Gram Capital Limited
嘉林資本有限公司

8 November 2024

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

Dear Sir/Madam,

(I) MAJOR AND CONNECTED TRANSACTION; AND (II) APPLICATION FOR WHITEWASH WAIVER

INTRODUCTION

We refer to our appointment as the Independent Financial Adviser to advise the Independent Board Committees and the Independent Shareholders in respect of the Transaction (including the grant of the Specific Mandate for the issuance of Consideration Shares) and the Whitewash Waiver, details of which are set out in the letter from the Board (the "**Board Letter**") contained in the circular dated 8 November 2024 issued by the Company to the Shareholders (the "**Circular**"), of which this letter forms part. Terms used in this letter shall have the same meanings as defined in the Circular unless the context requires otherwise.

On 1 August 2024, the Company entered into:

(i) the Asset Purchase Agreement I with China Huadian, pursuant to which, the Company conditionally agreed to purchase and China Huadian conditionally agreed to sell its 80% equity interests in Jiangsu Huadian;

(ii) the Asset Purchase Agreement II with Huadian Furui, pursuant to which, the Company conditionally agreed to purchase and Huadian Furui conditionally agreed to sell, its 51% equity interests in Shanghai Fuxin, 100% equity interests in Shanghai Minhang, 55.0007% equity interests in Guangzhou University City, 55% equity interests in Fuxin Guangzhou, 70% equity interests in Fuxin Jiangmen and 100% equity interests in Fuxin Qingyuan; and

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(iii) the Asset Purchase Agreement III with Operation Company, pursuant to which the Company conditionally agreed to purchase and the Operation Company conditionally agreed to sell its 100% equity interests in Guigang Electric Power.

On 30 October 2024, the Company entered into the Supplemental Agreements with each of China Huadian, Huadian Furui and Operation Company, pursuant to which, among other things, the parties have determined the final consideration for the Transaction as to (i) RMB3,428.3 million for Target Assets I, by way of issuance of the Consideration Shares; (ii) RMB1,900.6 million for Target Assets II (subject to an increase of not exceeding RMB250.0 million to reflect the amount that may be paid by Huadian Furui into the registered paid-up capital or capital reserve of Fuxin Qingyuan during the Transitional Period (the "**Target Assets II Potential Capital Adjustment**")), by way of cash payment; and (iii) RMB1,837.7 million for Target Assets III (subject to an increase of not exceeding RMB350.0 million to reflect the amount that may be paid by the Operating Company into the registered paid-up capital or capital reserve of Guigang Electric Power during the Transitional Period (the "**Target Assets III Potential Capital Adjustment**"), together with the Target Assets II Potential Capital Adjustment, the "**Capital Adjustments**")), by way of cash payment.

With reference to the Board Letter, the Transaction constitutes major and connected transaction of the Company, and is subject to the reporting, announcement and independent shareholders' approval requirements under Chapter 14 and Chapter 14A of the Hong Kong Listing Rules.

Furthermore, immediately following completion of the Transaction, on the basis that the portion of consideration for the purchase of Target Assets I to be settled by way of issuance of Consideration Shares is RMB3,428.3 million, and assuming that (a) there will not be any further adjustments to the issue price of the Consideration Shares of RMB5.05 per Consideration Share; and (b) there will be no change in the total issued share capital of the Company since the Latest Practicable Date save for the issuance of A Shares pursuant to the Asset Purchase Agreement I (as supplemented by the Supplemental Agreement I), the aggregate shareholding of China Huadian and parties acting in concert with it in the Company will increase from 45.17% to approximately 48.59%. Accordingly, upon completion of the Transaction, pursuant to Rule 26.1 of the Takeovers Code, China Huadian will be required to make a mandatory general offer for all the securities of the Company not already owned or agreed to be acquired by China Huadian and parties acting in concert with it, unless the Whitewash Waiver from strict compliance with Rule 26.1 of the Takeovers Code is obtained from the Executive.

As such, completion of the Transaction is conditional upon, among other things, the Whitewash Waiver being granted by the Executive and approved by the Independent Shareholders. An application has been made by China Huadian (on behalf of itself and parties acting in concert with it) to the Executive for the granting of the Whitewash Waiver pursuant to Note 1 on dispensations from Rule 26 of the Takeovers Code. The Whitewash Waiver, if granted by the Executive, will be subject to (i) the approval of the Whitewash Waiver by at least 75% of the votes cast by Independent Shareholders either in person or by proxy at the

EGM; and (ii) the approval of the Transaction by more than 50% of the votes cast by Independent Shareholders either in person or by proxy at the EGM as required under the Takeovers Code. As at the Latest Practicable Date, the Executive has indicated that it is minded to grant the Whitewash Waiver. The Transaction will not proceed if the Whitewash Waiver is not obtained or if the Whitewash Waiver is not approved by the Independent Shareholders.

The LR IBC comprising Mr. Feng Zhenping, Mr. Li Xingchun, Mr. Wang Yuesheng and Ms. Shen Ling (being all independent non-executive Directors) has been formed to advise the Independent Shareholders on (i) whether the terms of the Transaction are on normal commercial terms and are fair and reasonable; (ii) whether the Transaction (including the grant of Specific Mandate for the issuance of Consideration Shares) is in the interests of the Company and the Shareholders as a whole and are conducted in the ordinary and usual course of business of the Group; and (iii) how the Independent Shareholders should vote in respect of the resolutions to approve the Transaction (including the grant of Specific Mandate for the issuance of Consideration Shares) at the EGM.

The Code IBC comprising Mr. Zhu Peng, Mr. Wang Xiaobo, Mr. Feng Zhenping, Mr. Li Xingchun, Mr. Wang Yuesheng and Ms. Shen Ling (being the non-executive Directors and independent non-executive Directors who have no direct or indirect interest in the Transaction and the Whitewash Waiver, excluding Mr. Zhao Wei, Mr. Zeng Qinghua and Ms. Cao Min due to a potential conflict of interest as a result of their positions in China Huadian and its subsidiaries) has been formed to advise the Independent Shareholders on (i) whether the terms of the Transaction (including the grant of Specific Mandate for the issuance of Consideration Shares) and the Whitewash Waiver are on normal commercial terms and are fair and reasonable so far as the Independent Shareholders are concerned; (ii) whether the Transaction (including the grant of Specific Mandate for the issuance of Consideration Shares) and the Whitewash Waiver are in the interests of the Company and the Shareholders as a whole; and (iii) how to vote in relation to the Transaction (including the grant of Specific Mandate for the issuance of Consideration Shares) and the Whitewash Waiver at the EGM.

We, Gram Capital Limited, have been appointed as the Independent Financial Adviser with the approval of the Independent Board Committees to advise the Independent Board Committees and the Independent Shareholders in this respect.

INDEPENDENCE

During the past two years immediately preceding the Latest Practicable Date, Gram Capital was engaged as the independent financial adviser in relation to (i) the continuing connected transactions of the Company, details of which are set out in the Company's circular dated 14 November 2023; and (ii) the discloseable and continuing connected transactions of the Company, details of which are set out in the Company's circular dated 8 October 2024. Save for the aforesaid engagements, there was no other service provided by Gram Capital to the Company, China Huadian or any of their respective subsidiaries or associates relating to any transaction of the Company during the past two years immediately preceding the Latest Practicable Date.

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Notwithstanding the aforesaid engagements, we were not aware of any relationships or interests between Gram Capital and the Company, China Huadian or any other parties during the past two years immediately preceding the Latest Practicable Date that could be reasonably regarded as a hindrance to Gram Capital's independence to act as the Independent Financial Adviser to the Independent Board Committees and the Independent Shareholders.

Having considered the above and that none of the circumstances as set out under Rule 13.84 of the Hong Kong Listing Rules existed as at the Latest Practicable Date, 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 Committees and the Independent Shareholders, we have relied on the statements, information, opinions and representations contained or referred to in the Circular and the information and representations as provided to us by the Directors. We have assumed that all information and representations that have been provided by the Directors, for which they are solely and wholly responsible, are true and accurate at the time when they were made and continue to be so as at the Latest Practicable Date. We have also assumed that all statements of belief, opinion, expectation and intention made by the Directors in the Circular were reasonably made after due enquiry and careful consideration. We have no reason to suspect that any material facts or information have been withheld or to doubt the truth, accuracy and completeness of the information and facts contained in the Circular, or the reasonableness of the opinions expressed by the Company, its 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 agreement/arrangement or implied understanding with anyone concerning the Transaction and the Whitewash Waiver. We consider that we have taken sufficient and necessary steps on which to form a reasonable basis and an informed view for our opinion in compliance with Rule 13.80 of the Hong Kong Listing Rules and Rule 2 of the Takeovers Code.

We have not made an independent evaluation or appraisal of the assets and liabilities of the Target Companies and we have not been furnished with any such evaluation or appraisal, save as and except for the Asset Appraisal Reports on the Target Companies prepared by CAA or CEA (as the case may be), summary of which are set out in Appendix V to the Circular. Since we are not experts in the appraisal of assets or business, we have relied solely upon the Asset Appraisal Reports for the appraisal values of the Target Companies as at 30 June 2024 (i.e. the Appraisal Benchmark Date).

Your attention is drawn to the responsibility statements as set out in the section headed "1. Responsibility Statement" of Appendix VIII to the Circular. We, as the Independent Financial Adviser, take no responsibility for the contents of any part of the Circular, save and except for this letter of advice.

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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, Huadian Furui, the Operation Company, the Target Companies or their respective subsidiaries or associates, nor have we considered the taxation implication on the Group or the Shareholders as a result of the Transaction and the Whitewash Waiver. 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. The Shareholders will be notified of any material changes as soon as possible in accordance with Rule 9.1 of the Takeovers Code. 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.

PRINCIPAL FACTORS AND REASONS CONSIDERED

In arriving at our opinion in respect of the Transaction and the Whitewash Waiver, we have taken into consideration the following principal factors and reasons:

(I) THE TRANSACTION

Background of the Transaction

Information on the Group

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

Set out below are the consolidated financial information of the Company for the two years ended 31 December 2023 and for the six months ended 30 June 2024 (together with comparative figures), as extracted from the Company's annual report for the year ended 31 December 2023 (the "**2023 Annual Report**") and the Company's interim report for the six months ended 30 June 2024 (the "**2024 Interim Report**"), respectively:

	For the six months ended 30 June 2024 ("1H2024") *RMB'000* *(unaudited)*	For the six months ended 30 June 2023 ("1H2023") *RMB'000* *(unaudited)*	Change from 1H2023 to 1H2024 *%*	For the year ended 31 December 2023 ("FY2023") *RMB'000* *(audited)*	For the year ended 31 December 2022 ("FY2022") *RMB'000* *(audited)*	Change from FY2022 to FY2023 *%*
Turnover	52,893,953	59,053,025	(10.43)	116,376,064	105,960,339	9.83
– Sale of electricity	*42,876,950*	*47,129,670*	*(9.02)*	*96,151,641*	*95,495,823*	*0.69*
– Sale of heat	*5,613,342*	*5,482,148*	*2.39*	*9,623,874*	*8,970,609*	*7.28*

	For the six months ended 30 June 2024 ("1H2024") *RMB'000* *(unaudited)*	For the six months ended 30 June 2023 ("1H2023") *RMB'000* *(unaudited)*	Change from 1H2023 to 1H2024 %	For the year ended 31 December 2023 ("FY2023") *RMB'000* *(audited)*	For the year ended 31 December 2022 ("FY2022") *RMB'000* *(audited)*	Change from FY2022 to FY2023 %
– Sale of coal	*4,403,661*	*6,441,207*	*(31.63)*	*10,600,549*	*1,493,907*	*609.59*
Operating profit/(loss)	3,365,491	2,186,102	53.95	4,100,870	(4,183,994)	N/A
Profit/(loss) for the period/year attributable to the equity holders of the Company	3,431,773	2,876,840	19.29	4,601,094	(14,322) *(Note)*	N/A

Note: The figure was restated upon the application of "Amendments to International Accounting Standard 12 – Deferred Tax related to Assets and Liabilities arising from a Single Transaction" from FY2023 onward.

As illustrated in the above table, the Group's turnover increased from approximately RMB106.0 billion for FY2022 to approximately RMB116.4 billion for FY2023, representing an increase of approximately 9.83%. With reference to the 2023 Annual Report, such increase was mainly due to the significant increase in coal trading volume caused by the significant increase in coal demand in market.

The Group recorded operating profit and profit attributable to equity holders of the Company for FY2023 as opposed to operating loss and loss attributable to equity holders of the Company for FY2022. With reference to the 2023 Annual Report, such turnaround from loss-making position to profit-making position was mainly due to the combined impact of the Group's lower fuel prices, incremental benefits contributed by the operation of new coal-fired and gas-fired power generation projects and the decrease in investment income from the invested coal enterprises.

The Group's turnover was approximately RMB52.9 billion for 1H2024, representing a decrease of approximately 10.43% as compared to that for 1H2023. With reference to the 2024 Interim Report, such decrease was mainly due to (i) the decrease in power generation by the Group and the decrease in on-grid tariff, resulting in a corresponding decrease in on-grid power sold; and (ii) the decrease in coal trading volume caused by the reduced coal demand for 1H2024 as compared that for 1H2023.

Notwithstanding the aforesaid decrease in the Group's turnover for 1H2024, the Group's operating profit increased by approximately 53.95% as compared to that for 1H2023; while the Group's profit for 1H2024 attributable to the equity holders of the Company increased by approximately 19.29% as compared to that for 1H2023. With reference to the 2024 Interim Report and as advised by the Directors, the increase in the Group's operating profit was mainly due to the decrease in fuel prices, electric heating prices and power generation capacity; and the increase in the Group's profit attributable to equity holders of the Company was mainly due to the increase in the Group's operating profit as aforementioned.

With reference to the 2024 Interim Report, as at 30 June 2024, the Group's total assets and net assets were approximately RMB225.6 billion and RMB88.5 billion respectively. As at 30 June 2024, the Group's total assets primarily comprised of (i) property, plant and equipment of approximately RMB131.2 billion; (ii) interests in associates of approximately RMB46.0 billion; and (iii) trade debtors and bills receivables of approximately RMB10.3 billion.

Information on China Huadian

With reference to the Board Letter, China Huadian, the controlling shareholder of the Company, directly and indirectly holds approximately 45.17% 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. Its ultimate beneficial owner is SASAC.

Information on Huadian Furui

With reference to the Board Letter, Huadian Furui is a limited liability company established in the PRC in 2020, and its principal businesses are power generation business, power transmission business, power supply (distribution) business; hydroelectric power generation; supervision of construction engineering; supervision of water conservancy engineering; installation, maintenance and testing of power transmission, power supply, power receiving facilities; construction engineering (items subject to approval by law may not be carried out until approved by the relevant departments, and the specific business projects shall be subject to the approval documents or license certificates of the relevant departments) General items: power generation technical services; wind power technical services; solar power generation technical service; sales of solar thermal power generation products; information technology consulting services; lease of photovoltaic power generation equipment; environmental consulting services; technology promotion services; technical services; technology development, technology consulting, technology exchange, technology transfer, technology promotion; engineering management services; sales of coal and its products; sales of metal materials; manufacture of electronic (gas) physical equipment and other electronic equipment; sales of power electronic components; hardware products wholesale; sales of construction materials; import and export of goods (except for items subject to approval by law, with a business license to conduct business activities independently in accordance with the law.)

Huadian Furui is a wholly-owned subsidiary of China Huadian. Thus, Huadian Furui is a connected person of the Company.

Information on the Operation Company

With reference to the Board Letter, the Operation Company is a limited liability company established in the PRC in 2007, and its principal businesses are heat production and supply; cooling services; technical services for power generation; technical services for wind power generation; technical services for solar power generation; technical services for energy storage; biomass energy technology services; electrical equipment repairment; technical services; technical development, technical consultation, technical exchange, technology transfer and

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technology popularisation; new energy technology research and development; import and export of technologies, import and export of goods; import and export agents; engineering management services; park management services; entrepreneurial space services; property management; Non-residential real estate leasing; enterprise management; enterprise headquarters management. Licensed projects (except for projects subject to approval by law, with a business license to conduct business activities independently in accordance with the law): power generation business, power transmission business, power supply (distribution) business; hydroelectric power generation; power supply business; Installation, maintenance and testing of power transmission, power supply and power receiving facilities; electrical installation services; construction engineering; construction engineering supervision (For projects subject to approval in accordance with the law, the company can only carry out business activities after approval by the relevant departments, and the specific business projects are subject to the approval documents or licenses of the relevant departments) (The company shall not engage in business activities of projects prohibited and restricted by the state and the city's industrial policy).

The Operation Company is a non-wholly owned subsidiary of China Huadian in which Chian Huadian holds 75% equity interests. Thus, the Operation Company is a connected person of the Company.

Information on the Target Companies

With reference to the Board Letter, the Target Companies are all limited liability companies established in the PRC, primarily engaged in the investment, development, operation and management of thermal power plant projects. Details of the beneficial owner(s) and ultimate beneficial owner(s) of each of the Target Companies are set out under the section headed "4. Information on the Target Companies" of the Board Letter.

Set out below are the audited financial information of the Target Companies for the two years ended 31 December 2023 and for 1H2024, as extracted from Appendix II to the Circular. Please refer to the Appendix II to the Circular for detailed financial information of the Target Companies and Appendix IV to the Circular for detailed management discussion and analyses of the Target Companies.

Jiangsu Huadian (combined audited financial information)

	For the six months ended 30 June 2024 *RMB'000*	**For the year ended 31 December 2023** *RMB'000*	**For the year ended 31 December 2022** *RMB'000*
Turnover	10,984,729	25,895,876	23,981,628
Net profit/(loss) before taxation	470,142	956,874	(2,575,169)
Net profit/(loss) after taxation	393,101	734,882	(2,522,887)

As illustrated in the above table, Jiangsu Huadian's turnover increased from approximately RMB23,981.6 million for FY2022 to approximately RMB25,895.9 million for FY2023, representing an increase of approximately 8.0%. As advised by the Directors, the aforesaid increase in turnover for FY2023 was primarily due to increase of turnover from the sale of electricity and sale of heat for FY2023.

Jiangsu Huadian recorded net profit of RMB734.9 million for FY2023 as opposed to net loss of RMB2,522.9 million for FY2022. This change was mainly attributable to increase in turnover as mentioned above and significant decrease in operating costs as a result of the significant decrease in average coal price to Jiangsu Huadian for FY2023.

As at 30 June 2024, Jiangsu Huadian recorded total assets and net assets of approximately RMB32,459.7 million and RMB10,412.3 million, respectively.

Shanghai Fuxin

	For the six months ended 30 June 2024 *RMB'000*	**For the year ended 31 December 2023** *RMB'000*	**For the year ended 31 December 2022** *RMB'000*
Turnover	62,514	146,859	90,947
Net profit before taxation	14,188	32,931	12,353
Net profit after taxation	10,495	24,721	8,908

As illustrated in the above table, Shanghai Fuxin's turnover increased from approximately RMB90.9 million for FY2022 to approximately RMB146.9 million for FY2023, representing an increase of approximately 61.5%. As advised by the Directors, the aforesaid increase in turnover for FY2023 was primarily due to increase of turnover from the sale of electricity for FY2023.

Shanghai Fuxin recorded significant increase in net profit from FY2022 to FY2023, which was mainly attributable to increase in turnover for FY2023.

As at 30 June 2024, Shanghai Fuxin recorded total assets and net assets of approximately RMB389.5 million and RMB202.8 million, respectively.

Shanghai Minhang

	For the six months ended 30 June 2024 *RMB'000*	For the year ended 31 December 2023 *RMB'000*	For the year ended 31 December 2022 *RMB'000*
Turnover	526,980	1,106,343	980,291
Net profit before taxation	41,507	32,092	34,836
Net profit after taxation	32,123	28,030	33,871

As illustrated in the above table, Shanghai Minhang's turnover increased from approximately RMB980.3 million for FY2022 to approximately RMB1,106.3 million for FY2023, representing an increase of approximately 12.9%. As advised by the Directors, the aforesaid increase in turnover for FY2023 was primarily due to the increase of turnover from the sale of electricity for FY2023.

Despite the increase in Shanghai Minhang's turnover for FY2023 as mentioned above, Shanghai Minhang recorded a substantial decrease of approximately 17.2% in net profit from FY2022 to FY2023, which was mainly attributable to the increase in operating expenses for FY2023 because of increase in fuel costs of Shanghai Minhang as a result of the increase in price of natural gas for FY2023. We understood from the Directors that the fuel costs and unit prices of the Target Companies are different depending on their fuel procurement plans and the impact of fluctuation in fuel prices are therefore different to all Target Companies, causing the different changes in Target Companies' fuel costs for FY2023 as compared to FY2022.

As at 30 June 2024, Shanghai Minhang recorded total assets and net assets of approximately RMB1,214.0 million and RMB397.0 million, respectively.

Guangzhou University City

	For the six months ended 30 June 2024 *RMB'000*	For the year ended 31 December 2023 *RMB'000*	For the year ended 31 December 2022 *RMB'000*
Turnover	249,657	502,233	392,160
Net profit before taxation	53,791	4,397	44,728
Net profit after taxation	45,565	2,561	33,715

As illustrated in the above table, Guangzhou University City's turnover increased from approximately RMB392.2 million for FY2022 to approximately RMB502.2 million for FY2023, representing an increase of approximately 28.1%. As advised by the Directors, the aforesaid increase in turnover for FY2023 was primarily due to the increase of turnover from the sale of electricity for FY2023.

Despite the increase in turnover of Guangzhou University City for FY2023 as mentioned above, Guangzhou University City recorded a significant decrease of 92.4% in net profit from FY2022 to FY2023, which was mainly attributable to the impairment loss on property, plant and equipment recognised during FY2023.

As at 30 June 2024, Guangzhou University City recorded total assets and net assets of approximately RMB690.8 million and RMB434.2 million, respectively.

Fuxin Guangzhou

	For the six months ended 30 June 2024 *RMB'000*	**For the year ended 31 December 2023** *RMB'000*	**For the year ended 31 December 2022** *RMB'000*
Turnover	1,451,052	3,441,242	3,116,126
Net profit before taxation	24,455	196,697	47,417
Net profit after taxation	22,727	148,550	34,099

As illustrated in the above table, Fuxin Guangzhou's turnover increased from approximately RMB3,116.1 million for FY2022 to approximately RMB3,441.2 million for FY2023, representing an increase of approximately 10.4%. As advised by the Directors, the aforesaid increase in turnover for FY2023 was primarily due to the increase of turnover from the sale of electricity for FY2023.

Fuxin Guangzhou recorded a significant increase in net profit from FY2022 to FY2023, which was mainly attributable to the increase in turnover for FY2023.

As at 30 June 2024, Fuxin Guangzhou recorded total assets and net assets of approximately RMB2,671.4 million and RMB860.4 million, respectively.

Fuxin Jiangmen

	For the six months ended 30 June 2024 *RMB'000*	**For the year ended 31 December 2023** *RMB'000*	**For the year ended 31 December 2022** *RMB'000*
Turnover	464,062	1,095,064	784,967
Net profit/(loss) before taxation	11,399	48,223	(74,984)
Net profit/(loss) after taxation	8,260	35,689	(56,081)

As illustrated in the above table, Fuxin Jiangmen's turnover increased from approximately RMB785.0 million for FY2022 to approximately RMB1,095.1 million for FY2023, representing an increase of approximately 39.5%. As advised by the Directors, the aforesaid increase in turnover for FY2023 was primarily due to the increase of turnover from the sale of electricity for FY2023.

Fuxin Jiangmen recorded net profit of approximately RMB35.7 million for FY2023 as opposed to net loss of approximately RMB56.1 million for FY2022, which was mainly attributable to the increase in turnover for FY2023.

As at 30 June 2024, Fuxin Jiangmen recorded total assets and net assets of approximately RMB986.6 million and RMB198.2 million, respectively.

Fuxin Qingyuan

	For the six months ended 30 June 2024 *RMB'000*	**For the year ended 31 December 2023** *RMB'000*	**For the year ended 31 December 2022** *RMB'000*
Turnover	30,902	6,562	Nil
Net loss before taxation	(20,443)	(35,525)	(201)
Net loss after taxation	(20,443)	(35,525)	(201)

As illustrated in the above table, Fuxin Qingyuan recorded turnover of RMB6.6 million for FY2023 and RMB30.9 million for 1H2024, which was mainly due to Fuxin Qingyuan's commencement of business operations from 2023 and subsequent optimisation of power generating units. Fuxin Qingyuan recorded net loss for the two years ended 31 December 2023.

As at 30 June 2024, Fuxin Qingyuan recorded total assets and net assets of approximately RMB624.0 million and RMB97.5 million, respectively.

Guigang Electric Power (combined audited financial information)

	For the six months ended 30 June 2024 *RMB'000*	**For the year ended 31 December 2023** *RMB'000*	**For the year ended 31 December 2022** *RMB'000*
Turnover	1,098,998	2,993,901	2,265,104
Net profit/(loss) before taxation	28,900	112,848	(450,012)
Net profit/(loss) after taxation	19,197	87,583	(391,550)

As illustrated in the above table, Guigang Electric Power's turnover increased from approximately RMB2,265.1 million for FY2022 to approximately RMB2,994.0 million for FY2023, representing an increase of approximately 32.2%. As advised by the Directors, the aforesaid increase in turnover for FY2023 was primarily due to increase of turnover from sale of electricity for FY2023.

Guigang Electric Power recorded net profit of approximately RMB87.6 million for FY2023 as compared to net loss of approximately RMB391.6 million for FY2022, which was mainly attributable to increase in turnover for FY2023.

As at 30 June 2024, Guigang Electric Power recorded total assets and net assets of approximately RMB2,699.8 million and RMB1,430.4 million, respectively.

Reasons for and benefits of the Transaction

Improvement of the Group's asset scale and financial positions

The Target Companies owned coal-fired generating units with installed capacity of 7,550 MW and gas-fired generating units with installed capacity of 8,422.8 MW. The total installed capacity in operation of the Target Assets to be injected into the Company is approximately 15,972.8 MW, representing 27.16% of the Company's existing controlled installed capacity of 58,815.32 MW as at 22 August 2024. Upon the completion of the Transaction, the Company's controlled installed capacity will significantly increase from 58,815.32 MW to 74,788.12 MW.

With reference to the Board Letter, by injecting high-quality thermal power assets into the Company, the value discovery mechanism of the capital market can be fully utilized to build a flagship listed company under China Huadian for conventional energy, contributing to the vital role of thermal power in ensuring the safe and stable operation of the power grid and energy supply security, thereby better serving the national energy security strategy.

Upon completion of the Transaction, the Target Companies will be consolidated into the Group's financial statements, enhancing the Group's asset scale and financial position. The Transaction will also help the Group to further improve the layout of its domestic conventional energy assets, broaden its sources of income and diversify overall business risks. The Transaction is a proactive initiative for the Company to improve the asset quality of the Company and enhance its sustainable development capability. The Transaction will further expand the business advantages and asset scope of the Group, effectively enhancing the Group's competitiveness and increasing its investment value in the capital market, ultimately creating benefits for all Shareholders.

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Importance of thermal power generation in the PRC

PRC economy

According to the National Bureau of Statistics of the PRC, the gross domestic products ("**GDP**") of the PRC during the last five full years grew continuously and reached approximately RMB126,058 billion in 2023, representing a compound annual growth rate ("**CAGR**") of approximately 6.3% for the corresponding period.

From 2019 to 2023, in line with the continuous development of national economy, the PRC's disposable income per capita grew from approximately RMB30,733 in 2019 to approximately RMB39,218 in 2023, representing a CAGR of approximately 6.3%.

Set out below are GDP and disposable income per capita of the PRC from 2019 to 2023 according to the National Bureau of Statistics of the PRC:

	2019	**2020**	**2021**	**2022**	**2023**
GDP *(RMB' billion)*	98,652	101,357	114,924	120,472	126,058
Year-on-year growth rate	*7.3%*	*2.7%*	*13.4%*	*4.8%*	*4.6%*
Year-on-year growth rate without taking into account price impact (Note)	*6.0%*	*2.2%*	*8.4%*	*3.0%*	*5.2%*
Disposable income per capita *(RMB)*	30,733	32,189	35,128	36,883	39,218
Year-on-year growth rate	*8.9%*	*4.7%*	*9.1%*	*5.0%*	*6.3%*

Note: Year-on-year growth rate without taking into account price impact (which could be led by inflation/deflation) was based on GDP at constant prices. As GDP at constant price is converted from GDP based on the current price into a value based on the price of certain base period (i.e., 1952, 1957, 1970, 1980, 1990, 2000, 2005, 2010, 2015 and 2020), there are two figures for the base switching years (i.e. one based on former base year prices and one based on new base year prices). The year-on-year growth rate of GDP at constant price for 2021 was calculated based on GDP at constant price for 2021 and 2020 (based on current base year, i.e. 2020).

Electricity consumption in the PRC

Set out below are the electricity consumption in the PRC and the clean energy consumption (such as gas-fired power, hydropower, nuclear power and wind power) as a percentage of total electricity consumption during the five years ended 31 December 2023, being the latest five full-year statistics published by the China Electricity Council and the National Bureau of Statistics of the PRC:

	2019	**2020**	**2021**	**2022**	**2023**
Electricity consumption in the PRC *(million MWh)*	7,225.5	7,511.0	8,312.8	8,637.2	9,224.1
Clean energy consumption to total electricity consumption	23.3%	24.3%	25.5%	26.0%	26.4%

As shown in the table above, the electricity consumption in the PRC recorded year-on-year increase during each of the five years ended 31 December 2023. The electricity consumption in the PRC increased from approximately 7,255.5 million MWh in 2019 to approximately 9,224.1 million MWh in 2023, representing a CAGR of approximately 6.3%. The electricity consumption in PRC in 2023 represented a year-on-year increase of approximately 6.7% and in each quarter of 2023 increased by approximately 3.6%, 6.4%, 6.6% and 10.0% respectively, mainly affected by factors such as the recovery of the domestic economy of the PRC.

Furthermore, the clean energy consumption in the PRC (i.e. gas-fired power, hydropower, nuclear power, wind power and photovoltaic power) as a percentage of total electricity consumption also recorded year-on-year increase during the corresponding period. Such percentage increased from approximately 23.3% in 2019 to approximately 26.4% in 2023.

Electricity generated in the PRC

Set out below are the electricity generated in the PRC during the five years ended 31 December 2023, being the latest five full-year statistics published by the National Bureau of Statistics of the PRC:

	2019	**2020**	**2021**	**2022**	**2023**
Electricity generated in the PRC *(million MWh)*	7,503.4	7,779.1	8,534.3	8,848.7	9,456.4

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As shown in the table above, the electricity generated in the PRC recorded year-on-year increase during each of the five years ended 31 December 2023. The electricity generated in the PRC increased from approximately 7,503.4 million MWh in 2019 to approximately 9,456.4 million MWh in 2023, representing a CAGR of approximately 6.0%. The electricity generated in the PRC is generally in line with the electricity consumption in PRC during the corresponding period.

The electricity generated in the PRC was approximately 9,456.4 million MWh in 2023, among which, electricity generated (i) by thermal power was approximately 6,265.7 million MWh (accounting for approximately 66.3% of national electricity generation); (ii) by solar power was approximately 584.2 million MWh (accounting for approximately 6.2% of national electricity generation); and (iii) by wind power was approximately 885.9 million MWh (accounting for approximately 9.4% of national electricity generation). Electricity generated by thermal power accounted for the largest proportion of the national electricity generation in 2023.

Total installed power generation capacity in the PRC

Set out below are the total installed power generation capacity in the PRC and the proportion of different types of installed power generation capacity from as at end of 2019 to 2023, being the latest five full-year statistics published by the National Bureau of Statistics of the PRC:

	2019	**2020**	**2021**	**2022**	**2023**
Total installed power generation capacity in the PRC *(MW)*	2,010,660	2,200,580	2,376,920	2,564,050	2,919,650
Proportion of different types of installed power generation capacity:					
Thermal power	59.2%	56.6%	54.6%	52.0%	47.6%
Hydropower	17.7%	16.8%	16.5%	16.2%	14.4%
Nuclear power	2.4%	2.3%	2.2%	2.2%	1.9%
Wind power	10.5%	12.8%	13.8%	14.3%	15.1%
Photovoltaic power	10.2%	11.5%	12.9%	15.3%	20.9%

As shown in the table above, the total installed power generation capacity in the PRC recorded year-on-year increase during each of the five years ended 31 December 2023. The total installed power generation capacity in the PRC increased from approximately 2.0 million MW in 2019 to approximately 2.9 million MW in 2023, representing a CAGR of approximately 9.8%.

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Furthermore, the installed renewable energy generation capacity in the PRC (i.e. hydropower, wind power and photovoltaic power) as a percentage to the total installed power generation capacity increased from approximately 38.4% in 2019 to approximately 50.4% in 2023, representing an increase of approximately 12.0 percentage points.

As of the end of 2023, the national electricity installed capacity was approximately 2.9 million MW in total, representing a year-on-year increase of approximately 13.9%, among which, the capacity of thermal power generation was approximately 1.4 million MW, accounting for approximately 47.6% of the total installed capacity and representing a year-on-year increase of approximately 4.1%; the capacity of on-grid solar power generation was approximately 0.6 million MW, accounting for approximately 20.9% of the total installed capacity and representing a year-on-year increase of approximately 55.2%; the capacity of on-grid wind power generation was approximately 0.4 million MW, accounting for approximately 15.1% of the total installed capacity, representing a year-on-year increase of approximately 20.7%. Although the installed capacity of wind power generation and solar power generation recorded substantial increases for 2023 as compared to 2022, thermal power generation remained as the largest power generation units in terms of installed capacity as at end of each of five years ended 31 December 2023.

Related guidance and our conclusion

We noted that the PRC has successively introduced a series of new policies and rules in order to accelerate the construction of a new power system and the PRC's energy structure is swiftly shifting towards green, low-carbon adjustments; coal-fired generating units face an increasing trend of low utilization hours, low-load operation and low power growth. We noted that the Guiding Opinions on Energy Development for 2024* (《2024年能源工作指導意見》, the "**2024 Guiding Opinion**"), which was released by the National Energy Administration in March 2024, pointed out (i) the improvement of the stability regulation capability of the power system; (ii) the proposed issuance and implementation policy for the transformation and development of coal-fired power plants; and (iii) the acceleration of the construction of coal-fired power projects in provinces with high power supply pressure.

Despite that the PRC's energy structure is shifting towards green and low-carbon adjustments, in view of (i) the continuous growth in electricity consumption in the PRC; (ii) the electricity generated by thermal power still accounted for the largest proportion of the national electricity generation in recent years; and (iii) thermal power generation remained as the largest power generation units in terms of installed capacity as at end of each of five years ended 31 December 2023 and recorded year-on-year growth during the corresponding period, we concur with the Directors that thermal power generation is and will continue to be important to the PRC national electricity generation.

Possible reduction of business competition between the Group and China Huadian

Based on the letters of undertaking on relevant matters for avoidance of business competition issued by China Huadian to the Company in March 2021, China Huadian (i) shall treat the Company as the ultimate integration platform for its conventional energy-based electricity generation assets and as its core enterprise for developing conventional energy based electricity generation business; and (ii) will inject non-listed conventional energy-based electricity generation assets which fulfil the conditions of asset injections into the Company within three years after such assets fulfilling the conditions of asset injections. As confirmed by the Directors, the Target Companies fulfil conditions of asset injections based on their understanding. In addition, as the conventional energy installed capacity of the Target Companies accounted for approximately 25.09% of unlisted conventional energy installed capacity of China Huadian as at end of 2023, the Transaction may also reduce business competition between the Group and China Huadian.

Our conclusion on the reasons for and benefits of the Transaction

Having considered the above, including (i) the Company's controlled installed capacity will significantly increase from 58,815.32 MW to 74,788.12 MW upon the completion of the Transaction; (ii) the Transaction will further expand the business advantages and asset scope of the Group, effectively enhancing the Group's competitiveness and increasing its investment value in the capital market, and ultimately creating benefits for the Shareholders; (iii) thermal power generation is and will continue to be important to the PRC national electricity generation; and (iv) the Transaction may reduce business competition between the Group and China Huadian, we consider that although the Transaction is not conducted in the ordinary and usual course of business of the Group, the Transaction is in the interests of the Company and the Shareholders as a whole.

Principal terms of the Transaction

Set out below is the principal terms of the Transaction, details of which are set out under the section headed "1. Principal terms of the Asset Purchase Agreements (as supplemented by the Supplemental Agreements)" of the Board Letter.

Date

1 August 2024 (as supplemented by the Supplemental Agreements dated 30 October 2024)

Parties and the Target Assets

Asset Purchase Agreement I (as supplemented by Supplemental Agreement I):

(1) Company (as the purchaser); and

(2) China Huadian (as the Seller).

Target Asset I: 80% equity interests in Jiangsu Huadian

Asset Purchase Agreement II (as supplemented by Supplemental Agreement II):

(1) Company (as the purchaser); and

(2) Huadian Furui (as the Seller).

Target Asset II: 51% equity interests in Shanghai Fuxin, 100% equity interests in Shanghai Minhang, 55.0007% equity interests in Guangzhou University City, 55% equity interests in Fuxin Guangzhou, 70% equity interests in Fuxin Jiangmen, 100% equity interests in Fuxin Qingyuan

Asset Purchase Agreement III (as supplemented by Supplemental Agreement III):

(1) Company (as the purchaser); and

(2) Operation Company (as the Seller).

Target Asset III: 100% equity interests in Guigang Electric Power

Consideration and payment method

Supplemental Agreement I:

RMB3,428.3 million for Target Assets I, by way of issuance of the Consideration Shares.

Supplemental Agreement II:

RMB1,900.6 million for Target Assets II (subject to the Target Assets II Potential Capital Adjustment), by way of cash payment.

Supplemental Agreement III:

RMB1,837.7 million for Target Assets III (subject to the Target Assets III Potential Capital Adjustment), by way of cash payment.

With reference to the Board Letter, the considerations were determined by the parties to the Asset Purchase Agreements (as supplemented by the Supplemental Agreements) through negotiation based on the appraisal results of the Target Companies as at the Appraisal Benchmark Date (the "**Asset Appraisal**") in the Asset Appraisal Reports issued by CAA and CEA. The consideration for Target Assets I was further adjusted by deducting the value of perpetual capital securities attributable to Target Assets I of RMB3,840.0 million; the consideration for Target Assets II shall be adjusted by the Target Assets II Potential Capital Adjustment of an amount not exceeding RMB250.0 million to be paid by Huadian Furui into the registered paid-up capital/capital reserves of Fuxin Qingyuan during the Transition Period; and the consideration for Target Assets III shall be adjusted by the Target Assets III Potential Capital Adjustment of an amount not exceeding RMB350.0 million to be paid by the Operating Company into the registered paid-up capital/capital reserves of Guigang Electric Power during the Transition Period, of which RMB160.0 million was paid by Operation Company into the capital reserves of Guigang Electric Power on 30 October 2024.

Asset Appraisal

As the considerations were based on, among other things, the appraisal values of the Target Companies, we obtained and reviewed the Asset Appraisal Reports prepared by CAA and CEA.

For our due diligence purpose, we have (i) obtained and reviewed the qualification, experience and expertise of each of CAA and CEA in relation to the preparation of their respective Asset Appraisal Reports; (ii) enquired CAA's and CEA's current and prior relationship with the Group, the Sellers and the Target Companies; (iii) reviewed the terms of CAA's and CEA's engagements in respect of the appraisal of the Target Companies; (iv) discussed with CAA and CEA the steps and due diligence measures taken by each of CAA and CEA for preparing the Asset Appraisal Reports; and (v) discussed with both CAA and CEA regarding the bases, methodology and assumptions adopted in the Asset Appraisal Reports.

Qualification and independence

We performed due diligence on the qualification of both CAA and CEA and their competency and experience of the persons in charge of the Asset Appraisal Reports. We have conducted reasonable checks to assess the relevant qualification, experience and expertise of CAA and CEA, including reviewing the supporting documents on the qualification of CAA and CEA and discussing with CAA and CEA on their qualifications and experience. Based on the information provided by CAA and CEA, we noted that:

- Both CAA and CEA are entities registered as asset appraisal institution with the China Appraisal Society, with the approval from the Ministry of Finance of the PRC and the CSRC to carry out securities and futures related appraisal activities.

- The signatories of CAA are registered as public valuers under China Appraisal Society and both have over 10 years of experience in providing assets, enterprises and properties valuation services to listed companies in the PRC.

- The signatories of CEA are registered as public valuers under China Appraisal Society, one with over 10 years of and the other one with over five years of experience in providing assets, enterprises and properties valuation services to listed companies in the PRC.

We also enquired into both CAA and CEA as to their independence to the Group, the Sellers and the Target Companies and we were given the understanding that both CAA and CEA are independent third parties of the Group, the Sellers and the Target Companies. As also confirmed by both CAA and CEA, both of them were not aware of any relationship or interest between itself and the Group or any other parties that would reasonably be considered as hindrance to its independence to act as the asset appraisers.

Based on the above, we are of the opinion that each of CAA and CEA is suitably qualified and experienced with sufficient knowledge, skills and understanding necessary to prepare the Asset Appraisal Reports competently and the personnel engaged in the Asset Appraisal Reports meet the regulatory requirements which apply in the circumstances in which the Asset Appraisal Reports is required.

Furthermore, we reviewed and noted from the engagement letter among the Company, the Sellers, and CAA/CEA, that the scope of work of CAA/CEA is appropriate to form the opinion required to be given and there was no limitation on the scope of work which might adversely impact the degree of assurance given by CAA/CEA in the Asset Appraisal Reports.

From the engagement letter and other relevant information provided by each of CAA and CEA, we are satisfied with the terms of engagement of both CAA and CEA, and their qualification and independence for the preparation of the Asset Appraisal Reports.

Methodology

We noted from the Asset Appraisal Reports that the Asset Appraisal Reports were prepared in accordance with various requirements and standards, including the Asset Evaluation Standards – Basic Standards* (《資產評估基本準則》) (the "**Valuation Standards**") issued by the Ministry of Finance of the PRC. According to the Valuation Standards, the applicability of each fundamental valuation approaches of assets valuation, namely income approach, market approach and asset-based approach, should be analysed and selected by the asset appraiser.

In preparing the Asset Appraisal Reports, both CAA and CEA concluded the Asset Appraisal using asset-based approach. We noted from the Asset Appraisal Reports that in assessing the Asset Appraisal, both CAA and CEA considered each of the fundamental valuation approaches and we understood that:

- Asset-based approach refers to the valuation of each individual identifiable asset and liabilities of the valuation subject to determine the value of the valuation subject on the accounting principle of "assets minus liabilities". As both on- and off-balance sheets' assets and liabilities of the Target Companies can be identified, with appropriate methods to assess their value individually, asset-based approach is applicable for the Asset Appraisal.

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- Income approach refers to the discount or capitalisation of the valuation subject's expected income to determine the value of valuation subject. As each of the Target Companies (other than Fuxin Qingyuan) have independent profitability with installed power generation capacity and the management of the Target Companies are able to provide future profit forecasts that are formulated based on forecast data and corresponding other relevant evaluation parameters of the appraised entity. Therefore, income approach is applicable for the Asset Appraisal (except for the appraisal of Fuxin Qingyuan as its power generation units are still under construction or under test-run stage).

- Market approach evaluates the current fair market value of an asset using comparable items in the market. However, due to significant differences in business structure, operating model, scale, asset allocation and usage, growth stage, growth potential, operating risk, and financial risk among listed companies in the same industry, and the lack of recent comparable transactions, acquisitions, and mergers, as well as limited access to transaction information in the domestic property rights market, it is difficult to obtain reliable and comparable transaction data. Therefore, the market approach is not applicable for the Asset Appraisal.

Despite that both asset-based approach and income approach are applicable for the Asset Appraisal (except for the appraisal of Fuxin Qingyuan which income approach was not applicable), both CAA and CEA concluded their respective Asset Appraisal using asset-based approach on the basis that the PRC electricity market is undergoing reform with continuous improvement in relevant industry policies and market development, which may considerably influence the operational performance of companies operate within the electricity industry, leading to considerable uncertainties in the future earnings of the Target Companies.

Given that (i) the Target Companies operate in the power generation industry, which is capital-intensive; and (ii) although the appraisal results of the Target Companies under income approach are arrived by both CAA and CEA after considering, among other things, the prevailing internal and external factors that affect the operating environment of the Target Companies, the PRC electricity market is undergoing reform with various policies issued, which could directly affect the future development of the PRC electricity market, we are of the view that the use of asset-based approach to conclude the Asset Appraisal is appropriate.

Bases and assumptions

Summarised below are the book value and appraisal value of each Target Companies as at the Appraisal Benchmark Date, showing their respective appreciation or depreciation in value under the categories of (i) current assets; (ii) non-current assets; and (iii) liabilities:

	Book value *RMB'000*	Appraisal value *RMB'000*	Appreciation/ (depreciation) *RMB'000*
Jiangsu Huadian	7,001,353.0	9,085,324.3	2,084,035.9
Including:			
– Current assets	5,187,569.0	5,187,569.0	Nil
– Non-current assets	10,568,514.3	12,644,770.1	2,076,255.8
– Liabilities	8,754,730.3	8,747,014.8	(7,715.5)
Shanghai Fuxin	202,815.1	257,965.3	55,150.2
Including:			
– Current assets	44,527.3	44,526.7	(0.6)
– Non-current assets	345,018.5	384,109.4	39,090.9
– Liabilities	186,730.7	170,670.8	(16,059.9)
Shanghai Minhang	397,018.6	637,657.5	240,638.9
Including:			
– Current assets	142,435.5	142,436.2	0.7
– Non-current assets	1,071,652.1	1,236,215.3	164,563.2
– Liabilities	817,069.0	740,994.0	(76,075.0)
Guangzhou University City	434,205.2	530,700.8	96,495.6
Including:			
– Current assets	109,523.2	109,551.0	27.8
– Non-current assets	590,215.8	686,683.6	96,467.8
– Liabilities	265,533.8	265,533.8	Nil
Fuxin Guangzhou	860,364.7	1,012,011.8	151,647.1
Including:			
– Current assets	651,657.8	651,687.0	29.2
– Non-current assets	2,019,777.8	2,170,801.4	151,023.6
– Liabilities	1,811,070.9	1,810,476.6	(594.3)
Fuxin Jiangmen	198,170.6	237,550.2	39,379.6
Including:			
– Current assets	226,917.5	226,906.9	(10.6)
– Non-current assets	759,782.8	799,173.0	39,390.2
– Liabilities	788,529.7	788,529.7	Nil
Fuxin Qingyuan	97,471.5	116,584.3	19,112.8
Including:			
– Current assets	39,287.8	39,287.8	Nil
– Non-current assets	584,686.3	603,799.1	19,112.8
– Liabilities	526,502.6	526,502.6	Nil

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	Book value	Appraisal value	Appreciation/ (depreciation)
	RMB'000	*RMB'000*	*RMB'000*
Guigang Electric Power	1,230,941.9	1,837,692.8	606,750.9
Including:			
– Current assets	540,031.1	540,037.7	6.6
– Non-current assets	1,875,694.1	2,479,169.1	603,475.0
– Liabilities	1,184,783.3	1,181,514.0	(3,269.3)

Note: The figures were rounded to the nearest thousand.

1. Current assets

We noted from the Asset Appraisal Reports that the current assets of the Target Companies primarily consist of cash and bank balances, trade and other receivables, prepayments, entrustment loans and inventories (the appraisal values of which accounted for over 99% of the total current assets of the Target Companies in aggregate).

In arriving at the appraisal values of the current assets, both CAA and CEA had (a) conducted physical inspection of the current assets physically held by the Target Companies (such as inventories and cash balances); (b) verified the existence and accuracy of the current assets by obtaining confirmation letters; and (c) assessed their recoverability by conducting aging analysis.

Having considered the verification work conducted by both CAA and CEA, we are of the view that the approach adopted by CAA and CEA in arriving at the appraisal values of the current assets are fair and reasonable.

2. Non-current assets

We noted from the Asset Appraisal Reports that the non-current assets of the Target Companies primarily consist of fixed assets, land use rights and long-term equity investments (the appraisal values of which accounted for approximately 98% of the total non-current assets of the Target Companies in aggregate).

2(a). Fixed assets

In arriving at the appraisal values of the fixed assets (including construction in progress), both CAA and CEA had adopted the replacement costs method or the market comparison method, depending on their applicability to each individual fixed asset.

For our due diligence purpose, we reviewed illustrations of the valuation process for 43 individual fixed assets of the Target Companies, which were provided by both CAA and CEA. As the appraisal values of the aforesaid illustrations accounted for approximately 21% of all fixed assets held by the Target Companies in aggregate and covered all methods adopted in the Target Companies fixed assets' appraisal, we consider the illustrations are sufficient for our understanding and analysis purposes. We noted from the aforesaid illustrations that:

- For structures, factory buildings, construction in progress and certain machineries that are designed specific to the Target Companies' needs ("**Specific Use Assets**"), both CAA and CEA had (1) obtained the original construction costs of such buildings; (2) adjusted the original construction costs with reference to the Budget Quota for Electric Power Construction Projects – Construction Projects* (《電力建設工程預算定額–建築工程》) (the "**Budget Quota**") published by the National Energy Administration of the PRC, Thermal Power Generation Projects' Construction Budget Preparation and Calculation Standards* (《火力發電工程建設預算編製與計算標準》) (the "**Construction Budget Standards**") as published by the publishing company of the State Grid Corporation of China and the Construction Project Price Information* (《建設工程價格信息》) (the "**Construction Price Information**") as published by the Commission of Housing and Urban-rural Development of the relevant city or province of which the relevant assets is located or situated; (3) taken into account the cost of capital and relevant taxes based on prevailing interest and tax rates as at the Appraisal Benchmark Date; and (4) applied discount with the composite newness rates that are determined with reference to their remaining useful lives, structural and functionality status as at the Appraisal Benchmark Date.

- For other buildings, both CAA and CEA had (1) obtained information of three recent listing of properties or completed property transactions that are comparable to and located in similar region as the subject building ("**Comparable Properties**"); and (2) made adjustment based on factors such as difference in floor areas, age, intended use, number of storeys, listing or transaction date, transportation convenience and decoration status.

- For other machineries and equipment with general usage (together with other buildings, the "**Generic Use Assets**"), both CAA and CEA had obtained information of recent listing of the same or similar items ("**Comparable Machineries**") and adjusted based on their age and functional conditions.

To assess the fairness and reasonableness of the valuation inputs and assumptions used by both CAA and CEA:

- We have verified the original construction costs of all fixed assets based on the financial information as contained in the audited report of the Target Companies prepared under China Accounting Standards for Business Enterprises, which were published on the SSE website and the Hong Kong Stock Exchange website.

- We have reviewed the Budget Quota, the Construction Budget Standards and the Construction Price Information and noted that such publication were intended to standardise and stipulate the construction costs of power generation projects (including thermal power projects), covering various aspects such as thermal system, fuel supply system, electrical system, thermal control system desulfurization and denitrification systems, based on the planned installed capacity and the construction location.

- We have verified the cost of capital and relevant tax rates adopted in arriving at the adjusted construction costs of the Specific Use Assets based on the prevailing loan prime rate as published by the People's Bank of China and the prevailing applicable tax rates as published by the State Taxation Administration of the PRC.

- We have reviewed the listing information of the Comparable Properties and the Comparable Machineries and noted that (i) the Comparable Properties are located in the same district as the subject properties with the same designated usage; (ii) the Comparable Machineries had the same functionality as the subject machineries. We consider the criteria for selecting the Comparable Properties and the Comparable Machineries are suitable and they are fair and representative samples for the purpose of assessing the appraisal values of the Generic Use Assets.

- We have reviewed the calculation of the composite newness rates of the Specific Use Assets and the adjustment factors of the Comparable Properties and Comparable Machineries. We noted that the adjustments made to the prices of the Comparable Properties and the Comparable Machineries are in accordance to their difference in adjustment factors to that of the Generic Use Assets. Given that the composite newness rates and the adjustment factors cover both quantitative (such as construction or transaction dates, floor area, number of storeys and age) and qualitative (such as intended use, functionality and decoration status) factors, we do not doubt the adjustment factors adopted for the purpose of assessing the appraisal values of the Specific Use Assets and the Generic Use Assets.

Based on our review on the valuation illustrations and our assessment on the valuation inputs and assumptions adopted, we consider the approaches adopted by CAA and CEA and their assumptions used are fair and reasonable.

2(b). Land use rights

In arriving at the appraisal values of the land use rights, CAA and CEA had primarily adopted the market comparison method and the benchmark price coefficient correction method, and adopted the weighted average of the appraisal results under both methods. Under market comparison method, the appraisal values of the land use rights are determined with reference to the transfer price of land use rights with same designated usage; and under benchmark price coefficient correction method, the appraisal values of land use rights are determined with reference to the benchmark price of land with same designated usage as published by the local government authority which the subject land is located, adjusted based on the specific characteristics of the subject land.

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For our due diligence purpose, we reviewed illustrations of the valuation process for seven land use rights of the Target Companies, which were provided by both CAA and CEA. We noted from the aforesaid illustration that except for one land use right that CEA adopted the book value of the Exceptional Land (the "**Exceptional Land**") as its appraisal value, the other six land use rights were valued by CAA and CEA using the weighted average of the market comparison method and the benchmark price coefficient correction method. As the appraisal values of the aforesaid illustrations accounted for approximately 58% of all land use rights held by the Target Companies in aggregate, we consider the illustrations are sufficient for our understanding and analysis purposes. We noted from the aforesaid illustrations (except for the Exceptional Land) that both CAA and CEA had (i) obtained information on three transfer of land use rights transactions ("**Comparable Lands**") and the relevant benchmark price of lands with the same designated usage and located in similar region as the subject land; and (ii) made adjustment based on factors such as difference in transaction dates, floor areas, shape of the parcel of lands, road connectivity, terrain and ground endurance, development status and restrictions, and remaining useful lives.

We noted that the Comparable Lands were selected based on (i) the timing of the relevant transfer, being within three years from the Appraisal Benchmark Date; (ii) the location of the Comparable Lands, being within the same district as the underlying land of the land use rights subject to the Asset Appraisal; and (iii) the designated usage of the Comparable Lands, being industrial use. We consider the aforesaid criteria are suitable to identify the Comparable Lands and thus the Comparable Lands are fair and representative samples for the purpose of assessing the appraisal values of the land use rights.

We have also reviewed the calculation of the price adjustments of the Comparable Lands and noted that the adjustments made are in accordance to their difference in adjustment factors to that of the subject land. Given that the adjustment factors cover both quantitative (such as transaction dates, floor areas and remaining useful lives) and qualitative (such as shape of the parcel of lands, road connectivity, terrain and ground endurance, development status and restrictions) factors, we do not doubt the adjustment factors adopted for the purpose of assessing the appraisal values of the land use rights.

We further discussed with CEA in respect of the Exceptional Land and understood that the Exceptional Land is designated for public facilities which has been developed. Based on our discussion with CEA, we noted that CEA had assessed the applicability of all valuation methods for land use right, such as market comparison method, residual earning method, hypothetical development method, cost approximation method and benchmark price coefficient correction method, and considered each of the aforesaid valuation methods to be inapplicable on the basis that:

- There were no comparable transactions for public facilities land in the three years prior to the Appraisal Benchmark Date, market comparison method is not applicable.

- There is no mature leasing market for public facilities land in the relevant area of which the Exceptional Land is situated and thus it is difficult to accurately value the Exceptional Land using residual earning method.

- The Exceptional Land is not part of a real estate development project and thus the hypothetical development method is not applicable.

- There has been no land expropriation within the same region in the three years prior to the Appraisal Benchmark Date as the Exceptional Land and thus the cost approximation method (which is to stimulate the cost from land expropriation and land reservation by local government) was not applicable.

- As the original acquisition costs of the Exceptional Land do not match the benchmark price for public facilities land, benchmark price coefficient correction method is not applicable.

Given that all valuation methods for land use rights were not applicable, CEA adopted the book value of the Exceptional Land as its appraisal value.

To further assess the fairness and reasonableness of the appraisal value of the Exceptional Land, we enquired into CEA regarding the basis for concluding the appraisal value of the Exceptional Land using its book value. We understood from CEA that they considered the use of the book value of the Exceptional Land as its appraisal value to be reasonable on the basis that CEA is able to identify the listing (掛牌) of a cultural facilities land with similar floor area in 2023 and noted the listing price of such cultural facilities land (in terms of price per square meter) was not less than the original acquisition costs of the Exceptional Land. On the basis of the foregoing (including the reasons for inapplicability of all valuation methods for land use right and listing price of the cultural facilities land), we do not doubt the reasonableness of the appraisal value of the Exceptional Land.

Based on our review on the valuation illustrations and our assessment on the valuation inputs and assumptions adopted, we consider the approaches adopted by CAA and CEA and their assumptions used are fair and reasonable.

2(c). Long-term equity investments

We noted from the Asset Appraisal Reports that the Target Companies has 27 investee companies accounted for as long-term equity investments (the "**Investee Companies**"). In arriving at the appraisal value of the Investee Companies, CAA and CEA had considered each of the fundamental valuation approaches (i.e., asset-based approach, income approach and market approach) and concluded the valuation of the Investee Companies under asset-based approach on the same basis as the Target Companies as detailed under the sub-section headed "Methodology" above. We consider the adoption of asset-based approach for the Investee Companies to be appropriate on the basis that the Investee Companies also operate with the thermal power industry and are exposed to the same macroeconomic factors as those of the Target Companies.

For our due diligence purpose, we have reviewed the valuation process of each Investee Companies. We noted that (1) the current assets of the Investee Companies primarily consist of trade and other receivables, and cash and bank balances; (2) the non-current assets of these Investee Companies primarily consist of fixed assets (including construction in progress) and land use rights; (3) the liabilities of the Investee Companies primarily consist of bank and other

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borrowings, trade and other payables, contracted liabilities and deferred income; and (4) the increase in appraisal values of the long-term equity investments was primarily due to increase in appraisal values of the Investee Companies' fixed assets (including construction in progress) and land use rights.

In arriving at the appraisal values of the aforesaid individual assets and liabilities, both CAA and CEA adopted the same valuation bases and assumptions as those underlying the valuation of the Target Companies, which we considered to be fair and reasonable.

Based on our review on the valuation process of the Investee Companies, we consider the approaches adopted by CAA and CEA and their assumptions used are fair and reasonable.

3. Liabilities

We noted from the Asset Appraisal Reports that the liabilities of the Target Companies consist of bank and other borrowings, trade and other payables, tax payables, contracted liabilities, lease liabilities, deferred income and deferred tax liabilities.

In arriving at the appraisal values of the liabilities, both CAA and CEA had verified the existence and accuracy of such liabilities by reviewing the relevant accounting records, documents and invoices and by obtaining confirmation letters.

We noted the differences between the book values and appraisal values of the liabilities of the Target Companies were all attributed by the depreciation of their government subsidies under deferred income. Both CAA and CEA had reviewed the relevant subsidies documents and confirmed that the Target Companies would not have future repayment obligations in respect of these government subsidies.

Having considered the verification work conducted by both CAA and CEA, we are of the view that the approach adopted by CAA and CEA in arriving at the appraisal values of the liabilities are fair and reasonable.

Given that (i) each of the three commonly adopted valuation approaches were considered by both CAA and CEA before concluding the Asset Appraisal using asset-based approach; (ii) market approach was not applicable for the Asset Appraisal; and (iii) the rationale for not concluding the Asset Appraisal by using income approach, we did not cross-check the results of the Asset Appraisal using other methodologies.

During our discussion with both CAA and CEA, we have not identified any major factor which caused us to doubt the reasonableness of the assumption used in the Asset Appraisals.

Summarised below are the appraisal values of the Target Companies as at the Appraisal Benchmark Date, the percentage of equity interest represented by the Target Assets and the consideration for the Target Assets:

Target Companies	Appraisal value *RMB million*	Equity interest sought	Consideration *RMB million*
Jiangsu Huadian	9,085.3	80%	3,428.3 *(Note 1)*
Shanghai Fuxin	258.0	51%	131.6
Shanghai Minhang	637.7	100%	637.7
Guangzhou University City	530.7	55.0007%	291.9
Fuxin Guangzhou	1,012.0	55%	556.6
Fuxin Jiangmen	237.6	70%	166.3
Fuxin Qingyuan	116.6	100%	116.6
Guigang Electric Power	1,837.7	100%	1,837.7 *(Note 2)*

Notes:

1. Adjusted for the value of perpetual capital securities of RMB3,840.0 million attributable to Target Assets I.

2. Upward adjusted to RMB1,997.7 million as a result of RMB160.0 million paid by the Operation Company into the capital reserve of Guigang Electric Power on 30 October 2024.

Having considered that

(i) the consideration for the Target Asset I represents (a) the appraisal value of Jiangsu Huadian after taking into account equity interests of Jiangsu Huadian to be acquired by the Company and having excluded the value of perpetual capital securities attributable to Target Assets I of RMB3,840.0 million; and (b) Jiangsu Huadian's perpetual capital securities amounted to RMB4,800.0 million as at 30 June 2024, 80% of which amounted to RMB3,840.0 million; and

(ii) the consideration for both the Target Asset II and Target Assets III represents the appraisal value of relevant Target Companies after taking into account equity interests of such Target Companies to be acquired by the Company,

we are of the opinion that the consideration for each of the Target Assets I, Target Assets II and Target Assets III is fair and reasonable.

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The Issue Price

With reference to the Board Letter, the issue price is RMB5.05 per A Share, which was adjusted from the initial issue price of RMB5.13 per A Share (the "**Initial Issue Price**") having taking into account the Company's distribution of 2024 interim dividend of RMB0.08 per A Share (tax inclusive). The issue price of HK$5.05 per A Share represents:

(i) a discount of approximately 11.40% to the closing price of RMB5.70 per A Share as quoted on the SSE as at the Latest Practicable Date; and

(ii) a discount of approximately 7.68% to the closing price of RMB5.47 per A Share as quoted on the SSE as at the date of the Supplemental Agreements.

To assess the fairness and reasonableness of the issue price of RMB5.05 per A Share, we analysed the Initial Issue Price and adjustment mechanism respectively.

Initial Issue Price

The Initial Issue Price of RMB5.13 per A Share represents:

(i) a discount of approximately 13.49% to the closing price of RMB6.08 per A Share as quoted on the SSE on the last trading day immediately preceding the Pricing Benchmark Date, less the annual dividend for FY2023 of RMB0.15 per A Share ("**2023 Final Dividend**");

(ii) a discount of approximately 13.49% to the average closing price of RMB6.08 per A Share as quoted on the SSE for the last five trading days prior to the Pricing Benchmark Date, less the 2023 Final Dividend;

(iii) a discount of approximately 20.71% to the average closing price of RMB6.62 per A Share as quoted on the SSE for the last 20 trading days prior to the Pricing Benchmark Date, less the 2023 Final Dividend;

(iv) a discount of approximately 22.39% to the average closing price of RMB6.76 per A Share as quoted on the SSE for the last 60 trading days prior to the Pricing Benchmark Date, less the 2023 Final Dividend; and

(v) a discount of approximately 20.22% to the average closing price of RMB6.58 per A Share as quoted on the SSE for the last 120 trading days prior to the Pricing Benchmark Date, less the 2023 Final Dividend.

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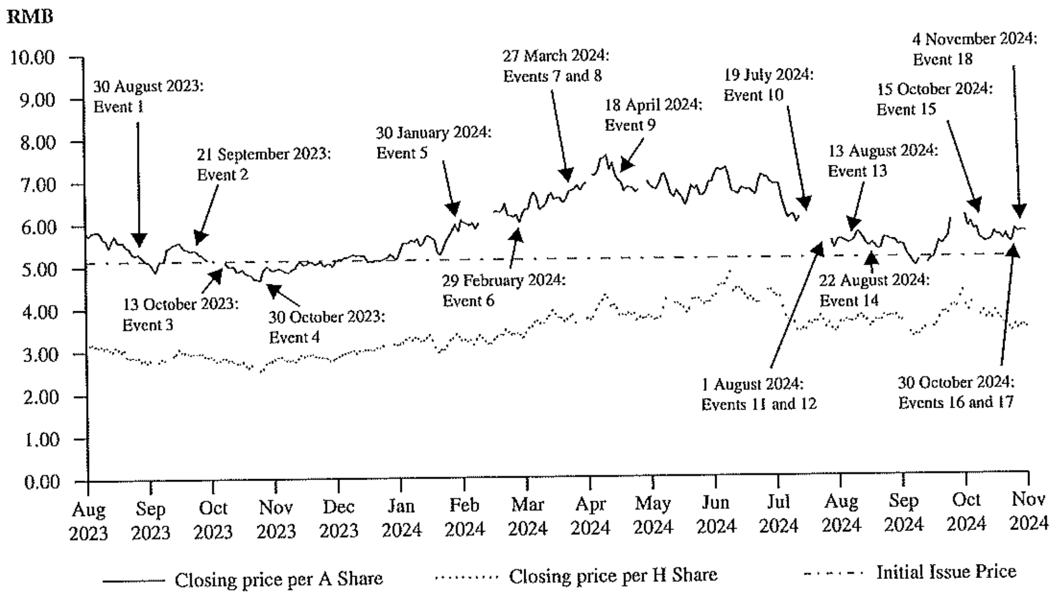
With reference to the Board Letter, the Initial Issue Price was determined with reference to the Measures for the Administration of the Major Asset Restructuring of Listed Companies (2023 Revision)* (《上市公司重大資產重組管理辦法(2023年修訂)》, the "**Administrative Measures**"), which sets out the requirements price determination of shares to be issued by listed companies.

In order to assess the fairness and reasonableness of the Initial Issue Price, we reviewed the daily closing price of the A Shares and H Shares as quoted on the SSE and the Hong Kong Stock Exchange from 1 August 2023, being approximately one year prior to the Pricing Benchmark Date, up to and including the Latest Practicable Date (the "**Review Period**"), which is commonly adopted for analysis and the duration of such period is sufficient for us to perform a thorough analysis on the historical closing price of Shares. The comparison of the daily closing price of Shares and the Initial Issue Price is illustrated as follows:

Historical daily closing price per A Share and H Share



Source: Wind Financial Terminal

Notes:

1. Trading of A Shares was halted from the start of trading hours on SSE on 19 July 2024 and resumed from the start of trading hours on SSE on 2 August 2024.

2. Trading days of A Shares and H Shares may vary.

3. Closing prices of H Shares were in RMB equivalent.

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Events:

1. Interim results announcement for 1H2023
2. Inside information in relation to the data on the Group's power generation and unit price of standard coal for the period from January to August of 2023
3. Positive profit alert
4. Third quarterly results announcement for the nine months ended 30 September 2023
5. Positive profit alert
6. Resignation and appointment of non-executive directors
7. Annual results announcement for FY2023
8. Proposed 2023 Final Dividend
9. First quarterly results announcement for the three months ended 31 March 2024
10. Inside information in relation to the suspension of A Shares and the proposing of the Transaction
11. Announcement in relation to the Asset Purchase Agreements and the Proposed Issuance of A Shares
12. Resignation of vice chairman and non-executive directors and proposed election of non-executive director
13. Proposed cash dividends of RMB0.08 per Share
14. Interim results announcement for 1H2024
15. Connected transactions in relation to the establishment of limited partnership and entering into the trust agreement
16. The Announcement
17. Third quarterly results announcement for the nine months ended 30 September 2024
18. Supplement announcement regarding the connected transaction in relation to the establishment of limited partnership and entering into the trust agreement

During the Review Period, the lowest and highest closing prices of A Shares were RMB4.66 per A Share recorded on 25 October 2023 and RMB7.57 per A Share recorded on 15 April 2024, respectively. The Initial Issue Price of RMB5.13 per A Share is within the A Shares' closing price range during the Review Period and is higher than the closing prices of A Shares for 55 trading days out of the total of 296 A Shares' trading days during the Review Period.

From the start of the Review Period, the closing prices of A Shares formed a general decreasing trend and reached the lowest closing price of RMB4.66 per A Share on 25 October 2023. Thereafter, the closing prices of A Shares formed a general increasing trend and reached the highest closing price of RMB7.57 per A Share on 15 April 2024. From 16 April 2024 to 18 July 2024 (the last trading day immediately prior to the trading halt of A Shares), the closing prices of A Shares fluctuated between RMB5.96 per A Share to RMB7.39 per A Share.

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Following the publication of the Company's announcement in relation to the Asset Purchase Agreements and up to the date of the Supplemental Agreements, the closing price of A Shares fluctuated between RMB4.92 per A Share to RMB6.12 per A Share.

Following the publication of the Announcement and up to the Latest Practicable Date, the closing price of A Shares fluctuated between RMB5.70 per A Share to RMB5.77 per A Share.

During the Review Period where both the A Shares and H Shares were concurrently traded on the respective market, the closing price of A Shares represented premium ranging from approximately 42% to 92% over the closing price of H Shares.

As part of our analysis, we also identified transactions in relation to the acquisition of over 50% equity interests in target companies involving the issuance of A shares as consideration (the "**Comparable Acquisitions**"), that were announced by companies listed on the main board of SSE or both SSE and the Hong Kong Stock Exchange during the period from 1 August 2023 (being approximately one year prior to the Pricing Benchmark Date) up to and including the date of the Asset Purchase Agreements, that were not lapsed or terminated up to the Latest Practicable Date. We consider the Review Period is commonly adopted for analysis and reflects the recent market practice up to the date of the Asset Purchase Agreements. We found 7 transactions which met the said criteria and they are exhaustive. Despite that the businesses, operations and prospects of the Group are not the same as the subject companies of the Comparable Acquisitions, the Comparable Acquisitions can demonstrate the market practices of issuance of A shares as consideration by companies listed on the main board of the SSE during the Review Period.

Company name (stock code)	Pricing benchmark date	Premium/(discount) of the issue price over/to the closing price per share on the last trading date immediately preceding the respective pricing benchmark date (the "Market PBD Premium/Discount") (%)	Premium/(discount) of the issue price over/to the average closing price per share for the last five trading days prior to the respective pricing benchmark date (the "Market 5 Days Premium/Discount") (%)	Premium/(discount) of the issue price over/to the average closing price per share for the last 20 trading days prior to the respective pricing benchmark date (the "Market 20 Days Premium/Discount") (%)	Premium/(discount) of the issue price over/to the average closing price per share for the last 60 trading days prior to the respective pricing benchmark date (the "Market 60 Days Premium/Discount") (%)	Premium/(discount) of the issue price over/to the average closing price per share for the last 120 trading days prior to the respective pricing benchmark date (the "Market 120 Days Premium/Discount") (%)
Antong Holdings Co., Ltd. (600179.SH)	13 June 2024	14.22	13.25	8.31	7.87	2.80
Nanjing Business & Tourism Corp., Ltd. (600250.SH)	8 June 2024	(15.83)	(21.56)	(18.63)	(21.87)	(29.61)
Guolian Securities Co., Ltd. (601456.SH & 1456.HK)	15 May 2024	8.13	7.71	5.68	4.49	2.46
Seres Group Co., Ltd. (601127.SH)	30 April 2024	(30.41)	(28.36)	(26.02)	(21.90)	(18.50)
Harson Trading (China) Co., Ltd. (603958.SH)	16 January 2024	(19.51)	(17.31)	(19.54)	(20.53)	(15.11)
Chinese Universe Publishing and Media Group Co., Ltd. (600373.SH)	20 December 2023	(29.74)	(29.58)	(25.35)	(19.75)	(18.81)
Hanshang Group C., Ltd. (600774.SH)	23 August 2023	(16.43)	(15.47)	(21.47)	(24.58)	(24.56)
Maximum		14.22	13.25	8.31	7.87	2.80
Minimum		(30.41)	(29.58)	(26.02)	(24.58)	(29.61)
Average		(12.80)	(13.05)	(13.86)	(13.75)	(14.48)
Median		(16.43)	(17.31)	(19.54)	(20.53)	(18.50)
Initial Issue Price		(13.49)	(13.46)	(20.74)	(22.37)	(20.22)

Source: Wind Financial Terminal

As depicted in the above table:

(i) the Market PBD Premium/Discount ranged from discount of approximately 30.41% to premium of approximately 14.22%, with average discount of approximately 12.80% and median discount of approximately 16.43%;

(ii) the Market 5 Days Premium/Discount ranged from discount of approximately 29.58% to premium of approximately 13.25%, with average discount of approximately 13.05% and median discount of approximately 17.31%;

(iii) the Market 20 Days Premium/Discount ranged from discount of approximately 26.02% to premium of approximately 8.31%, with average discount of approximately 13.86% and median discount of approximately 19.54%;

(iv) the Market 60 Days Premium/Discount ranged from discount of approximately 24.58% to premium of approximately 7.87%, with average discount of approximately 13.75% and median discount of approximately 20.53%; and

(v) the Market 120 Days Premium/Discount ranged from discount of approximately 29.61% to premium of approximately 2.80%, with average discount of approximately 14.48% and median discount of approximately 18.50%.

The Initial Issue Price, which represented (i) a discount of approximately 13.49% to the closing price as at the Pricing Benchmark Date; (ii) a discount of approximately 13.46% to the average closing price for the last five trading days prior to the Pricing Benchmark Date; (iii) a discount of approximately 20.74% to the average closing price for the last 20 trading days prior to the Pricing Benchmark Date; (iv) a discount of approximately 22.37% over the average closing price for the last 60 trading days prior to the Pricing Benchmark Date; and (v) a discount of approximately 20.22% over the average closing price for the last 120 trading days prior to the Pricing Benchmark Date, are all within the market ranges of the Comparable Acquisitions.

Furthermore, we noted that the issue prices of the Comparable Acquisitions were also determined pursuant to the requirement of the Administrative Measures, being not less than 80% of the average trading price of the shares over the last 20 trading days, 60 trading days or 120 trading days prior to the pricing benchmark date.

In view of that:

(i) the comparison between the Initial Issue Price and the Company's recent closing prices as mentioned above;

(ii) the Initial Issue Price is within the A Shares' closing price range during the Review Period;

(iii) the discounts represented by the Initial Issue Price over the then recent closing prices of A Shares (i.e. closing price as at the Pricing Benchmark Date and average closing price for the last five, 20, 60 and 120 trading days prior to the Pricing Benchmark Date) are within the market ranges of the Comparable Acquisitions; and

(iv) the Initial Issue Price was determined pursuant to the requirement of the Administrative Measures, being the same as those of the Comparable Acquisitions,

we are of the opinion that the Initial Issue Price is fair and reasonable.

Adjustment to the Initial Issue Price

With reference to the Board Letter, in the event where there is any ex-rights or ex-dividend event of the Company during the period between the Pricing Benchmark Date and the Issuance Date of the Consideration Shares, such as distribution of dividend, issue of bonus share, share allotment or capitalisation issue, the issue price will be adjusted accordingly. The adjustment formula for the issue price is set out under the section headed "Pricing Benchmark Date, Pricing Basis and Issue Price" of the Board Letter.

We also noted from the Comparable Acquisitions that the issue price thereunder will also be adjusted subject to the same circumstances with same formula as those of the Transaction. Accordingly, we consider the adjustment mechanism to be fair and reasonable.

Furthermore, in order to better respond to the fluctuation of the Company's share price caused by market and industry factors such as changes in capital market performance, an adjustment mechanism for the issue price of the Consideration Shares will be introduced, the details of which are set out under the section headed "Adjustment Mechanism for the Issue Price". We also noted adjustment mechanism under the same adjustment principles was adopted in the Comparable Acquisitions.

Our conclusion on the issue price

Having considered (i) our analyses on the Initial Issue Price and the adjustment mechanism as mentioned above; (ii) that the Company's distribution of 2024 interim dividend of RMB0.08 per A Share (tax inclusive) with ex-dividend date of 16 October 2024, being the date fell within the period between the Pricing Benchmark Date (i.e. 2 August 2024) and the Issuance Date of the Consideration Shares; and (iii) the Initial Issue Price was adjusted according to the above formula, we are of the view that the issue price of RMB5.05 per A Share is fair and reasonable.

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Lock-up Period

China Huadian shall not transfer the Shares acquired under the Transaction within 36 months from the date of the closing of the issuance of Consideration Shares in any manner. Where the closing price of A Shares is lower than the issue price for 20 consecutive Trading Days during the 6 months after completion of the issuance of Consideration Shares or the closing price is lower than the issue price at the end of the 6 months after completion of the issuance of Consideration Shares, the lock-up period of A Shares held by it will be automatically extended for another 6 months.

The A Shares held directly and indirectly by China Huadian prior to the issuance of Consideration Shares will not be transferred within 18 months after completion of the issuance of Consideration Shares in any manner; if such Shares are increased due to (among others) the issuance of bonus share, capitalisation issue or share allotment of the Company, the increased A Shares will also be subject to the above-mentioned lock-up period. However, transfers permitted under applicable laws, regulations and regulatory documents are not subject to such restrictions.

China Huadian agrees to make corresponding adjustments in accordance with the latest regulatory requirements of the securities regulatory authorities if the lock-up period undertaking is inconsistent with such latest regulatory requirements of the securities regulatory authorities. After the expiration of the lock-up period, such transfer shall be subject to the relevant requirements of the CSRC and the SSE.

According to the Administrative Measures, any consideration shares issued by listed companies to, among other things, their controlling shareholders, beneficial owners or their controlled connected parties, shall not be transferred within 36 months commencing from the date of issuance of such consideration shares. If the closing prices of A shares are below the issue price of consideration shares for 20 consecutive trading days within the six-month period commencing from date of completion of acquisition, or the closing price of the A shares as at the end of the above-mentioned six-month period is below the issue price of the consideration shares, the lock-up period will be automatically extended for at least 6 months.

Based on the above, the lock-up arrangement for China Huadian is in compliance with the relevant requirement by PRC regulations. Accordingly, we consider the lock-up arrangement for China Huadian is justifiable.

Attribution of profits or losses for the Transitional Period

Pursuant to the Asset Purchase Agreements (as supplemented by the Supplemental Agreements), save as and except for the Capital Adjustments that shall be adjusted for cash payment to Huadian Furui and the Operating Company, the profits and losses of the Target Assets during the Transition Period shall be shared or borne by the Company, and the parties to the Transaction are not required to adjust the consideration of the Target Assets according to the profits and losses during the Transition Period.

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Having considered that the consideration of the Transaction was based on, among other things, the Asset Appraisal as at the Appraisal Benchmark Date, and the profits or losses of the Target Assets after such date represented the risks and rewards to be borne by the Company, we are of the view that the arrangement for profits and losses of the Target Assets during the Transitional Period to be reasonable.

Arrangements for Accumulated Profit

The accumulated undistributed profits (if any) of the Company before completion of the issuance of Consideration Shares shall be jointly shared by new and existing Shareholders after completion of the issuance of Consideration Shares in proportion to their respective shareholding as registered with China Securities Depository and Clearing Corporation Limited Shanghai Branch from the completion date of the issuance of Consideration Shares.

Our conclusion on terms of the Transaction

Having reviewed and considered the principal terms of the Transaction as listed above, we are of the view that the terms of the Transaction are on normal commercial terms and are fair and reasonable.

Possible financial effects of the Transaction

Upon completion of the Transaction, each of the Target Companies will become a subsidiary of the Company and their financial statements will be consolidated into the consolidated financial statements of the Group. The Company will hold 80% of Jiangsu Huadian, 51% of Shanghai Fuxin, 100% of Shanghai Minhang, 55.0007% of Guangzhou University City, 55% of Fuxin Guangzhou, 70% of Fuxin Jiangmen, 100% of Fuxin Qingyuan, and 100% of Guigang Electric Power upon completion of the Transaction.

The accompanying unaudited pro forma financial information of the Enlarged Group as set out in Appendix III to the Circular is prepared as if the Transaction had taken place at 30 June 2024 to illustrate the effect of the Transaction.

Based on the unaudited pro forma consolidated statement of assets and liabilities of the Enlarged Group as set out in Appendix III to the Circular, for illustration purposes only, the total assets of the Group would have increased from RMB225.6 billion to RMB269.1 billion, the total liabilities of the Group would have increased from RMB137.1 billion to RMB166.9 billion, and the net assets of the Group would have increased from RMB88.5 billion to RMB102.2 billion, on a pro forma basis.

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 Enlarged Group will be upon completion of the Transaction.

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Possible dilution of the shareholding interests of the existing public Shareholders

As depicted in the table under the section headed "VI. Impact on the Shareholding Structure of the Company" of the Board Letter, the shareholding interests of the existing public Shareholders would be diluted by 3.41% as a result of the issuance of Consideration Shares. Furthermore, based on (i) the number of Shares in issue as at the Latest Practicable Date and the number of Shares in issue after completion of the Transaction (assuming that there will not be any further adjustments to the issue price of the Consideration Shares and there will be no change in the total issued share capital of the Company from the Latest Practicable Date up to the completion of the Transaction (save for the issuance of the Consideration Shares)); and (ii) the pro forma net assets of the Enlarged Group as set out in Appendix III to the Circular, the net asset value per Share attributable to Shareholders would increase by approximately RMB0.31 per Share or 7.42% from approximately RMB4.18 per Share to approximately RMB4.49 per Share.

Nonetheless, in view of (i) the reasons for the Transaction; (ii) the increase in net asset value per Share attributable to Shareholders as a result of the Transaction; and (iii) the terms of the Transaction being fair and reasonable, we consider the aforesaid level of dilution to the shareholding interests of the existing public Shareholders is acceptable.

Recommendation on the Transaction

Having taken into consideration the factors and reasons as stated above, in particular:

(i) the Transaction is in the interest of the Company and the Shareholders as a whole after taking into account (a) the Company's controlled installed capacity will significantly increase upon the completion of the Transaction; (b) the Transaction will further expand the business advantages and asset scope of the Group, effectively enhancing the Group's competitiveness and increasing its investment value in the capital market, ultimately creating benefits for the Shareholders; (c) thermal power generation is and will be continuously important to the PRC national electricity generation; and (d) the Transaction may also enable reduction of business competition between the Group and China Huadian;

(ii) the consideration for the Target Assets is fair and reasonable as analysed in the section headed "Asset Appraisal" above;

(iii) the Initial Issue Price is fair and reasonable after considering (a) the comparison between the Initial Issue Price and the recent A Shares' closing prices; (b) the Initial Issue Price is within the A Shares' closing price range during the Review Period; (c) the discounts represented by the Initial Issue Price over the then recent closing prices of A Shares are within the market ranges of the Comparable Acquisitions; and (d) the basis for determination of the Initial Issue Price is in line with the requirement of the Administrative Measures;

(iv) the adjustment mechanism to the Initial Issue Price is fair and reasonable as such adjustment mechanism was similar to the adjustment mechanism adopted in the Comparable Acquisitions;

(v) the lock-up arrangement for China Huadian, which is in compliance with the relevant requirement by PRC regulations, is justifiable;

(vi) the arrangement for profits and losses of the Target Assets during the Transitional Period is reasonable; and

(vii) the level of dilution to the shareholding interests of the existing public Shareholders is acceptable,

we are of the opinion that (i) the terms of Transaction are on normal commercial terms and are fair and reasonable so far as the Independent Shareholders are concerned; and (ii) although the Transaction is not conducted in the ordinary and usual course of business of the Group, the Transaction is in the interests of the Company and the Shareholders as a whole. Accordingly, we recommend the Independent Board Committees to advise the Independent Shareholders to vote in favour of the resolutions to be proposed at the EGM to approve the Transaction (including the grant of Specific Mandate for the issuance of Consideration Shares) and we recommend the Independent Shareholders to vote in favour of the resolutions in this regard.

(II) Whitewash Waiver

According to the Board Letter, as at the Latest Practicable Date, China Huadian and parties acting in concert with it holds in aggregate 4,620,061,224 Shares (comprising 4,534,199,224 A Shares and 85,862,000 H Shares), representing approximately 45.17% of the total issued share capital of the Company. Immediately following completion of the Transaction, on the basis that the portion of consideration for the purchase of Target Assets I to be settled by way of issuance of Consideration Shares is RMB3,428.3 million, and assuming that (a) there will not be any further adjustments to the Issue Price; and (b) there will be no change in the total issued share capital of the Company since the Latest Practicable Date save for the issuance of A Shares pursuant to the Asset Purchase Agreement I (as supplemented by the Supplemental Agreement I), the aggregate shareholding of China Huadian and parties acting in concert with it in the Company will increase to approximately 48.59%. Accordingly, upon completion of the Transaction, pursuant to Rule 26.1 of the Takeovers Code, China Huadian will be required to make a mandatory general offer for all the securities of the Company not already owned or agreed to be acquired by China Huadian and parties acting in concert with it, unless the Whitewash Waiver from strict compliance with Rule 26.1 of the Takeovers Code is obtained from the Executive.

An application has been made by China Huadian (on behalf of itself and parties acting in concert with it) to the Executive for the granting of the Whitewash Waiver pursuant to Note 1 on dispensations from Rule 26 of the Takeovers Code. The Whitewash Waiver, if granted by the Executive, will be subject to (i) the approval of the Whitewash Waiver by at least 75% of the votes cast by Independent Shareholders either in person or by proxy at the EGM; and (ii) the approval of the Transaction by more than 50% of the votes cast by Independent Shareholders either in person or by proxy at the EGM as required under the Takeovers Code. As at the Latest Practicable Date, the Executive has indicated that it is minded to grant the Whitewash Waiver.

In view of (i) the reasons for and possible benefits of the Transaction as set out under the sub-section headed "Reasons for and benefits of the Transaction" of this letter; (ii) the terms of the Transaction is fair and reasonable so far as the Independent Shareholders are concerned; and (iii) the Transaction having been approved or consented by the relevant regulatory authorities in Hong Kong (including the granting of the Whitewash Waiver by the Executive to China Huadian) is a non-waivable condition precedent, we are of the opinion that the approval of the Whitewash Waiver, which is a prerequisite for the completion of the Transaction, is in the interests of the Company and the Shareholders as a whole and is fair and reasonable for the purpose of proceeding with the Transaction.

Recommendation on the Whitewash Waiver

Having taken into consideration the reasons for and possible benefits of the Transaction and that the Transaction is conditional upon, among other things, the Whitewash Waiver being granted by the Executive and approved by the Independent Shareholders, we consider that the Whitewash Waiver is fair and reasonable so far as the Independent Shareholders are concerned and is in the interests of the Company and the Shareholders as a whole. Accordingly, we recommend the Code IBC to advise the Independent Shareholders to vote in favour of the relevant resolution to be proposed at the EGM to approve the Whitewash Waiver and we recommend the Independent Shareholders to vote in favour of the resolution 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*

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