basis of preparation; and making estimates that are reasonable in the circumstances.

Our Independence and Quality Control

We have complied with the independence and other ethical requirements of the Code of Ethics for Professional Accountants issued by the Hong Kong Institute of Certified Public Accountants (the “**HKICPA**”), which is founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behaviour.

Our firm applies Hong Kong Standard on Quality Control 1 “Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagements”, and accordingly maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

Reporting Accountants’ Responsibility

It is our responsibility to form a conclusion, based on our work on the arithmetical accuracy of the calculations of the discounted future cash flows on which the Valuation is based, and to report, as required by paragraph 14.62(2) of the Listing Rules, on the arithmetical accuracy of the calculations of the discounted future cash flows used in the Valuation. The discounted future cash flows do not involve the adoption of accounting policies.

We conducted our work in accordance with the terms of our engagement and Hong Kong Standard on Assurance Engagements 3000 (Revised) “Assurance Engagements Other Than Audits or Reviews of Historical Financial Information” issued by the HKICPA. This standard requires that we plan and perform our work to obtain reasonable assurance as to whether, so far as the arithmetical accuracy of the calculations are concerned, the Directors have properly compiled the discounted future cash flows in accordance with the bases and assumptions as set out in the Valuation. We performed procedures on the arithmetical accuracy and compilation of the discounted future cash flows in accordance with the bases and assumptions. Our work is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing issued by the HKICPA. Accordingly, we do not express an audit opinion.

Conclusion

In our opinion, so far as the arithmetical accuracy of the calculations is concerned, the discounted future cash flows have been properly compiled in accordance with the bases and assumptions adopted by the Directors as set out in the Valuation.

Other Matters

Without modifying our opinion, we draw your attention that we are not reporting on the appropriateness and validity of the bases and assumptions on which the discounted future cash flows are based and our work does not constitute any valuation of Ningxia Heating or an expression of an audit or review opinion on the Valuation.

The discounted future cash flows depend on future events and on a number of assumptions which cannot be confirmed and verified in the same way as past results and not all of which may remain valid throughout the period. Our work has been undertaken for the purpose of reporting solely to you under paragraph 14.62(2) of the Listing Rules and for no other purpose. We accept no responsibility to any other person in respect of, arising out of or in connection with our work.

BDO Limited
Certified Public Accountants
Hong Kong, 26 February 2021



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)

The Stock Exchange of Hong Kong Limited
12/F, Two Exchange Square
8 Connaught Place
Central
Hong Kong

26 February, 2021

Dear Sirs,

**TRANSACTION CONTEMPLATED UNDER
NINGXIA HEATING AGREEMENT**

We refer to the valuation report ("**Valuation Report**") dated 10 November 2020 prepared by Beijing China Enterprise Appraisal Co., Ltd. ("**Valuer**") in relation to the valuation (the "**Valuation**") of Ningxia Heating with the valuation reference date of 30 June 2020. The Valuation, which is prepared based on income approach, includes the discounted future estimated cash flows of Ningxia Heating, thus regarded as a profit forecast under Rule 14.61 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

We have considered every aspect regarding the Valuation, including the bases and assumptions upon which the Valuation has been prepared, and have reviewed the Valuation for which the Valuer is responsible. We have also considered the letter dated 26 February 2021 from our reporting accountant, BDO Limited, regarding the arithmetical accuracy of the calculations and whether the forecast was compiled properly according to the assumptions set out in the Valuation Report. We have noticed that the calculations of forecast in the Valuation were accurate, and fulfilled the bases and assumptions set out in the Valuation Report.

On the basis of the foregoing, we are of the opinion that the forecast has been made after due and careful enquiry.

By Order of the Board
Huadian Power International Corporation Limited*
Zhang Gelin
Secretary to the Board

* For identification purpose only

1. RESPONSIBILITY STATEMENT

This supplemental 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 supplemental 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 supplemental circular misleading.

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

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

Four Directors, namely Mr. Ding Huande, Mr. Peng Xingyu, Mr. Gou Wei and Mr. Hao Bin, who held positions in China Huadian and/or its subsidiary, have abstained from voting on the relevant Board resolution approving the Transfer Agreements and the Transfers contemplated thereunder. Save as disclosed above, as at the Latest Practicable Date, none of the other Directors or supervisors of the Company was also a director or employee of a company which had an interest or short position in the shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Division 2 and 3 of Part XV of the SFO.

3. EXPERTS' CONSENT AND QUALIFICATION

Each expert has given and has not withdrawn its written consent to the issue of this supplemental circular with the inclusion of its opinion as set out in this supplemental circular in the form and context in which it appears in this supplemental circular. The following is the qualification of the expert:

Name	Qualification	Date on which the opinion or advice is expressed
BDO Limited	Certified Public Accountants	26 February 2021
ZhongHe Appraisal Co., Ltd. (中和資產評估有限公司)	Qualified Chinese Appraiser	26 November 2020
Beijing China Enterprise Appraisal Co., Ltd.* (北京中企華資產評估有限公司)	Qualified Chinese Appraiser	10 November 2020
Gram Capital Limited	Type 6 (advising on corporate finance) regulated activity as defined under the SFO	31 March 2021

As at the Latest Practicable Date, as far as the directors are aware, none of experts had any shareholding in any member of the Group or any right (whether legally enforceable or not) to subscribe for or to nominate others to subscribe for shares, convertible bonds, warrants, share options or derivative instruments with voting rights of any member of the Group.

As at the Latest Practicable Date, none of experts 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.

Each expert has given and has not withdrawn its written consent to the issue of this supplemental circular with the inclusion herein of its letter or report and/or reference to its name.

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. 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 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.

9. DOCUMENTS AVAILABLE FOR INSPECTION

A copy of each of the (i) Ningxia Lingwu Agreement; (ii) Ningxia Heating Agreement; (iii) the letter from the Board, the text of which is set out on pages 4 to 27 of this supplemental circular; (iv) the letter from the Independent Board Committee, the text of which is set out on pages 28 of this supplemental circular; and (v) the letter from Gram Capital, the text of which is set out on pages 29 to 49 of this supplemental 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 supplemental circular up to and including Wednesday, 14 April 2021.

NOTICE OF EXTRAORDINARY GENERAL MEETING



華電國際電力股份有限公司

Huadian Power International Corporation Limited*

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

(Stock Code: 1071)

NOTICE OF EXTRAORDINARY GENERAL MEETING

NOTICE IS HEREBY GIVEN THAT an extraordinary general meeting (the "EGM") of Huadian Power International Corporation Limited* (the "**Company**") will be held at 2:00 p.m. on Wednesday, 28 April 2021 at Jinan Yanzi Resort, No.14668 Jingshi Street, Lixia District, Jinan, Shandong Province, the People's Republic of China, for the purpose of considering and, if appropriate, by way of polls, approving the following resolutions. Save as otherwise indicated, the terms herein shall have the same meaning as those defined in the announcements dated on 8 January 2021 and 26 February 2021 (collectively the "**Announcements**").

ORDINARY RESOLUTIONS

1. To consider and approve the entering into the Commercial Factoring Services Framework Agreement between the Company and Huadian Factoring with a term commencing from the effective date of the Commercial Factoring Services Framework Agreement and until 31 December 2021, and the following continuing connected transactions contemplated by the Group and Huadian Factoring thereunder and the relevant proposed cap; and authorise the general manager of the Company or its authorised person(s) to make discretionary amendments to the agreement in accordance with relevant domestic and overseas regulatory requirements and sign the agreement upon mutual understanding is arrived as well as complete other necessary procedures and formalities as required by relevant provisions.
2. To consider and approve (1) the Ningxia Lingwu Agreement entered into by the Company dated 26 February 2021 in relation to its proposed disposal of 65% equity interests in Ningxia Lingwu and the Lingwu Dividend Receivable, with China Huadian, and the transactions contemplated thereunder; (2) the Ningxia Heating Agreement entered into by the Company dated 26 February 2021 in relation to its proposed disposal of 53% equity interests in Ningxia Heating, with China Huadian, and the transactions contemplated thereunder; and authorise the general manager of the Company or its authorised person(s) to make discretionary amendments to the agreements in accordance with relevant domestic and overseas regulatory requirements and execute the agreements upon mutual understanding is arrived as well as complete other necessary procedures and formalities as required by relevant provisions.

By order of the Board

Huadian Power International Corporation Limited*

Zhang Gelin

Secretary to the Board

NOTICE OF EXTRAORDINARY GENERAL MEETING

As at the date of this announcement, the board of directors of the Company comprises:

Ding Huande (Chairman, Executive Director), Ni Shoumin (Vice Chairman, Non-executive Director), Peng Xingyu (Non-executive Director), Luo Xiaoqian (Executive Director), Zhang Zhiqiang (Non-executive Director), Li Pengyun (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) and Li Xingchun (Independent Non-executive Director).

Beijing, the PRC
31 March 2021

* *For identification purpose only*

NOTICE OF EXTRAORDINARY GENERAL MEETING

Notes:

1. ELIGIBILITY OF ATTENDING THE EGM AND CLOSURE OF THE H SHARE REGISTER OF MEMBERS

Shareholders of the Company whose names appear on the Company's H share register of members at the close of business on Thursday, 22 April 2021 (the "**Registered Shareholder(s)**") are entitled to attend the EGM conditional upon completion of the necessary registration procedures. The register of members of H shares will be closed by the Company from Friday, 23 April 2021 to Wednesday, 28 April 2021, both days inclusive, for the purpose of determining H Shareholders' entitlement to attend the EGM, during which period no transfer of the H shares will be registered.

In order to be entitled to attend the EGM, H Shareholders of the Company whose transfer documents have not been registered are required to deposit their respective instrument(s) of transfer and the relevant share certificate(s) with the H share registrar of the Company, Hong Kong Registrars Limited at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong, no later than 4:30 p.m. on Thursday, 22 April 2021.

2. REGISTRATION PROCEDURES FOR ATTENDING THE EGM

Registered Shareholders may deliver the necessary registration documents to the Company in person, by post or by facsimile. Upon receipt of the above documents, the Company shall complete the registration procedures in respect of attending the EGM, and shall issue copies or facsimile copies of admission cards for attending the EGM by post or by facsimile. Shareholders or their proxies may produce such copies of the admission cards at the time of attending the EGM in exchange for the original of the admission cards of EGM.

3. PROXIES

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

4. MISCELLANEOUS

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

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

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

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

NOTICE OF EXTRAORDINARY GENERAL MEETING

5. PRECAUTIONS ON COVID-19

Shareholders who attend the meeting on-site must pay attention in advance and abide by the regulations and requirements of health status declaration, quarantine and observation as required by relevant government department of the venue where the meeting is held during the epidemic containment period. The Company will strictly follow the epidemic containment requirements of relevant government departments and take epidemic containment measures such as body temperature monitoring for the Shareholders who attend the meeting on-site under the guidance and supervision of relevant government departments. Shareholders who have fever and other symptoms or are not wearing masks as required or do not comply with the relevant epidemic containment regulations and requirements may not be admitted to the venue of the meeting. If the number of Shareholders who attend the meeting on-site reached the upper limit stipulated under the epidemic containment requirements of the relevant government departments on the date of the meeting, Shareholders present at the venue will have to enter into the venue on a “first sign in, first enter” basis, and Shareholders who sign in later may not be able to enter into the venue of the meeting. Shareholders who may not enter the site will participate in the meeting through the remote conference system provided by the Company.

* *For identification purpose only*