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

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

**If you have sold or transferred** all your shares in **DATANG INTERNATIONAL POWER GENERATION CO., LTD.**, you should at once hand this circular to the purchaser or transferee or to the bank, licensed securities dealer or other agent through whom the sale or transfer was effected for transmission to the purchaser or transferee.



大唐国际发电股份有限公司

**DATANG INTERNATIONAL POWER GENERATION CO., LTD.**

*(a sino-foreign joint stock limited company incorporated in the People's Republic of China)*

**(Stock Code: 00991)**

# MAJOR AND CONNECTED TRANSACTION IN RELATION TO THE DISPOSAL OF COAL-TO-CHEMICAL BUSINESS SEGMENT

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

Lego Corporate Finance Limited

力高企業融資有限公司

Capitalised terms used in this cover page shall have the same meanings as those defined in the section headed "Definitions" in this circular. A letter from the Board is set out on pages 7 to 47 of this circular. A letter from the Independent Board Committee is set out on pages 48 to 49 of this circular. A letter from Lego Corporate Finance containing its advice to the Independent Board Committee and the Independent Shareholders is set out on pages 50 to 75 of this circular.

The Company will convene the EGM at 1608 Conference Room of Datang International, 9 Guangningbo Street, Xicheng District, Beijing, the People's Republic of China on 29 August 2016 at 9:30 a.m.. The notice convening the EGM has been dispatched to the Shareholders on 13 July 2016.

Completion and return of the proxy form shall not preclude you from attending and voting in person at the EGM or at any adjourned meetings should you so wish.

12 August 2016

# CONTENTS

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

| | |
|---|---|
| "Announcement" | the major and connected transaction announcement in relation to the disposal of coal-to-chemical business segment of the Company dated 30 June 2016 |
| "Asset Valuation Report" | the Valuation Report (Tian Xing Ping Bao Zi (2016) No. 0523, Tian Xing Ping Bao Zi (2016) No. 0599, Tian Xing Ping Bao Zi (2016) No. 0600, Tian Xing Ping Bao Zi (2016) No. 0601, Tian Xing Ping Bao Zi (2016) No. 0602) issued by the Independent Valuer |
| "associate(s)" | has the meaning ascribed to it under the Listing Rules |
| "Audit Report" | the Special Audit Report (Rui Hua Zhuan Shen Zi [2016] No. 01490181, Rui Hua Zhuan Shen Zi [2016] No. 01490182, Rui Hua Zhuan Shen Zi [2016] No. 01490183, Rui Hua Zhuan Shen Zi [2016] No. 01490184, Rui Hua Zhuan Shen Zi [2016] No. 01490185, Rui Hua Zhuan Shen Zi [2016] No. 01490187, Rui Hua Zhuan Shen Zi [2016] No. 01490188, Rui Hua Zhuan Shen Zi [2016] No. 01490189, Rui Hua Zhuan Shen Zi [2016] No. 01490190, Rui Hua Zhuan Shen Zi [2016] No. 01490191, Rui Hua Zhuan Shen Zi [2016] No. 01490192, Rui Hua Zhuan Shen Zi [2016] No. 01490193, Rui Hua Zhuan Shen Zi [2016] No. 01490194, Rui Hua Zhuan Shen Zi [2016] No. 01490195, Rui Hua Zhuan Shen Zi [2016] No. 01490196, Rui Hua Zhuan Shen Zi [2016] No. 01490197, Rui Hua Zhuan Shen Zi [2016] No. 01490198, Rui Hua Zhuan Shen Zi [2016] No. 01490199) issued by Ruihua Certified Public Accountants (Special General Partnership), respectively |
| "Benchmark Date" | the benchmark date for audit and valuation of the Transaction Target, which is 31 March 2016 |
| "Board" | the board of directors |
| "CDC" | China Datang Corporation, a State-owned enterprise established under the laws of the PRC and is a controlling shareholder of the Company. CDC and its subsidiaries own approximately 34.77% of the issued share capital of the Company in aggregate as at the Latest Practicable Date |
| "Chemical Technology Research Institute" | Datang International Chemical Technology Research Institute Company Limited (大唐國際化工技術研究院有限公司), for details, please refer to the section headed "Information of related parties" |

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| "Company" | Datang International Power Generation Co., Ltd., a sino-foreign joint stock limited company incorporated in the PRC on 13 December 1994, whose H Shares are listed on the Stock Exchange and the London Stock Exchange and whose A Shares are listed on the Shanghai Stock Exchange, for details, please refer to the section headed "Information of related parties" |
| "Completion Date" | the date on which both parties will complete transfer of the Transaction Target, i.e. 31 August 2016. If the resolution regarding the transaction under the Transfer Agreement passes at the general meeting of the Company at a date later than 31 August 2016, the completion date shall be the fifth working day from the date on which the relevant resolution is passed at the general meeting |
| "connected person" | has the meaning ascribed to it under the Listing Rules |
| "connected transaction" | has the meaning ascribed to it under the Listing Rules |
| "Dashimen Hydropower Company" | Inner Mongolia Datang International Keshiketeng Dashimen Hydropower Development Company Limited (內蒙古大唐國際克什克騰大石門水電開發有限公司), for details, please refer to the section headed "Information of related parties" |
| "Director(s)" | the director(s) of the Company |
| "Duolun Coal Chemical Company" | Datang Inner Mongolia Duolun Coal Chemical Company Limited (大唐內蒙古多倫煤化工有限責任公司), for details, please refer to the section headed "Information of related parties" |
| "Duolun Hydropower Company" | Inner Mongolia Datang International Duolun Hydropower Multiple Development Company Limited (內蒙古大唐國際多倫水利水電綜合開發有限公司), for details, please refer to the section headed "Information of related parties" |
| "EGM" | the extraordinary general meeting of the Company to be held at 1608 Conference Room of Datang International, 9 Guangningbo Street, Xicheng District, Beijing, the People's Republic of China on 29 August 2016 at 9:30 a.m. to consider and approve, among others, the transaction under the Transfer Agreement |

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| "Energy and Chemical Company" | Datang Energy and Chemical Company Limited (大唐能源化工有限責任公司), for details, please refer to the section headed "Information of related parties" |
| "Energy and Chemical Marketing Company" | Datang Energy and Chemical Marketing Company Limited (大唐能源化工營銷有限公司), for details, please refer to the section headed "Information of related parties" |
| "Fuxin Coal-to-gas Company" | Liaoning Datang International Fuxin Coal-to-gas Company Ltd. (遼寧大唐國際阜新煤製天然氣有限責任公司), for details, please refer to the section headed "Information of related parties" |
| "Fuxin Engineering Company" | Datang Fuxin Energy and Chemical Engineering Company Limited (大唐阜新能源化工工程有限公司), for details, please refer to the section headed "Information of related parties" |
| "Fuxin Huanfa Company" | Fuxin Huanfa Wastage Disposal Company Limited (阜新環發廢棄物處置有限公司), for details, please refer to the section headed "Information of related parties" |
| "Fuxin Sewage Disposal Company" | Fuxin Qingyuan Sewage Disposal Company Limited (阜新市清源污水處理有限公司), for details, please refer to the section headed "Information of related parties" |
| "Group" | the Company and its subsidiaries |
| "Hong Kong" | the Hong Kong Special Administrative Region of the PRC |
| "Huachuan Zhuoyue Plastic Products Company" | Duolun County Huachuan Zhuoyue Plastic Products Company Limited (多倫縣華川卓越塑料製品有限公司), for details, please refer to the section headed "Information of related parties" |
| "Huatang Multi-Water Sources Company" | Xilinhaote Huatang Multi-Water Sources Company Limited (錫林浩特華唐多水源有限公司), for details, please refer to the section headed "Information of related parties" |
| "Hulunbeier Chemical Fertiliser Company" | Datang Hulunbeier Chemical Fertiliser Co., Ltd. (大唐呼倫貝爾化肥有限公司), for details, please refer to the section headed "Information of related parties" |

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| "Independent Board Committee" | the independent board committee of the Company, comprising five independent non-executive Directors, and each of them does not have any material interest in the Transfer Agreement |
| "Independent Shareholder(s)" | has the meaning ascribed to it under the Listing Rules |
| "Independent Valuer" | Beijing Pan-China Assets Appraisal Co., Ltd. (北京天健興業資產評估有限公司), which is a third party independent from the Company and connected persons of the Company |
| "Jibei Maintenance Company" | Tangshan Jibei Power Maintenance Co., Ltd. (唐山冀北電力檢修有限公司), for details, please refer to the section headed "Information of related parties" |
| "Keqi Coal-based Gas Company" | Inner Mongolia Datang International Keshiketeng Coal-based Gas Company Limited (內蒙古大唐國際克什克騰煤製天然氣有限責任公司), for details, please refer to the section headed "Information of related parties" |
| "Keshiketeng Power Source Preliminary Project" | Inner Mongolia Keshiketeng Power Source Preliminary Project (內蒙古克什克騰電源前期項目), for details, please refer to the section headed "Information of related parties" |
| "Latest Practicable Date" | 8 August 2016, being the latest practicable date prior to the printing of this circular for ascertaining certain information in this circular |
| "Lego Corporate Finance" | Lego Corporate Finance Limited, the independent financial adviser to the Independent Board Committee and the Independent Shareholders in respect of the terms of the Transfer Agreement, and a licensed corporation for type 6 (advising on corporate finance) regulated activities under the SFO |
| "Listing Rules" | the Rules Governing the Listing of Securities on the Stock Exchange |
| "PRC" | the People's Republic of China |
| "Power Source Assets" | the assets of Keshiketeng Power Source Preliminary Project |
| "RMB" | Renminbi, the lawful currency of the PRC |
| "Shareholder(s)" | the holder(s) of share(s) of the Company |

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|---|---|
| "SFO" | the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) |
| "Stock Exchange" | The Stock Exchange of Hong Kong Limited |
| "Target Companies" | Energy and Chemical Company, Xilinhaote Brown Coal Integrated Development Company, Xilinhaote Power Generation Company and Xilinhaote Mining Company |
| "Transaction Target" | a collective term for the equity interests of the Target Companies held by the Company and the Power Source Assets, for details, please refer to the section headed "Transaction Target" |
| "Transfer Agreement" | the transfer agreement in relation to coal-to-chemical business segment and the related project entered into between the Company and Zhongxin Energy and Chemical on 30 June 2016 |
| "Transitional Period" | the period from the day following the Benchmark Date to the Completion Date |
| "Xilinhaote Brown Coal Integrated Development Company" | Inner Mongolia Datang International Xilinhaote Brown Coal Integrated Development Company Limited (內蒙古大唐國際錫林浩特褐煤綜合開發有限責任公司), for details, please refer to the section headed "Information of related parties" |
| "Xilinhaote Mining Company" | Inner Mongolia Datang International Xilinhaote Mining Co., Ltd. (內蒙古大唐國際錫林浩特礦業有限公司), for details, please refer to the section headed "Information of related parties" |
| "Xilinhaote Power Generation Company" | Inner Mongolia Datang International Xilinhaote Power Generation Company Limited (內蒙古大唐國際錫林浩特發電有限責任公司), for details, please refer to the section headed "Information of related parties" |
| "Zhaluomude Hydropower Company" | Hulunbeier Zhaluomude Hydropower Company Limited (呼倫貝爾紮羅木得水利水電有限公司), for details, please refer to the section headed "Information of related parties" |
| "Zhongxin Energy and Chemical" | Zhongxin Energy and Chemical Technology Company Limited (中新能化科技有限公司), for details, please refer to the section headed "Information of related parties" |
| "%" | percent |

# CAUTION STATEMENT

**Shareholders and potential investors of the Company should be aware that the transaction under the Transfer Agreement has, including but not limited to, the following important transaction details:**

**(i) The appraised value of the Transaction Target is lower than the book value of the Transaction Target as at the Benchmark Date by approximately RMB15.468 billion;**

**(ii) the consideration of RMB1 under the Transfer Agreement;**

**(iii) the expected net loss of approximately RMB6 billion to be incurred by the Company resulting from the transaction under the Transfer Agreement; and**

**(iv) the maximum amount of the entrusted loans to be waiver under the Transfer Agreement amounted to RMB10 billion.**

**Shareholders and potential investors are advised to exercise caution when dealing in the shares of the Company.**

大唐国际发电股份有限公司
DATANG INTERNATIONAL POWER GENERATION CO., LTD.
*(a sino-foreign joint stock limited company incorporated in the People's Republic of China)*
**(Stock Code: 00991)**

*Executive Directors:*
Mr. Wang Xin
Mr. Ying Xuejun

*Non-executive Directors:*
Mr. Chen Jinhang *(Chairman)*
Mr. Liu Chuandong
Mr. Liang Yongpan
Mr. Zhu Shaowen
Mr. Cao Xin
Mr. Zhao Xianguo
Mr. Liu Haixia
Ms. Guan Tiangang

*Independent non-executive Directors:*
Mr. Feng Genfu
Mr. Luo Zhongwei
Mr. Liu Huangsong
Mr. Jiang Fuxiu

*Office address:*
No. 9 Guangningbo Street
Xicheng District
Beijing, 100033
the PRC

*Principal place of business in Hong Kong:*
c/o Eversheds
21/F, Gloucester Tower
The Landmark
15 Queen's Road Central
Hong Kong

12 August 2016

*To the Shareholders*

Dear Sir or Madam,

## MAJOR AND CONNECTED TRANSACTION IN RELATION TO THE DISPOSAL OF COAL-TO-CHEMICAL BUSINESS SEGMENT

Reference is made to the Announcement. On 30 June 2016, the Company entered into the Transfer Agreement with Zhongxin Energy and Chemical, pursuant to which the Company conditionally agreed to sell and Zhongxin Energy and Chemical conditionally agreed to acquire the Transaction Target **at a consideration of RMB1**; meanwhile, the Company agreed to waive the Target Companies from repayment of certain entrusted loans provided by the Company, and **the maximum principal amount of such exempted entrusted loans shall be RMB10 billion.** As one or more of the applicable percentage ratios (as defined in Rule 14.07 of the Listing Rules) of the transaction contemplated under the Transfer Agreement exceeds 25% but is less than 75%, the transaction contemplated under the Transfer Agreement constitutes a major transaction of the Company and therefore, is subject to the reporting, announcement and Shareholders' approval requirements under Chapter 14 of the Listing Rules.

As at the Latest Practicable Date, CDC, together with its subsidiaries, hold approximately 34.77% of the issued share capital of the Company. Zhongxin Energy and Chemical is a wholly-owned subsidiary of CDC. As such, Zhongxin Energy and Chemical is a connected person of the Company, and therefore, the transaction contemplated under the Transfer Agreement constitutes a connected transaction of the Company under Chapter 14A of the Listing Rules and is subject to the reporting, announcement and Independent Shareholders' approval requirements.

To the best of the knowledge, information and belief of the Directors having made all reasonable enquiries, apart from CDC and its associates, no Shareholder has material interest in the transaction contemplated under the Transfer Agreement. Therefore, CDC and its associates shall abstain from voting at the resolution(s) considering and approving the transaction contemplated under the Transfer Agreement at the EGM. Saved as disclosed above, no other Shareholder shall abstain from voting at the resolution(s) in relation to the approval of the transaction contemplated under the Transfer Agreement at the EGM.

The purpose of this circular is:

(1) to provide you with further details of the Transfer Agreement;

(2) to set out the recommendation of the Independent Board Committee in respect of the Transfer Agreement; and

(3) to set out the letter of advice from Lego Corporate Finance to the Independent Board Committee and the Independent Shareholders in respect of the Transfer Agreement.

**THE TRANSFER AGREEMENT**

**Date**

30 June 2016

**Parties**

| | |
|---|---|
| Vendor: | the Company; and |
| Purchaser: | Zhongxin Energy and Chemical, a limited liability company established under the PRC laws and is wholly owned by CDC. The purchaser is a connected person of the Company. |

**Transaction Target**

(1) The 100% equity interest in Energy and Chemical Company held by the Company. Energy and Chemical Company holds equity interests in the following companies: 51% equity interest in Keqi Coal-based Gas Company; 90% equity interest in Fuxin Coal-to-gas Company; 60% equity interest in Duolun Coal Chemical Company; 100% equity interest in Hulunbeier Chemical Fertiliser Company; 90% equity interest in Dashimen Hydropower Company; 51% equity interest in Duolun Hydropower Company; 80% equity interest in Fuxin Sewage Disposal Company; 100% equity interest in Energy and Chemical Marketing Company; 100% equity interest in Huachuan Zhuoyue Plastic Products Company; 100% equity interest in Chemical Technology Research Institute; 100% equity interest in Fuxin Engineering Company; 100% equity interest in Jibei Maintenance Company (held by Fuxin Engineering Company); 15% equity interest in Zhaluomude Hydropower Company; 20% equity interest in Fuxin Huanfa Company (held by Fuxin Coal-to-gas Company).

(2) The 100% equity interest in Xilinhaote Brown Coal Integrated Development Company held by the Company.

(3) The 100% equity interest held in Xilinhaote Power Generation Company held by the Company.

(4) The 60% equity interest in Xilinhaote Mining Company held by the Company. Xilinhaote Mining Company holds 10% equity interest in Huatang Multi-Water Sources Company.

(5) The assets under Keshiketeng Power Source Preliminary Project held by the Company.

**Consideration and payment terms**

***Audit and assessment***

According to the Audit Report prepared in accordance with the relevant accounting standards and regulations applicable to enterprises established in the PRC, as at the Benchmark Date: **(1) the aggregate book value of net assets of the Target Companies and Power Source Assets amounted to approximately RMB6,538.04 million (net of the aggregate outstanding principal amount of entrusted loans provided by the Company to the Target Companies of approximately RMB10,198.20 million as set out in (2) in this section)**; (2) the aggregate outstanding principal amount of the entrusted loans (including those extended in the Transitional Period) provided by the Company (excluding its controlled related parties) to the Target Companies (including its subsidiaries) amounted to approximately RMB10,198.20 million; (3) the aggregate principal amount of the loans of the Transaction Target guaranteed by the Company (including its controlled related parties) in various forms amounted to RMB18,514.00 million; (4) the third-party loans attached to the Power Source Assets amounted to RMB0. **As of the Benchmark Date, the appraised net asset value of the Target Companies and Power Source Assets amounted to approximately RMB-9,356.7115 million, as appraised by the Independent Valuer based on the asset-based approach (cost approach)** ***(Note)*** **and the valuation has been filed according to the filing procedure for the valuation of state-owned-assets.**

According to the relevant rules and requirements by the State-owned Assets Supervision and Administration Commission of the PRC, as the transaction contemplated under the Transfer Agreement constitutes a disposal of state-owned assets, a preparation of the Asset Valuation Report is required. The Company has filed the same to the State-owned Assets Supervision and Administration Commission of the PRC.

*Note:* The asset-based approach refers to the method of valuation, in which the value of the valuation target is determined by reasonable appraisal of the value of all on-and-off balance sheet assets and liabilities on the basis of the balance sheet. For the purpose of this valuation, the necessary information for adopting the asset-based approach could be provided by the appraised entities or collected by the valuer externally, which allowed a comprehensive review and valuation on the assets and liabilities of the appraised entities. Therefore, the asset-based approach was adopted for this valuation.

The audited and appraised value of the Target Companies and Power Source Assets is set out in the table below:

*Currency: RMB Unit: '00 million*

| Item | Company Name | Book value *(Note 1)* | Appraised value *(Note 2)* | Change in value | Change in percentage | Shareholding percentage | Shareholding value *(Note 3)* |
|---|---|---|---|---|---|---|---|
| 1 | Energy and Chemical Company | 77.35 | -69.45 | -146.80 | -189.78% | 100% | -69.45 |
| | (1) Keqi Coal-based Gas Company | 49.42 | -9.36 | -58.78 | -118.94% | 51% | -4.77 |
| | (2) Fuxin Coal-to-gas Company | 17.40 | 1.52 | -15.88 | -91.24% | 90% | 1.37 |
| | (3) Duolun Coal Chemical Company | -58.91 | -131.05 | -72.14 | -122.44% | 60% | -78.63 |
| | (4) Hulunbeier Chemical Fertiliser Company | -4.10 | -7.27 | -3.17 | -77.33% | 100% | -7.27 |
| | (5) Dashimen Hydropower Company | -0.23 | -0.55 | -0.32 | -146.00% | 90% | -0.50 |
| | (6) Duolun Hydropower Company | 0.37 | 2.68 | 2.31 | 615.95% | 51% | 1.37 |
| | (7) Fuxin Sewage Disposal Company | 1.30 | 1.90 | 0.60 | 47.02% | 80% | 1.52 |
| | (8) Energy and Chemical Marketing Company | 1.08 | 0.93 | -0.15 | -14.01% | 100% | 0.93 |
| | (9) Huachuan Zhuoyue Plastic Products Company | -0.01 | 0.06 | 0.07 | 660.13% | 100% | 0.06 |
| | (10) Chemical Technology Research Institute | 0.47 | 1.86 | 1.39 | 291.90% | 100% | 1.86 |
| | (11) Fuxin Engineering Company | 0.80 | 1.20 | 0.40 | 50.10% | 100% | 1.20 |
| | (12) Jibei Maintenance Company | 0.15 | 0.43 | 0.28 | 193.19% | 100% | 0.43 |
| | (13) Zhaluomude Hydropower Company | 0.80 | 0.80 | 0 | 0 | 15% | 0.12 |
| | (14) Fuxin Huanufa Company | 0.24 | 0.24 | 0 | 0 | 20% | 0.05 |
| 2 | Xilinhaote Brown Coal Integrated Development Company | 2.36 | 0.85 | -1.51 | -64.16% | 100% | 0.85 |
| 3 | Xilinhaote Power Generation Company | 0.52 | 0.52 | 0 | 1.01% | 100% | 0.52 |
| 4 | Xilinhaote Mining Company | -14.85 | -25.52 | -10.67 | -71.85% | 60% | -15.31 |
| | (1) Huatung Multi-Water Sources Company | 0.91 | 0.91 | 0 | 0 | 10% | 0.09 |
| 5 | Keshiketeng Power Source Preliminary Project | 0.00 | 0.03 | 0.03 | – | 100% | 0.03 |
| **Total Items (1+2+3+4+5)** | | 65.38 | -93.57 | -158.95 | – | – | -83.36 |

*Notes:*

1. The book value set out in the table refers to the book value of the net assets of the Target Companies or its controlling or joint-stock company and the Power Source Assets.

2. The appraised value set out in the table refers to the appraised value of the net assets of Target Companies or its controlling or joint-stock company and the Power Source Assets.

3. The shareholding value set out in the table refers to the appraised value of the net assets calculated based on the shareholding percentage of Target Companies or its controlling or joint-stock company and the Power Source Assets as appeared on the above table.

4. The book value of the Transaction Target amounted to approximately RMB7,132.00 million. Such figure is determined based on the book value of the Target Companies and Power Source Assets multiplied by the equity interests of the Target Companies and Power Source Assets held by the Company (i.e. RMB7,735 million (Item 1) + RMB236 million (Item 2) + RMB52 million (Item 3) + RMB(-1,485 million x 60%) (Item 4) + 0 (Item 5) = RMB7,132.00 million).

***Choice of valuation approach in valuation***

(1) There were changes in the business operation of the coal-to-chemical business segment of the Company after the disclosure of the Company's annual report of 2015:

    (a) In April 2016, the incident in respect of pipe leakage of the dam's evaporation pond of Duolun Coal Chemical Company occurred. Duolun Coal Chemical Company has suspended its operation for maintenance since 18 May 2016 *(Note 1)*.

    (b) In June 2016, affected by the natural gas price adjustment of the PRC government, natural gas price of Keqi Coal-based Gas Company is lowered from RMB2.75/cubic metre to RMB1.82/cubic metre *(Note 2)*.

    Although future cash flow of assets is expected to be affected by the aforesaid matters and asset impairment will be incurred, since such matters occurred after the disclosure of the 2015 annual report of the Company, such effect was not reflected in the Company's 2015 annual report.

(2) Although the valuation date of the Transaction Target was on 31 March 2016, given that there were changes (i.e. the abovementioned events in April and June 2016) in the business operation of the coal-to-chemical business segment of the Company, the Independent Valuer adopted asset-based approach (cost approach) with consideration of the abovementioned events.

During the valuation of the Transaction Target at the Benchmark Date, three approaches in the valuation were considered by the Independent Valuer, i.e., the income approach, market approach and asset based approach (cost approach).

The market approach adopts publicly trading prices of comparable companies to deliver market valuations. Since only limited information about existing market transaction of listed companies which principally engaged in coal-to-chemical business segment are available, it is not practicable to adopt market approach in conducting the valuation.

Taking into account factors including (i) certain coal-to-chemical projects (which form part of the Transaction Targets) have not commenced operation as at the Latest Practicable Date and reach production capacity on schedule; and (ii) the Transaction Target has been suffering from significant losses in the past, the Directors agree with the Independent Valuer that it would be difficult to prepare a reliable long-term income forecasts for the Transaction Target and thus income approach is not appropriate.

Asset based approach (cost approach) assesses the value of assets and liabilities on the balance sheet of the Transaction Target with reference to the replacement cost of the relevant items, the Directors believe that asset-based approach (cost approach) has factored in the changes in the coal-to-chemical business operation after the publication of 2015 annual report of the Company and such approach is therefore considered to be the most appropriate approach in determining the valuation of the Transaction Target.

*Notes:*

(1) Due to the incident of pipe leakage, Duolun Coal Chemical Company suspended operation since 18 May 2016, and has not resumed operation up to the Latest Practicable Date. With reference to the average monthly production volume from January 2016 to April 2016 and the current price of polypropylene produced by Duolun Coal Chemical Company, and on the basis of approximate three-month production suspension (i.e., from 18 May 2016 to Latest Practicable Date), it is expected that the revenue of Duolun Coal Chemical Company is likely to decrease by approximately RMB371 million, representing approximately 0.6% of the revenue of the Company for the year ended 31 December 2015. Further, the Company expects that such suspension of operation of Duolun Coal Chemical Company is not likely to cause significant financial impact on the Company. In light of the above, the Board considers that such incident will not constitute any inside information of the Company.

(2) Affected by the natural gas price adjustment of the PRC government, natural gas price of Keqi Coal-based Gas Company is lowered from RMB2.75/cubic metre to RMB1.82/cubic metre. Based on the adjusted price, it is expected that the revenue of Keqi Coal-based Gas Company from 1 January 2016 to 30 June 2016 is likely to decrease by approximately RMB325 million, representing approximately 0.5% of the revenue of the Company for the year ended 31 December 2015. Further, the Company expects that such price adjustment is not likely to cause significant financial impact on the Company.

***Illustration on the differences between the book value and appraised value of the Transaction Target***

Impairment assessment method in auditing (which is determined by the calculation of the discounted value of the future cash flow of long-term assets, in accordance with the requirements under "Accounting Standards for Business Enterprises No. 8 – Asset Impairment" issued by the Ministry of Finance in the PRC in February 2006) is different from the valuation assessment method by asset based approach (cost approach) (which is determined by assessing the value of assets and liabilities on the balance sheet of the Transaction Target with reference to the replacement cost of the relevant items) in term of methodology and basis in assessment as set out aforesaid. Further, Article 36 in the "Valuation Guidance on Financial Statements (trial implementation) [Zhong Ping Xie [2007] No. 169]" issued by China Appraisal Society in 2007 states that the impairment assessment method in auditing shall not be applied to the asset based approach (cost approach) in valuation.

Based on the difference as illustrated above, there were differences between the book value of the Transaction Target in the financial statements of the Company as at 31 December 2015 and the appraised value of the Transaction Target in the Asset Valuation Report as at the Benchmark Date and it follows that such figures shall not be comparable.

***Illustration for the change in value***

The change in value of the Transaction Target can be attributable to a number of factors which can be supported by quantitative market data:

1. Change in the price in petroleum and polypropylene: according to JYD Information Co., Ltd., a professional provider of bulk commodity consultation and trading services, the oil price decreased continuously from approximately US$98.09/barrel in 2013 to approximately US$39.6/barrel in the first half of 2016, resulting in the decrease in prices of domestic coal-to-chemical products. In particular, price of polypropylene decreased from approximately RMB10,740/barrel in 2013 to approximately RMB6,733/barrel in the first half of 2016. The decrease in sales price of oil-to-chemical products also has negative effect on the prices of similar coal-to-chemical products of the Company.

2. Change in the price in steel materials: according to "Wind Info" (萬得信息技術股份有限公司), a PRC financial information platform, steel price has decreased continuously from approximately RMB4,900/ton in 2011 to approximately RMB2,380/ton in March 2016. As steel is one of the main construction materials for the buildings of the companies under the Transaction Target, the decrease in steel price has a negative impact on the appraised value of the Transaction Target.

3. Change in lending rate of the Peoples' Bank of China: the 3 to 5 year lending rate increased from 6.12% in 2006 to 7.74% in December 2007 and subsequently decreased year-on-year to 4.75% in October 2015. The decrease in the lending rate resulted in the lower construction cost and thus the negative impact on the appraised value for the Transaction Target.

These have affected the appraised value in multiple companies under the Transaction Target, which will be illustrated in greater detail below:

*1. Energy and Chemical Company*

Energy and Chemical Company is principally engaged in technology development in energy and chemical, technology transfer, technology consultation technology services; investment management; engineering design; repair installation and debugging of chemical and electrical equipment; import and export of goods, import and export agency, import and export of technology. Major assets of Energy and Chemical Company include current assets and long-term equity investment. The book value of net assets of Energy and Chemical Company was approximately RMB7,734.6955 million and the appraised value was approximately RMB-6,944.7557 million. The impairment amount was approximately RMB14,679.4512 million and the impairment rate was approximately 189.78%. It was primarily due to long-term equity impairment of approximately RMB14,682.2821 million with the impairment rate of approximately 229.58%. The impairment for long-term equity was due to significant value of appraised impairment for companies such as Keqi Coal-based Gas Company, Fuxin Coal-to-gas Company, Duolun Coal Chemical Company and Hulunbeier Chemical Fertiliser Company.

(1) Duolun Coal Chemical Company

Duolun Coal Chemical Company is principally engaged in the construction and operation of the coal-based olefin project with an annual production of 460,000 tons of Datang Inner Mongolia Duolun Coal Chemical Company Limited. Major assets of Duolun Coal Chemical Company include buildings and structures, main technical production facilities, main ancillary production facilities, transportation equipment, land and inventories. The book value of net assets of Duolun Coal Chemical Company was approximately RMB-5,891.3902 million, and the appraised value was approximately RMB-13,104.8826 million. The impairment amount was approximately RMB7,213.4924 million and the impairment rate was approximately 122.44%. The main reasons for the impairment were as follows:

(a) Impairment for inventories (mainly include products such as polypropylene, LPG, BTX aromatics and industrial sulphur, semi-finished products such as ethanol, ethylene and propylene, as well as raw materials such as coal and auxiliary materials) was approximately RMB11.3605 million, due to the overly high product cost of Duolun Coal Chemical Company, and the low market price due to the decrease in the price of petroleum worldwide, resulting in the impairment of the appraised value (of which the market price of polypropylene was approximately 66% of its cost; the market price of LPG was approximately 89% of its cost; the market price of BTX aromatics was approximately 72% of its cost).

(b) The asset impairment for buildings and constructions under fixed assets was approximately RMB2,428.3179 million, mainly due to the non-deductible value-added tax of pipes purchased before 2009, contrary to the fact that the value-added tax of pipes purchased has become deductible after 2009 following the changes in the PRC taxation policies, and the amount concerned was approximately RMB291.0596 million; overly high expenses amortized under assets such as the construction consultation fees, design fees, commissioning fees and finance costs, and the amount concerned was approximately RMB807.0300 million; and the weaker performance as a result of the failure to reach the original designed production capacity because of technical reasons, resulting in the corresponding decrease in the value, and the amount concerned was approximately RMB732.4283 million.

(c) The impairment for machineries and equipment under fixed assets was approximately RMB5,805.8959 million, mainly due to the non-deductible value-added tax of equipment purchased before 2009, contrary to the fact that the value-added tax of pipes purchased has become deductible after 2009 following the changes in the PRC taxation policies and the amount concerned was approximately RMB229.3059 million; overly high expenses amortized under assets such as the construction consultation fees, design fees and commissioning fees, and the amount concerned was approximately RMB1,402.2000 million; overly high expenses amortized under finance costs, and the amount concerned was approximately RMB1,892.9700 million; the corresponding decrease in the value arising from the weaker performance of the production equipment as a result of the failure to reach the original designed production capacity because of technical reasons, and the amount concerned was approximately RMB1,718.3879 million; and the decrease in the purchase cost of the machineries and equipment, and the amount concerned was approximately RMB563.0321 million.

(2) Keqi Coal-based Gas Company

Keqi Coal-based Gas Company is principally engaged in the construction and operation of the coal-based gas project with production of 4 billion cubic meters of natural gas per annum of Inner Mongolia Datang International Keshiketeng Coal-based Natural Gas Project. Major assets of Keqi Coal-based Gas Company include inventories, buildings and structures, machineries and equipment, transportation equipment, electronic equipment, construction-in-progress and construction materials. The book value of net assets of Keqi Coal-based Gas Company was approximately RMB4,941.5227 million, and the appraised value was approximately RMB-935.9207 million. The impairment amount was approximately RMB5,877.4434 million and the impairment rate was approximately 118.94%. The main reasons for the impairment were as follows:

(a) Impairment of current assets was approximately RMB15.9373 million, which was mainly due to the appraised impairment of inventories (mainly include ammonium sulfate, sulphur and tar) (of which the market price of ammonium sulfate was approximately 29% of its cost; the market price of sulphur was approximately 44% of its cost; the market price of tar was approximately 72% of its cost);

(b) Impairment of fixed assets was approximately RMB3,923.8143 million, which was mainly due to the original appraised impairment of both building-related assets and machinery equipment and in particular:

The reasons for the original appraised impairment of building-related assets were:

1) buildings were mainly constructed using steel and other major building materials. The construction costs of buildings were mainly composed of materials fees, machinery fees and labour costs. When the price of steel and other major building materials decrease, the materials fees will drop accordingly, resulting in the appraised impairment of buildings, and the amount concerned was approximately RMB243.2014 million;

2) since the reasonable construction period was shorter than the actual construction period, the amount of loan interests paid was lower, leading to a decrease in the cost of funds and in turn the appraised impairment. The downward adjustment to the interest rate will result in a decrease in the amount of loan interests paid, and accordingly, the downward adjustment to the interest rate would result in the appraised impairment of buildings, and the amount concerned was approximately RMB454.8826 million;

3) since the reasonable construction period was shorter than the actual construction period, the construction consultation fees, design fees, commissioning fees, finance costs and other expenses amortized under assets were overly high, resulting in the appraised impairment of the buildings, and the amount concerned was approximately RMB456.4758 million;

4) the non-deductible value-added tax of pipes purchased before 2009, contrary to the fact that the value-added tax of pipes purchased has become deductible after 2009 following the changes in the PRC taxation policies, and the amount concerned was approximately RMB229.3059 million;

5) the corresponding decrease in the value arising from the weaker performance of the production equipment as a result of the failure to reach the original designed production capacity because of technical reasons, and the amount concerned was approximately RMB584.6008 million.

The major reasons for the appraised impairment on machinery equipment were:

1) the decrease in the purchase cost of the machineries and equipment, and the amount concerned was approximately RMB558.9920 million;

2) the reasonable construction period was shorter than the actual construction period, and the amount concerned was approximately RMB451.2928 million;

3) the construction consultation fees, design fees, commissioning fees, finance costs and other expenses amortized under assets were overly high, and the amount concerned was approximately RMB687.1359 million; and

4) the corresponding decrease in the value arising from the weaker performance of the production equipment as a result of the failure to reach the original designed production capacity because of technical reasons, and the amount concerned was approximately RMB623.9910 million.

(c) Impairment of construction under progress was approximately RMB2,035.6911 million, which was due to:

1) buildings were mainly constructed using steel and other major building materials. The construction costs of buildings were mainly composed of materials fees, machinery fees and labour costs. When the price of steel and other major building materials decrease, the materials fees will drop accordingly, resulting in the appraised impairment of buildings, and the amount concerned was approximately RMB146.2154 million;

2) since the reasonable construction period was shorter than the actual construction period, the amount of loan interests paid was lower, leading to a decrease in the cost of funds and in turn the appraised impairment. The downward adjustment to the interest rate will result in a decrease in the amount of loan interests paid, and accordingly, the downward adjustment to the interest rate would result in the appraised impairment of the construction under progress, and the amount concerned was approximately RMB1,700.5282 million;

3) since the reasonable construction period was shorter than the actual construction period, the construction consultation fees, design fees, commissioning fees, finance costs and other expenses amortized under assets were overly high, resulting in the appraised impairment of the construction under progress, and the amount concerned was approximately RMB188.9476 million.

(3) Fuxin Coal-to-gas Company

Fuxin Coal-to-gas Company is principally engaged in the construction and operation of Coal-based Gas Project with production of 4 billion cubic meters of natural gasper annum of Liaoning Datang International Fuxin Coal-based Natural Gas Project. Major assets of Fuxin Coal-to-gas Company include buildings, transportation equipment, construction-in-progress and construction materials. The book value of net assets of Fuxin Coal-to-gas Company was approximately RMB1,739.9699 million, and the appraised value was approximately RMB152.3748 million. The impairment amount was approximately RMB1,587.5951 million and the impairment rate was approximately 91.24%. The main reasons for the impairment were as follows:

(a) The impairment of fixed assets was approximately RMB20.3842 million, due to the fact that buildings were mainly constructed using steel and other major building materials. The construction costs of buildings were mainly composed of materials fees, machinery fees and labour costs. When the price of steel and other major building materials decrease, the materials fees will drop accordingly, resulting in the appraised impairment of buildings.

(b) The impairment of construction-in-progress was approximately RMB2,122.4247 million, and the reasons were:

1) Steel and other major construction materials were consumed during construction-in-progress. The construction costs of construction-in-progress were mainly composed of materials fees, machinery fees and labour costs. When the price of steel and other major building materials decrease, the materials fees drops accordingly, resulting in the appraised impairment of buildings, and the amount concerned was approximately RMB248 million.

2) Considering that the performance of the production equipment was weaker due to the failure to reach the original designed production capacity as a result of technical reasons, the appraised value decreased accordingly, and the amount concerned was approximately RMB653 million.

3) since the reasonable construction period was shorter than the actual construction period, the amount of loan interests paid was lower, leading to a decrease in the cost of funds and in turn the appraised impairment. The downward adjustment to the interest rate will result in a decrease in the amount of loan interests paid, and accordingly, the downward adjustment to the interest rate would result in the appraised impairment of the construction under progress, and the amount concerned was approximately RMB571.42 million.

4) overly high expenses amortized under assets such as the construction consultation fees, design fees and commissioning fees, and the amount concerned was approximately RMB650 million.

(c) The impairment of other non-current liabilities was approximately RMB513.6043 million, and the reason was that since the impaired non-current liabilities mainly consisted of government grant which was issued by the government in support of the growth of companies and such government grant was not required to be repaid, such amount shall not constitute actual liabilities, leading to the appreciation of the appraised value of the assets.

(4) Hulunbeier Chemical Fertiliser Company

Hulunbeier Chemical Fertiliser Company is principally engaged in the construction and operation of the ammonia synthesis project with an annual production of 180,000 tons/urea project with an annual production of 300,000 tons of Datong Inner Mongolia Hulunbeier Project. Major assets of Hulunbeier Chemical Fertiliser Company include buildings, production facilities and inventories. The book value of net assets of Hulunbeier Chemical Fertiliser Company was approximately RMB-410.0525 million, and the appraised value was approximately RMB-727.1652 million. The impairment amount was approximately RMB317.1127 million and the impairment rate was approximately 77.33%. The main reasons for the impairment were as follows:

(a) The impairment of current assets (which are mainly inventories) was approximately RMB4.2286 million and the reasons were:

1. Since a portion of raw materials could not be utilized as usual due to the longer storage period, changes in the environment and other factors, its appraised value was lower than the cost of book value, resulting in the impairment, and the amount concerned was approximately RMB0.5689 million;

2. The product costs for urea of Hulunbeier Chemical Fertiliser Company was overly high, whereas the market price was lower due to overcapacity in production (of which the market price of urea was approximately 64% of its cost).

(b) The impairment of fixed assets was approximately RMB344.5029 million, mainly due to:

1. The drop in raw material prices for manufacturing machinery and equipment, and the amount concerned was approximately RMB9.9331 million; the non-deductible value-added tax of equipment purchased before 2009, contrary to the fact that the value-added tax of pipes purchased has become deductible after 2009 following the changes in the PRC taxation policies, and the amount concerned was approximately RMB6.6220 million; high trial operation costs arising from immature technologies, and the amount concerned was approximately RMB86.9810 million; the fact that since the reasonable construction period was shorter than the actual construction period, the amount of loan interests paid was lower, leading to a decrease in the cost of funds, and the amount concerned was approximately RMB103.5361 million; the corresponding decrease in the value arising from the weaker performance of the production equipment as a result of the failure to reach the original designed production capacity because of technical reasons, and the amount concerned was approximately RMB43.5906 million, and in turn the appraised impairment.

2. The overly high construction consultation fees, design fees, commissioning fees and other expenses amortized under assets, resulting in the appraised impairment of buildings since the reasonable construction period was shorter than the actual construction period, and the amount concerned was approximately RMB28.7976 million; buildings were mainly constructed using steel and other major building materials. The construction costs of buildings were mainly composed of materials fees, machinery fees and labour costs. When the price of steel and other major building materials decrease, the materials fees will drop accordingly, resulting in the appraised impairment of buildings, and the amount concerned was approximately RMB10.9874 million; since the reasonable construction period was shorter than the actual construction period, the amount of loan interests paid was lower, leading to a decrease in the cost of funds, and the amount concerned was approximately RMB68.7154 million; the corresponding decrease in the value arising from the weaker performance of the production equipment as a result of the failure to reach the original designed production capacity because of technical reasons, and the amount concerned was approximately RMB28.9305 million.

(5) Dashimen Hydropower Company

Dashimen Hydropower Company is principally engaged in the construction and operation of the Dashimen hydropower project of Inner Mongolia Datang International Keshiketeng. Major assets of Dashimen Hydropower Company include dams and power generation equipment. The book value of the net assets of Dashimen Hydropower Company was approximately RMB-22.5447 million, and the appraised value was approximately RMB-55.4598 million. The impairment amount was approximately RMB32.9151 million and the impairment rate was approximately 146.00%. The main reasons for the impairment were as follows:

The construction costs of buildings were mainly composed of materials fees, machinery fees and labour costs. When the price of steel and other major building materials decrease, the materials fees will drop accordingly, resulting in the appraised impairment of buildings. Materials purchased before 2009 could not deduct value added tax. As there were changes in the PRC taxation policy, the purchased material after 2009 could deduct value added tax. Immature technology generated relatively high trial operation cost. As the reasonable construction period are shorter than the actual construction period, the loan interests paid are relatively small, leading to the decrease in capital cost and resulting in fixed asset appraised impairment.

(6) Duolun Hydropower Company

Duolun Hydropower Company is principally engaged in the construction and development of the Xishanwan Reservoir and Dahekou Reservoir in Duolun county of Inner Mongolia. Major assets of Duolun Hydropower Company include buildings and structures, construction-in-progress and land. The book value of the net assets of Duolun Hydropower Company was approximately RMB37.4410 million, and the appraised value was approximately RMB268.0570 million. The appreciation amount was approximately RMB230.6160 million and the appreciation rate was approximately 615.95%, mainly due to the appreciation of intangible assets of approximately RMB225.2732 million. Duolun Hydropower Company accounted for the land consideration obtained since its establishment in 2006 as the book value and amortized such value over the recent years, resulting in a relatively low book value, whereas the value of land use right was kept increasing, resulting in the increase in appraised appreciation.

(7) Fuxin Sewage Disposal Company

Fuxin Sewage Disposal Company is principally engaged in treatment and recycling and utilization of sewage water, consultation in the sewage water field. Major assets of Fuxin Sewage Disposal Company include inventories, buildings and structures, sewage treatment equipment and electrical equipment. The book value of the net assets of Fuxin Sewage Disposal Company was approximately RMB129.5086 million, and the appraised value was approximately RMB190.4092 million. The appreciation amount was approximately RMB60.9006 million and the appreciation rate was approximately 47.02%. The main reasons for the appreciation were as follows:

(a) The land appreciation under intangible assets was approximately RMB22.56 million, which was mainly due to no book value for the land use right of Fuxin Sewage Disposal Company (which was granted by the government at nil consideration), resulting in the increase in appraised appreciation;

(b) The impairment of non-current liabilities was approximately RMB58.6881 million, which was mainly due to the fact that the impaired non-current liabilities are mainly government subsidies, and the amount is granted for helping the growth of the enterprise by the government and no repayment is needed for the enterprise in the future. It would not constitute substantial liabilities, thereby resulting in the appraised appreciation in assets.

(8) Energy and Chemical Marketing Company

Energy and Chemical Marketing Company is principally engaged in the wholesales of flammable liquids, flammable solids, spontaneous combustible substances and flammable substances when wet; and the sales of minerals, building materials, chemical products (excluding hazardous chemicals), metal materials, chemical fertilizer. Major assets of Energy and Chemical Marketing Company include inventories. The book value of the net assets of Energy and Chemical Marketing Company was approximately RMB107.6829 million, and the appraised value was approximately RMB92.5943 million. The impairment amount was approximately RMB15.0886 million and the impairment rate was approximately 14.01%, mainly due to high product cost (including polypropylene, urea, tar, crude phenol and sulphur) of Energy and Chemical Marketing Company and low market price of commodities due to the decrease in the price of petroleum, leading to appraised impairment.

(9) Huachuan Zhuoyue Plastic Products Company

Huachuan Zhuoyue Plastic Products Company is principally engaged in the production, processing and sale of plastic products. Major assets of Huachuan Zhuoyue Plastic Products Company include buildings and structures, machineries and equipment, and land. The book value of the net assets of Huachuan Zhuoyue Plastic Products Company was approximately RMB-1.0282 million, and the appraised value was approximately RMB5.7593 million. The appreciation amount was approximately RMB6.7875 million and the appreciation rate was approximately 660.13%, mainly due to the fact that the construction costs of buildings were mainly composed of materials fees, machinery fees and labour costs and the appreciation of approximately RMB6.0819 million in buildings arising from the rise in labour costs and machinery costs, and the appreciation in increase in intangible assets by approximately RMB4.3252 million as a result of the increase in land price.

(10) Chemical Technology Research Institute

Chemical Technology Research Institute is principally engaged in the research and development of the coal chemical technology, coal gasification technology, coal liquefaction technology, fuel cell chemical technology; the related technology consultation, technology training, technology transfer and technology service; and the sales of chemical products. Major assets of Chemical Technology Research Institute include material, special equipment for research and development, transportation equipment, electronic office equipment, instrument and meter. The book value of the net assets of Chemical Technology Research Institute was approximately RMB47.4839 million, and the appraised value was approximately RMB186.0891 million. The appreciation amount was approximately RMB138.6052 million and the appreciation rate was approximately 291.90%, mainly due to the increase in intangible assets by approximately RMB97.5796 million as a result of the appraised appreciation in self-developed patent assets.

(11) Fuxin Engineering Company

Fuxin Engineering Company is principally engaged in the equipment debugging and maintenance, construction and installation of small engineering projects, electric power overhaul, high voltage electrical test, fire control facilities engineering, machinery processing, metal welding inspection, technology service, machinery and equipment leasing and ordinary cargo transportation. Major assets of Fuxin Engineering Company include machineries and equipment, vehicles, electronic equipment and inventories. The book value of the net assets of Fuxin Engineering Company was approximately RMB79.7232 million, and the appraised value was approximately RMB119.6685 million. The appreciation amount was approximately RMB39.9453 million and the appreciation rate was approximately 50.10%. The main reasons for the appreciation were due to the increase in long-term equity investment by approximately RMB39.6720 million as a result of the higher overall value of the investee than the initial investment costs in book value after evaluation.

(12) Jibei Maintenance Company

Jibei Maintenance Company is principally engaged in the installation, debugging and maintenance of the power plant equipment and related technology consultation service; planting and nursing services of the trees and flowers in factory area; the cleaning service of factory area and equipment; and the repair and maintenance of the factory buildings,. Major assets of Jibei Maintenance Company include low-value consumables, maintenance tools, transportation vehicles and office equipment. The book value of the net assets of Jibei Maintenance Company amounted to approximately RMB14.7402 million with an appraised value of approximately RMB43.2161 million, which represented an increase of approximately RMB28.4759 million or an increase percentage of approximately 193.19%. The increase was mainly due to the fact that the impaired non-current liabilities are mainly government subsidies, and the amount is granted for helping the growth of the enterprise by the government and no repayment is needed for the enterprise in the future. It would not constitute substantial liabilities, thereby resulting in appreciation of value in assets.

*2. Xilinhaote Brown Coal Integrated Development Company*

Xilinhaote Brown Coal Integrated Development Company is principally engaged in the preparation of the lignite drying project. Major assets of Xilinhaote Brown Coal Integrated Development Company include buildings and constructions, transportation equipment, construction-in-progress, construction materials. The book value of the net assets of Xilinhaote Brown Coal Integrated Development Company amounted approximately RMB236.4831 million with an appraised value of approximately RMB84.7669 million, which represented an impairment amount of approximately RMB151.7162 million or an impairment rate of approximately 64.16%. This was mainly due to the substantial decrease of approximately RMB160.1162 million in construction-in-progress, which was primarily due to:

(1) Buildings are mainly constructed by major building materials such as steel. The construction costs of buildings were mainly composed of materials fees, machinery fees and labour costs. When the price of steel and other major building materials decrease, the materials fees will drop accordingly, resulting in the appraised impairment of buildings.

(2) As the reasonable construction period are shorter than the actual construction period, the loan interests paid are relatively small, leading to the decrease in capital cost and resulting in fixed asset appraised impairment; downward adjustment of interest rates will lead to the decrease in the paid loan interests. Therefore, if there is downward adjustment of interest rates, then there will be appraised impairment of buildings.

3. *Xilinhaote Power Generation Company*

Xilinhaote Power Generation Company is principally engaged in the preliminary preparation works of the 4 × 660MW project of Xilinhaote Power Generation Plant. Major assets of Xilinhaote Power Generation Company include transportation equipment, electronic equipment, construction-in-progress and project materials. The book value of the net assets of Xilinhaote Power Generation Company amounted to approximately RMB51.7675 million with an appraised value of RMB52.29 million, which represented an increase of approximately RMB0.5225 million or an increase percentage of approximately 1.01%. The increase was mainly due to the fact that as profit-generating term of the equipment was longer than the depreciation life, the appraised value was higher than the book value, resulting in the appreciation of value (due to different definition of useful life of equipment adopted in the valuation standards and accounting standards).

4. *Xilinhaote Mining Company*

Xilinhaote Mining Company is principally engaged in the development, construction and operation of Shengli Open-pit Coal Mine East Unit 2 project. Major assets of Xilinhaote Mining Company include buildings and structures, over-burden removal process, specialized coal equipment, electrical appliances, land, construction-in-progress, project materials, inventories. The book value of the net assets of Xilinhaote Mining Company amounted to approximately RMB-1,484.9047 million with an appraised value of approximately RMB-2,551.8795 million, which represented an impairment amount of approximately RMB1,066.9748 million or an impairment rate of approximately 71.85%. The reasons for impairment are set out as follows:

(a) The appraised impairment of current assets amounted to approximately RMB492.7097 million. The main reason for the impairment was the high cost price of production of Xilinhaote Mining Company and low market price of products as influenced by the national economic environment of the PRC, leading to appraised impairment (of which the market price of coal was approximately 50% of its cost);

(b) The appraised impairment of buildings and equipment under fixed assets was approximately RMB200.2778 million, mainly due to the decrease in prices of major materials and machineries equipment on the Benchmark Date and less actual interest generated after recalculation of interest.

1. Buildings are mainly constructed by major building materials such as steel. The construction costs of buildings were mainly composed of materials fees, machinery fees and labour costs. When the price of steel and other major building materials decrease, the materials fees will drop accordingly, resulting in the appraised impairment of buildings, and the amount concerned was approximately RMB10.9257 million.

2. Since the reasonable construction period was shorter than the actual construction period, the amount of loan interests paid was lower, leading to a decrease in the cost of funds and in turn the appraised impairment. The downward adjustment to the interest rate will result in a decrease in the amount of loan interests paid, and accordingly, the downward adjustment to the interest rate would result in the appraised impairment of the buildings, and the amount concerned was approximately RMB68.3294 million.

3. The appraised depreciation of construction in progress was approximately RMB1,161.5365 million. The main reason for the depreciation was that: since the reasonable construction period was shorter than the actual construction period, the amount of loan interests paid was lower, leading to a decrease in the cost of funds and in turn the appraised impairment; as the downward adjustment to the interest rate as at the Benchmark Date would result in the decrease in loan interests paid, the appraised value impaired upon the downward adjustment to the interest rate as at the Benchmark Date, and the amount concerned was approximately RMB580.7683 million.

4. The appraised appreciation of intangible assets was approximately RMB778.9888 million, mainly due to the appraised appreciation of land of approximately 1,769.8504 million and the appraised impairment for mining right of approximately RMB998.3412 million, which was attributable to, among others, the decrease in the market price of coal, and the unfavourable mining conditions and the lower quality of coal actually exploited than those of expectations.

*5. Keshiketeng Power Source Preliminary Project*

Major assets of Keshiketeng Power Source Preliminary Project include transportation equipment and electronic equipment. The book value of the net assets of Keshiketeng Power Source Preliminary Project was RMB0. The appraised value was approximately RMB2.8668 million and the appreciation amount was approximately RMB2.8668 million, mainly due to the shorter depreciation term according to the accounting policy of the enterprise and an increase in the net value was determined after the depreciation rate was calculated over the economic useful life in the valuation. Since the profit-generating term of the equipment was longer than the depreciation life, the appraised value was higher than the book value, resulting in the appreciation of value (due to different definition of useful life of equipment adopted in the valuation standards and accounting standards).

***Consideration***

(1) The Company considered a number of factors in entering into the transaction contemplated under the Transfer Agreement, including the appraised value of the Transaction Target (i.e. approximately RMB-8,335.9597 million) as valued as at the Benchmark Date in the Asset Valuation Report, the losses suffered by some of the companies under the Transaction Target in recent years, the benefits of entering into the transaction to the Company as set out in the section headed "Reasons for and benefits of entering into the Transfer Agreement" including the release of the guarantee obligations of the Company as set out in the section headed "Guarantee arrangement", and the potential future loss of the Transaction Target which may drag down the future performance of the Company as the accounts of the Transaction Target are consolidated to that of the Company.

(2) Having considered the above factors, the Company considered that it is in its interest to dispose of the Transaction Target and started negotiations with CDC in or about March 2016. CDC subsequently established Zhongxin Energy and Chemical in or about April 2016 and the Company had started negotiations with Zhongxin Energy and Chemical since then. As the appraised value of the Transaction Target is of approximately RMB-8,335.9597 million and the potential operational loss of the Transaction Target during the Transitional Period will further reduce the appraised value of the Transaction Target, the parties, after arm's length negotiations, agreed to waive certain portion of the outstanding principal amount of the entrusted loans (including those extended in the Transitional Period) provided by the Company to the Target Companies to offset the corresponding level of negative appraised value of the Transaction Target, and **agreed the consideration for the transfer of the Transaction Target to be RMB1.** The said consideration is not subject to further adjustment. Based on the abovementioned arrangement, Zhongxin Energy and Chemical agreed to enter into the transaction contemplated under the Transfer Agreement.

(3) In light of (a) the change in business environment due to the slowdown in the PRC economy and the downward movement of the price of the coal-to-chemical products resulting from low international oil price; (b) difficult operating condition in companies under the Transaction Target, for example the failure to meet the expected production capacity and difficulties in maintaining cash flows and repayment of loans; and (c) level of loss of the Transaction Target in 2015 and the three months ended 31 March 2016 based on the audited results of the Company which amounted to approximately RMB5 billion and RMB1.3 billion, respectively, it is expected that the Transaction Target will continue to record significant losses in 2016 and the coming years in the future. Therefore, the disposal of the Transaction Target will release the Company from future potential losses of the Transaction Target. As such, the Directors are of the view that the consideration of RMB1 is in the interest of the Company and Shareholders.

Further to the above, the Directors have actively attempted to recover the entrusted loans granted to the Transaction Target through various means, for example the Company had various negotiations with Zhongxin Energy and Chemical and CDC to discuss about the proposal for the repayment arrangement of such entrusted loans, including one-off repayment or repayment by instalment, but consensus cannot be reached. Having considered the financial statements of cash flows of the Transaction Target for the years ended 31 December 2014 and 2015, the Directors are of the view that companies under the Transaction Target are not likely to have sufficient working capital to repay the total outstanding amount of the entrusted loans provided by the Company and hence the Company is not likely to recover the total principal amount from disposing the assets of the Transaction Target. The Directors are therefore of the view that it is reasonable for the Target Companies to have a one-off waiver of certain entrusted loans instead of having other alternatives as such extending the repayment terms of the entrusted loans.

(4) For the purpose of this transaction and in the normal completion circumstances, certain principal amount of the entrusted loans provided by the Company to the Target Companies is to be waived on the Completion Date. The principal amount of the waived entrusted loans is the sum of: (A) the appraised absolute value of the Transaction Target of approximately RMB8,335.9597 million; and (B) the absolute value of the operating loss of the Transaction Target in the Transitional Period which shall be borne by the Company based on its shareholding/proportion to the equity interests as determined by the special audit report for the Transitional Period in accordance with the section headed "Arrangement for the Transitional Period" below. The Company is entitled at its discretion to decide the borrowers of the waived entrusted loans and their principal amount. The waived entrusted loans could be the entrusted loans provided to the Target Companies by the Company (including those provided in the Transitional Period) which have not yet been repaid or newly-added entrusted loans. The details of the waived entrusted loans, including but not limited to the contract number of the relevant entrusted loans contracts to be waived, names of the relevant borrower, the principal amount of the entrusted loan to be waived, details about the termination/revision of the original entrusted loan contracts and other subsequent arrangements, will be set out in the notice to be given by the Company to Zhongxin Energy and Chemical at the material time. **The maximum aggregate amount of the above-mentioned waived entrusted loans amounted to RMB10 billion.** The combined amount of (A) and (B) will be completely offset by the principal amount of the entrusted loans agreed to be waived.

(5) The release of guarantee obligations of the Company set out in the section headed "Guarantee arrangement" below does not form part of the consideration under the Transfer Agreement.

(6) The waiver of the entrusted loans provided by the Company to the Target Companies and the release of the guarantee obligations of the Company set out in the sections headed "Guarantee arrangement" and "Arrangement of entrusted loans" below are conditional upon the Transfer Agreement becoming effective.

(7) Zhongxin Energy and Chemical shall pay the consideration of the transfer of the Transaction Target in cash to the account specified by the Company within 5 working days from the date of satisfying all the conditions set out in the section headed "Conditions" below.

**Arrangement for the Transitional Period**

(1) The profit or loss of the Transaction Target recorded in the Transitional Period shall be enjoyed or borne by the Company; both parties agreed that the Company will not conduct any adjustment in its financial statement in respect of the impairment of the Transaction Target in the valuation. Within 30 working days after the Completion Date, the Company will entrust the accounting firm which issued the Audit Report to carry out a special audit for the profit or loss of the Transaction Target recorded in the Transitional Period and issue a special audit report.

Since it is agreed that the Company will not conduct any corresponding adjustment in its financial statement in respect of the impairment on the valuation, the Board therefore considers that the impairment resulting from the valuation does not constitute a significant event and/or inside information of the Company.

(2) During the Transitional Period, the Company shall be responsible for the operation and management of the Transaction Target.

(3) For the relevant arrangements agreed for the newly-added entrusted loans during the Transitional Period (the newly-added entrusted loans or advances provided by the Company to the Transaction Target from the Benchmark Date to the execution date of the Transfer Agreement as well as the additional entrusted loans to be provided by the Company to the Transaction Target from the execution date of the Transfer Agreement to the Completion Date for maintaining the normal operation of the Transaction Target), please refer to the section headed "Arrangement of entrusted loans" below for details.

**Arrangement of entrusted loans**

Since the appraised value of the Transaction Target is of approximately RMB-8,335.9597 million and the potential operational loss of the Transaction Target during the Transitional Period will further reduce the appraised value of the Transaction Target, the Company agreed to waive its creditors' right on its loans granted to the Transaction Target of a specific amount (i.e., waiving a specific amount of entrusted loans) to offset the corresponding level of negative appraised value of the Transaction Target, thereby facilitating the parties in agreeing the consideration of RMB1 for the transaction under the Transfer Agreement. As such, the Directors are of the view that such arrangement is fair and reasonable and in the interests of the Company and the Shareholders. The arrangements are as follows:

(1) The aggregate principal amount of the waived entrusted loans is the sum of: (A) appraised absolute value of the Transaction Target of approximately RMB8,335.9597 million; and (B) the absolute value of the operating loss of the Transaction Target in the Transitional Period which shall be borne by the Company based on its shareholding/proportion to the equity interests as determined by the special audit report for the Transitional Period in accordance with the section headed "Arrangement for the Transitional Period" above. The Company is entitled at its discretion to decide the borrowers of the waived entrusted loans and their principal amount. Within 35 business days of the Completion Date, the waived amount of the entrusted loans will be determined and the Company will, in accordance with the result of the said special audit report and consider factors including the amount of entrusted loans currently provided, the repayment ability, the cash flows conditions and the assets-to-liability ratio when determining the amount of the entrusted loans to be waived for each of the borrower, enter into supplement agreements with the borrowers or related parties and will specify the details and arrangements of the waived entrusted loans therein. The Company will publish an announcement in respect of the update of this matter as and when appropriate. As of 31 March 2016, the amount of entrusted loans provided to the companies under the Transaction Target was as follows:

*Currency: RMB Unit: million*

| **Borrower** | **Amount (as of 31 March 2016)** |
|---|---|
| Dolun Coal Chemical Company | 4,140 |
| Xilinhaote Mining Company | 4,270.7 |
| Energy and Chemical Company | 1,640 |
| Xilinhaote Brown Coal Integrated Development Company | 147.5 |

The waived entrusted loans could be the entrusted loans provided to the Target Companies by the Company (including those provided in the Transitional Period) which have not yet been repaid or newly-added entrusted loans. For details of the waived entrusted loans, the then written notice of the Company shall prevail. **The maximum aggregate amount of the above-mentioned waived entrusted loans amounted to RMB10 billion and the minimum amount of the above-mentioned waived entrusted loans amounted to the appraised absolute value of the Transaction Target (i.e. RMB8,335.9597 million).**

If the Transaction Target records operating loss during the Transitional Period, the aggregate principal amount of the waived entrusted loans is the sum of (A) and (B) above. If the Transaction Target records operating profit during the Transitional Period, the principal amount of the waived entrusted loans is the appraised absolute value of the Transaction Target (i.e. RMB8,335.9597 million). In accordance with the Transfer Agreement, the Company is entitled to the profit/loss of the Transaction Target during the Transitional Period. In the event that the Transaction Target records profit during the Transitional Period, Zhongxin Energy and Chemical or its specified entity will pay such profit to the Company in accordance with the results of the special audit;

(2) Regarding the corresponding interest of the entrusted loans to be waived which form part of the consideration of the transaction as at the Completion Date, the borrowers of the entrusted loans to be waived shall pay it to the Company at the Completion Date; if the payment of the abovementioned interest is later than the Completion Date, the interest between the next day of the Completion Date to the actual payment date is also payable; as of the Completion Date, except the entrusted loans to be waived, the remaining entrusted loans and the newly-added entrusted loans in the Transitional Period shall be performed as agreed in the original entrusted loan agreement; of which, the agreed terms in the agreement shall be performed if the repayment date is scheduled earlier than 31 December 2016; and the repayment date will be changed to 31 December 2016 if the repayment date is scheduled at a date later than 31 December 2016;

(3) The Company has the right to recover the principal amount and the relevant interest of the entrusted loans as agreed above; if the Company fails to recover the full amount of such principal and interest when due, it has the right to claim for compensation in addition to receiving liquidated damages for the outstanding receivables from the payable date to the actual payment date. The liquidated damages shall be determined with reference to the interest rate standard on expired loans published by the People's Bank of China; if the liquidated damages is insufficient to recover the loss incurred by the Company, the Company is entitled to claim for further compensation for the outstanding amount. Zhongxin Energy and Chemical agreed and undertook to guarantee the above-mentioned liabilities; and

(4) Within 35 working days after the Completion Date, the Company shall enter into supplemental agreements in relation to the changes and performance of the entrusted loans with the borrower and other relevant parties of the aforementioned entrusted loans.

The Company may, depending on the demand for funds for operation and production of the Transaction Target, provide entrusted loans to the Transaction Target during the Transitional Period. For instance, the Company has provided entrusted loans of RMB1.1 billion to Duolun Coal Chemical Company and of RMB100 million to Xilinhaote Mining Company, respectively, during the Transitional Period (details of which were disclosed in the Company's announcement dated 11 July 2016). On 8 August 2016, the Company, Duolun Coal Chemical Company and Beijing Railway Sub-branch of China Construction Bank Corporation entered into a supplemental agreement to, amongst others, revise the amount of entrusted loan to be granted by the Company to Duolun Coal Chemical Company from RMB1.1 billion to RMB0.9 billion (details of which were disclosed in the Company's announcement dated 8 August 2016). The Company will comply with the relevant reporting, announcement and Independent Shareholders' approval requirements (as appropriate) under the Listing Rules in the event that it enters into further entrusted loan agreements with the Transaction Target. The Company expects that it will not provide further entrusted loans to the Transaction Target after the completion of the Transfer Agreement.

**Guarantee arrangement**

After the Completion Date, Zhongxin Energy and Chemical shall use all endeavour to prevent the occurrence of situations where the Company will need to perform the guarantee obligations after the Completion Date, and it shall complete the procedures for changes to the guarantee arrangement in a timely manner to undertake the guarantee of the Company. Zhongxin Energy and Chemical shall (or through its designated related party) release the guarantee obligations of the Company through novating the Company for the guarantee obligations, repayment before the maturity date or any other legal means, and ensure that the Company (including its controlled related party) could enter into a termination agreement in relation to the termination of the guarantee obligations of the Company with secured party/creditor. Zhongxin Energy and Chemical undertook that, the aforementioned guarantee termination agreement of the Company and the registration procedures to release the guarantee obligations (if any) should be completed in compliance with the applicable laws as soon as possible, and if it fails to be completed in the aforesaid term due to objective reasons, the parties may negotiate the extension of term, which shall in principle be not later than 31 December 2016. If the above procedures of the Company cannot be completed thoroughly by the expiration of the aforesaid term, Zhongxin Energy and Chemical shall provide counter guarantee to the Company (including its controlled related party) on the parts of the guarantee obligations of the Company that are not released.

As at 31 July 2016, the guarantee provided by the Company to the Transaction Targets amounted to the aggregated outstanding sum of approximately RMB18,179.00 million. The Company will publish an announcement for any update on the status of such guarantee arrangement as and when appropriate.

**Arrangement for accumulated undistributed profits**

After the Completion Date, the accumulated undistributed profits of the Target Companies will be shared by all the then shareholders of the Target Companies in proportion to their respective shareholdings.

**Arrangement of the Company's contractual debt of the Target Companies and Power Source Assets**

As at the Benchmark Date, there were certain contracts (including contracts in relation to land resumption, land transfer, construction project, sale and purchase of equipment) of which the rights and obligations (mainly including settling the payment as stipulated under the said contracts) shall be borne by the Target Companies (including its controlled connected parties) and Power Source Assets. However, the Company (including its controlled related parties) remained the party of such contracts as the change of party to such contracts had not yet completed. Zhongxin Energy and Chemical agreed and undertook that, after the Completion Date, it will endeavor to novate the Company's (including its controlled related parties) obligations under such contracts after the Completion Date and procure the Target Companies (including its controlled related parties) and Power Source Assets to complete the procedures for the change of contract subject in a proactive manner, including but not limited to proactively performing the relevant contract obligations itself and/or by any other legitimate means. To prevent the happening of situations where the Company (including its controlled related parties) bears the relevant contractual obligations.

Both parties agreed and confirmed that the Company shall inform Zhongxin Energy and Chemical if the Company (including its controlled related parties) is required by the creditor to perform such contractual obligations after the Completion Date and Zhongxin Energy and Chemical shall repay the creditor on behalf of the Company and novate the Company's obligations under the relevant contract. Otherwise, the Company shall be entitled to claim compensation from Zhongxin Energy and Chemical upon its performance of obligations to the creditor. On such occasion, in addition to requesting Zhongxin Energy and Chemical to pay all amounts actually paid by the Company under its contractual obligations, the Company is also entitled to request Zhongxin Energy and Chemical to bear the liquidated damages, determined with reference to the interest rate standard on expired loans published by the Peoples' Bank of China, incurred in the period from the date of actual payment to the date of receiving compensation; if the liquidated damages are insufficient to cover the loss incurred by to the Company, the Company has the right to require Zhongxin Energy and Chemical to compensate for the outstanding amount. Zhongxin Energy and Chemical shall make payments in accordance with the requirements set out in the written notice within 5 working days from the date of issuing the written notice by the Company.

Upon completion of the arrangement above, the Company expects that there is not likely to be any financial impact on the Company. As at 17 June 2016, the outstanding payment under the above contracts amounted to approximately RMB167 million in aggregate and will be settled by the above arrangement. As the quantity of such contracts are substantial, the timeline for the completion of the above arrangement cannot be ascertained as at the Latest Practicable Date. The Company expects that this arrangement is not likely to cause any loss to the Company.

**Conditions**

The parties agreed that the Transfer Agreement becomes effective from the date when all of the following conditions are satisfied:

(1) the Transfer Agreement has been duly signed and sealed respectively by the authorized representatives of the Company and Zhongxin Energy and Chemical;

(2) the Target Companies have made requisite and effective resolutions on the consent of transferring the relevant Transaction Target;

(3) the internal approvals in relation to the transaction under the Transfer Agreement have been obtained by the Company including the approval from the independent shareholders of the Company and Zhongxin Energy and Chemical, respectively; and

(4) all necessary approvals and procedures for transferring state-owned assets applicable to the transaction under the Transfer Agreement have been obtained.

If the above conditions are not satisfied within 12 months from the date of executing the Transfer Agreement (or such later date as the parties to the Transfer Agreement may agree), the transaction contemplated under the Transfer Agreement shall not be performed.

**FINANCIAL IMPACT ON ENTERING INTO THE TRANSFER AGREEMENT**

Upon the transfer of Transaction Target, the Target Companies (including its subsidiaries) will cease to be subsidiaries of the Company. In addition, the Power Source Assets will cease to be assets of the Company. The financial results, assets and liabilities of the Target Companies and the Power Source Assets will no longer be consolidated in the consolidated financial statements of the Company. The assets and liabilities of the Company are expected to be reduced by approximately RMB78.2 billion and RMB69.7 billion, respectively, after the transfer of the Transaction Target. The liabilities-to-asset ratio is expected to be decreased by approximately 3%.

The book value as at the Benchmark Date was RMB8.043 billion based on the long term equity interest investment of the Target Companies held by the parent company of the Company. As such, the transfer of Transaction Target is expected to result in the loss of approximately RMB8.043 billion of long-term equity interest investment. Based on the transaction, it is expected that the loss from the waiver of entrusted loans of the Company amounted to approximately RMB10 billion.

Upon the completion of the transfer of Transaction Target, the Company expects to realise an unaudited net loss of approximately RMB6 billion which is estimated taking into the consideration for the transfer of Transaction Target of RMB1 and the carrying amount of the unaudited net asset values of the Transaction Target disposed of (adjusted as if the transfer of Transaction Target were completed) amounting to approximately RMB6 billion. Such amount of estimated net loss is subject to the audit of the financial statements of the Company for the financial year ending 31 December 2016.

Given undistributed net profit of the parent company of the Company for 2016 is expected to be negative, the distribution of dividends to the Shareholders by the Company for the period will be affected.

In addition, the proceeds received by the Company from the disposal of the Transaction Target under the Transfer Agreement will be used as the Company's general working capital.

**REASONS FOR AND BENEFITS OF ENTERING INTO THE TRANSFER AGREEMENT**

In July 2014, the Company and China Reform Holdings Corporation Ltd. entered into a framework agreement for the reorganisation of coal-to-chemical segment and related projects of the Company. After negotiations, there were still differences as to the views of the parties and it was hard to achieve the estimated target and therefore on 29 March 2016, the parties entered into a termination agreement to the said framework agreement. CDC, as the controlling shareholder of the Company, fully supports the continuous promotion of the reorganisation of the coal-to-chemical business and related projects of the Company. On 27 April 2016, CDC and the Company entered into a framework agreement for reorganisation of coal-to-chemical business segment and related projects. CDC established Zhongxin Energy and Chemical to complete the relevant reorganisation work.

The current disposal of the Transaction Target (i.e. coal-to-chemical business segment and related projects) belongs to the coal segment, the chemical segment and the power generation segment under Note 10 to the "Notes to the Consolidated Financial Statements" of the Company's annual report for the year ended 31 December 2015. The Company expects that upon completion of the disposal of the Transaction Target, the segments concerned will have the following effect:

- Chemical segment: a reduction in assets of approximately RMB68.4 billion and reduction in liabilities of approximately RMB59.9 billion;

- Power generation segment: a reduction in assets of approximately RMB9.9 billion and reduction in liabilities of approximately RMB9.3 billion; and

- Coal segment: a reduction in assets of approximately RMB14.3 billion and reduction in liabilities of approximately RMB13.5 billion.

Companies under the Transaction Target are classified as the following segments of the Company:

| No. | Name of the company | Segment |
|---|---|---|
| 1 | Energy and Chemical Company | Chemical segment |
| 1.1 | Duolun Coal Chemical Company | Chemical segment |
| 1.2 | Keqi Coal-based Gas Company | Chemical segment |
| 1.3 | Fuxin Coal-to-gas Company | Chemical segment |
| 1.4 | Hulunbeier Chemical Fertiliser Company | Chemical segment |
| 1.5 | Fuxin Engineering Company | Chemical segment |
| 1.6 | Chemical Technology Research Institute | Chemical segment |
| 1.7 | Energy and Chemical Marketing Company | Chemical segment |
| 1.8 | Duolun Hydropower Company | Power generation segment |
| 1.9 | Dashimen Hydropower Company | Power generation segment |
| 1.10 | Huachuan Zhuoyue Plastic Products Company | Chemical segment |
| 1.11 | Fuxin Sewage Disposal Company | Chemical segment |
| 1.12 | Jibei Maintenance Company | Chemical segment |
| 2 | Xilinhaote Mining Company | Coal segment |
| 3 | Xilinhaote Brown Coal Integrated Development Company | Chemical segment |
| 4 | Xilinhaote Power Generation Company | Power generation segment |
| 5 | Keshiketeng Power Source Preliminary Project | Power generation segment |

Through the disposal of the Transaction Target, the Company intends to dispose of its coal-to-chemical business segment as a whole. Some companies under the Transaction Target were making profit in 2015, such as Keqi Coal-based Gas Company, Duolun Hydropower Company, Chemical Technology Research Institute and Energy and Chemical Marketing Company. However, as the main business of such companies are related to the coal-to-chemical business segment of the Company and as such, they form part of the Transaction Target. For example, Duolun Hydropower Company supplies water to satisfy the water usage needs for the production of Duolun Coal Chemical Company; Chemical Technology Research Institute provides services in relation to the research and development of the coal chemical technology for the projects under the coal-to-chemical segment; Energy and Chemical Marketing Company is engaged in the sales of coal-to-chemical products of Keqi Coal-based Gas Company, Duolun Coal Chemical Company and Hulunbeier Chemical Fertiliser Company; Fuxin Engineering Company and Jibei Maintenance Company provide engineering and maintenance services to the projects under the under the coal-to-chemical segment; Xilinhaote Brown Coal Integrated Development Company is mainly established to improve the quality of low-grade brown coal with high water content of Xilinhaote Mining Company to high quality coal products with low water content that can burn with high temperature. Further, as there is a decrease in the sale price of natural gas, Keqi Coal-based Gas Company recorded a loss of approximately RMB245.82 million in March 2016. The Company therefore estimates that Keqi Coal-based Gas Company will continue to incur loss for the year ending 31 December 2016.

Some companies under the Transaction Target belong to the power generation segment, but they are related to the coal-to-chemical business segment and as such form part of the Transaction Target. For instance, (1) Duolun Hydropower Company provides water to satisfy the water usage needs of Duolun Coal Chemical Project which is the ancillary project of and is 51% held by Energy and Chemical Company; (2) Dashimen Hydropower Company provides water to satisfy the water usage needs of Keqi Coal-based Gas Company which is the ancillary project of Keqi Coal-based Gas Company of and is 90% held by Energy and Chemical Company; (3) Xilinhaote Power Generation Company Limited plans to construct 4 × 660MW ultra-supercritical air-cooled power generating units within Xilinhaote Mining Area, and will make use of inferior coal No. 4 of Xilinhaote Mining Company as raw coal to realize the integration of the use of resources and environmental protection. The project has strategic meaning to sustainable development of Xilinhaote Mining Company; (4) Keshiketeng Power Source Preliminary Project plans to have the construction of 6 × 660MW power generating units. Coal resources designed for this project are the selected fine coal of Keqi Coal-based gas project. The fine coal of Keqi coal-based gas project will be consumed in a highly effective and environmental friendly manner, which further promotes economic development cycles. As mentioned above, there exists mutual reliance and mutual supporting industrial and service relationship between power sources projects and coal-to-chemical projects within the scope of reconstruction, containing significant connection and interrelation. Therefore, including the above companies in the Transaction Target will benefit the overall development and effective operation of the whole coal-to-chemical segments.

The reasons for and benefits of entering into the Transfer Agreement is as follows:

**1. This transfer is beneficial for the significant losses in the financial operation of the Company**

Recently, the operating loss of the coal-to-chemical business segment has been constantly increasing and the operating conditions were continuously deteriorative. In 2015, the loss of the Target Companies and Power Source Assets reached approximately RMB5 billion. As at the Latest Practicable Date, the Transaction Target still suffers from significant losses. As such, the Company expects that it may drag down the overall performance of the Company. The overall transfer of the coal-to-chemical business segment will terminate the impact of this business segment loss on the performance of the Company.

**2. This transfer is beneficial for the reduction of the financial risks of the Company**

Since the past, the Company has constantly provided debt financing and guarantee support to maintain the continuous operation of the coal-to-chemical business segment due to its prolonged loss. As of 31 March 2016, the total principal amount of the loan guaranteed by the Company to the coal-to-chemical related project amounted to RMB18,514 million. Through this transfer, Zhongxin Energy and Chemical will release the guarantee obligations of the Company by means of substituting the Company or counter guarantee. Therefore, the completion of this transfer of the coal-to-chemical business segment and related projects is expected to reduce the financial risks of the Company.

**3. This transfer is beneficial for a healthy and continuous development of the Company**

The transfer of the coal-to-chemical business segment will not affect the principal business of the Company, and the Company is still principally engaged in the power generation business; and this transfer is beneficial for the further optimisation of assets structure of the Company with a prominent principal business and a fully-embodied operating effect, which is conducive to the concentration of resources, technology, funds and management advantages of Company in order to upgrade the principal business of power generation, and it is also beneficial for a healthy and continuous development of the Company; as such the transfer protects the interests of the Shareholders as a whole.

The Directors (including independent non-executive Directors, after taking into account the opinion and advice from Lego Corporate Finance) are of view that the relevant terms of the Transfer Agreement are fair and reasonable, have been entered into after arm's length negotiation between all parties thereto and determined on normal commercial terms and are in the interests of the Company and the Shareholders as a whole.

## EXPECTED CONNECTED TRANSACTIONS/CONTINUING CONNECTED TRANSACTIONS BETWEEN THE COMPANY AND THE TRANSACTION TARGET AFTER COMPLETION OF THE TRANSFER AGREEMENT

The Company expects that the following continuing transactions will become continuing connected transactions/connected transactions after completion of the Transfer Agreement:

1) provision of guarantee by the Company to Energy and Chemical Company (a wholly-owned subsidiary of the Company as at the Latest Practicable Date and will become a connected person the Company upon completion of the Transfer Agreement) amounted to the aggregate sum of approximately RMB10 billion.

2) provision of guarantee by the Company to Hulunbeier Chemical Fertiliser Company (a wholly-owned subsidiary of the Company as at the Latest Practicable Date and will become a connected person the Company upon completion of the Transfer Agreement) amounted to the aggregate sum of approximately RMB0.975 billion.

3) provision of entrusted loan by the Company to Energy and Chemical Company (a wholly-owned subsidiary of the Company as at the Latest Practicable Date and will become a connected person the Company upon completion of the Transfer Agreement) amounted to the aggregate sum of approximately RMB0.535 billion.

4) provision of entrusted loan by the Company to Xilinhaote Brown Coal Integrated Development Company (a wholly-owned subsidiary of the Company as at the Latest Practicable Date and will become a connected person the Company upon completion of the Transfer Agreement) amounted to the aggregate sum of approximately RMB0.1225 billion.

5) provision of entrusted loan by the Company to Xilinhaote Power Generation Company (a wholly-owned subsidiary of the Company as at the Latest Practicable Date and will become a connected person of the Company upon completion of the Transfer Agreement) amounted to the aggregate sum of approximately RMB0.31 billion.

The Company will comply with the relevant requirements in respect of the above transactions, including the annual review and disclosure requirements (including publishing an announcement and annual reporting), under Rule 14A.60 of the Listing Rules on or before the completion of the Transfer Agreement.

Meanwhile, the following continuing connected transactions/connected transactions (which have been disclosed by the Company or were fully exempt under Rule 14A.89 of the Listing Rules) will continue to be continuing connected transactions/connected transactions of the Company:

1) provision of guarantee by the Company to Duolun Coal Chemical Company amounted to the aggregate sum of approximately RMB6.954 billion.

2) provision of guarantee by the Company to Xilinhaote Mining Company amounted to the sum of approximately RMB0.25 billion.

3) provision of entrusted loan by the Company to Duolun Coal Chemical Company amounted to the aggregate maximum sum of approximately RMB7.1338 billion.

4) provision of entrusted loan by the Company to Xilinhaote Mining Company amounted to the aggregate maximum sum of approximately RMB4.0305 billion.

*Note:* The amount of provision of entrusted loan set out in this section has not taken the amount of entrusted loan to be waived into account. The amount of entrusted loan and guarantee are figures as at 31 July 2016.

**INFORMATION OF RELATED PARTIES**

1. The Company was established in December 1994 and is principally engaged in the construction and operation of power plants; the sale of electricity and thermal power; the maintenance and debugging of power equipment and power related technical services. Its main service areas located in the PRC.

2. CDC was established on 9 March 2003 with a registered capital of RMB18,009 million and is principally engaged in the development, investment, construction, operation and management of power energy; organization of power (thermal) productions and sales; manufacturing, maintenance and debugging of power equipment; power technology development and consultation; power engineering, contracting and consultation of environmental power engineering contracting projects; development of new energy as well as development and production of power related coal resources.

3. Zhongxin Energy and Chemical is a wholly-owned subsidiary of CDC with a registered capital of approximately RMB1 billion and is principally engaged in the operation and management of coal chemical industrial assets and connected project assets.

4. Energy and Chemical Company is a wholly-owned subsidiary of the Company with a registered capital of RMB9,733.25 million; it is principally engaged in technology development in energy and chemical, technology transfer, technology consultation, technology service; investment management; engineering design; repair, installation and debugging of chemical and power equipment; import or export of goods, import and export agency, import and export of technology. As of 31 December 2015, its net asset value was approximately RMB1,972 million. The assessed value under the asset-based approach is approximately RMB-6,945 million. For 2014, the total loss was approximately RMB503 million. For 2015, the total loss was approximately RMB1.588 billion.

5. Keqi Coal-based Gas Company is a subsidiary of the Company (shareholding percentage: Energy and Chemical Company 51%, Beijing Gas Group Company Limited 34%, CDC 10%, Tianjin Jinneng Investment Company 5%) with a registered capital of RMB5,091 million; it is principally engaged in the construction and operation of the coal-based gas project with production of 4 billion cubic meters of natural gas per annum of Inner Mongolia Dating International Keshiketeng Coal-based Natural Gas Project. As of 31 December 2015, its net asset value was approximately RMB5,182 million. The assessed value under the asset-based approach is approximately RMB-936 million. For 2014, the total loss was approximately RMB0.3 million. For 2015, the net profit before taxation was approximately RMB47 million and the net profit after taxation was approximately RMB47 million.

6. Fuxin Coal-to-gas Company is a subsidiary of the Company (shareholding percentage: Energy and Chemical Company 90%, CDC 10%) with a registered capital of RMB2,946.2 million and is principally engaged in the construction and operation of the coal-based gas project with production of 4 billion cubic meters of natural gas per annum of Liaoning Datang International Fuxin Coal-based Natural Gas Project. As of 31 December 2015, its net asset value was approximately RMB1,740 million. The assessed value under the asset-based approach is approximately RMB152 million. For 2014, the net profit before taxation was approximately RMB0.14 million and the net profit after taxation was approximately RMB0.11 million. For 2015, the total loss was approximately RMB1,299 million.

7. Duolun Coal Chemical Company is a subsidiary of the Company (shareholding percentage: Energy and Chemical Company 60%, CDC 40%) with a registered capital of RMB4,050 million; it is principally engaged in the construction and operation of the coal-based olefin project with an annual production of 460,000 tons of Datang Inner Mongolia Duolun Coal Chemical Company Limited. As of 31 December 2015, its net asset value was approximately RMB-5,112 million. The assessed value under the asset-based approach is approximately RMB-13,105 million. For 2014, the total loss was approximately RMB4,595 million. For 2015, the total loss was approximately RMB2,813 million.

8. Hulunbeier Chemical Fertiliser Company is a wholly-owned subsidiary of the Company, with a registered capital of RMB548.2 million; it is principally engaged in the construction and operation of the ammonia synthesis project with an annual production of 180,000 tons/urea project with an annual production of 300,000 tons of Datong Inner Mongolia Hulunbeier Project. As of 31 December 2015, its net asset value was approximately RMB-325 million. The assessed value under the asset-based approach is approximately RMB-727 million. For 2014, the total loss was approximately RMB556 million. For 2015, the total loss was approximately RMB251 million.

9. Dashimen Hydropower Company is a subsidiary of the Company (shareholding percentage: Energy and Chemical Company 90%, Keshiketeng Qi Metalworking State-owned Asset Operation Ltd. 10%), with a registered capital of RMB10 million; it is principally engaged in the construction and operation of the Dashimen hydropower project of Inner Mongolia Datang International Keshiketeng Project. As of 31 December 2015, its net asset value was approximately RMB-20 million. The assessed value under the asset-based approach is approximately RMB-55 million. For 2014, the total loss was approximately RMB13 million. For 2015, the total loss was approximately RMB27 million.

10. Duolun Hydropower Company is a subsidiary of the Company (shareholding percentage: Energy and Chemical Company 51%, Duolun County Hydropower Generation Company Limited 49%) with a registered capital of RMB28.52 million; it is principally engaged in the construction and development of the Xishanwan Reservoir and Dahekou Reservoir in Duolun county of Inner Mongolia. As of 31 December 2015, its net asset value was approximately RMB36 million. The assessed value under the asset-based approach is approximately RMB268 million. For 2014, the net profit before taxation was approximately RMB17 million and the net profit after taxation was approximately RMB12 million. For 2015, the net profit before taxation was approximately RMB8 million and the net profit after taxation was approximately RMB6 million.

11. Fuxin Sewage Disposal Company is a subsidiary of the Company (shareholding percentage: Energy and Chemical Company 80%, Fuxin State-owned Assets Supervision and Administration Commission of the Fuxin City People's Government 20%), with a registered capital of RMB1.30 million; it is principally engaged in treatment and recycling and utilization of sewage water, consultation in the sewage water field. As of 31 December 2015, its net asset value was approximately RMB129 million. The assessed value under the asset-based approach is approximately RMB190 million. For 2014, the net profit before taxation was approximately RMB2 million and the net profit after taxation was approximately RMB2 million. For 2015, the total loss was approximately RMB1 million.

12. Energy and Chemical Marketing Company is a wholly-owned subsidiary of the Company with a registered capital of RMB50 million; it is principally engaged in the wholesales of flammable liquids, flammable solids, spontaneous combustible substances and flammable substances when wet; and the sales of minerals, building materials, chemical products (excluding hazardous chemicals), metal materials, chemical fertilizer, etc. As of 31 December 2015, its net asset value was approximately RMB107 million. The assessed value under the asset-based approach is approximately RMB93 million. For 2014, the net profit before taxation was approximately RMB5 million and the net profit after taxation was approximately RMB4 million. For 2015, the net profit before taxation was approximately RMB15 million and the net profit after taxation was approximately RMB11 million.

13. Huachuan Zhuoyue Plastic Products Company is a wholly-owned subsidiary of the Company with a registered capital of RMB7 million; it is principally engaged in the production, processing and sale of plastic products. As of 31 December 2015, its net asset value was approximately RMB2 million. The assessed value under the asset-based approach is approximately RMB6 million. For 2014, the total loss was approximately RMB4 million. For 2015, the total loss was approximately RMB6 million.

14. Chemical Technology Research Institute is a wholly-owned subsidiary of the Company, with a registered capital of RMB50 million; it is principally engaged in the research and development of the coal chemical technology, coal gasification technology, coal liquefaction technology, fuel cell chemical technology; the related technology consultation, technology training, technology transfer and technology service; and the sales of chemical products. As of 31 December 2015, its net asset value was approximately RMB57 million. The assessed value under the asset-based approach was approximately RMB186 million. For 2014, the net profit before taxation was approximately RMB0.4 million and the net profit after taxation was approximately RMB0.4 million. For 2015, the net profit before taxation was approximately RMB0.9 million and the net profit after taxation was approximately RMB0.6 million.

15. Fuxin Engineering Company is a wholly-owned subsidiary of the Company, with a registered capital of RMB30 million; it is principally engaged in the equipment debugging and maintenance, construction and installation of small engineering projects, electric power overhaul, high voltage electrical test, fire control facilities engineering, machinery processing, metal welding inspection, technology service, machinery and equipment leasing and ordinary cargo transportation. As of 31 December 2015, its net asset value was approximately RMB76 million. The assessed value under the asset-based approach was approximately RMB120 million. For 2014, the net profit before taxation was approximately RMB25 million and the net profit after taxation was approximately RMB19 million. For 2015, the net profit before taxation was approximately RMB8 million and the net profit after taxation was approximately RMB6 million.

16. Jibei Maintenance Company is a wholly-owned subsidiary of the Company with a registered capital of approximately RMB15.5242 million; it is principally engaged in the installation, debugging and maintenance of the power plant equipment and related technology consultation service; planting and nursing services of the trees and flowers in factory area; the cleaning service of factory area and equipment; and the repair and maintenance of the factory buildings. As of 31 December 2015, its net asset value was approximately RMB1. The assessed value under the asset-based approach was approximately RMB43 million. For 2014, the net profit before taxation was approximately RMB0.9 million and the net profit after taxation was approximately RMB0.9 million. For 2015, the net profit before taxation was approximately RMB0.08 million and the net profit after taxation was approximately RMB0.08 million.

17. Xilinhaote Brown Coal Integrated Development Company is a wholly-owned subsidiary of the Company with a registered capital of approximately RMB212.7 million; it is principally engaged in the preparation of the lignite drying project. As of 31 December 2015, its net asset value was approximately RMB236 million. The assessed value under the asset-based approach was approximately RMB85 million. For 2014, the net profit before taxation was approximately RMB0.3 million and the net profit after taxation was approximately RMB0.3 million. For 2015, the net profit before taxation was approximately RMB0.4 million and the net profit after taxation was approximately RMB0.4 million.

18. Xilinhaote Power Generation Company is a wholly-owned subsidiary of the Company with a registered capital of approximately RMB10 million; it is principally engaged in the preliminary works of 4 × 660MW project of Datang Xilinhaote Power Generation Plant. The assessed value under the asset-based approach is approximately RMB52 million. The assets of it are construction-in-progress and as such, there is no net profits attributable to it for the two financial years immediately preceding the transaction contemplated under the Transfer Agreement.

19. Xilinhaote Mining Company is a subsidiary of the Company (shareholding percentage: the Company 60%, China Datang Coal Industry Co., Ltd. 40%), with a registered capital of RMB1,666.05 million; it is principally engaged in the development, construction and operation of the Shengli Open-pit Coal Mine East Unit 2 project. As at 31 December 2015, its net asset value was approximately RMB-1,311 million. The assessed value under the asset-based approach is approximately RMB-2,552 million. For 2014, the total loss was approximately RMB1,262 million. For 2015, the total loss was approximately RMB745 million.

20. Zhaluomude Hydropower Company is a joint stock company of the Company (shareholding percentage: 28% held by Huaneng Hulunbeir Energy Development Co., Ltd., 25% held by Inner Mongolia Water Investment (Group) Co., Ltd., 20% held by Hulunbeier Water Investment Co., Ltd., 15% held by Energy and Chemical Company, 8% held by Huadian Inner Mongolia Energy Co., Ltd., and 4% held by China Shenhua Energy Company Limited); it is principally engaged in water supply and power generation, and the construction and operation management of water and electricity engineering. As of 31 December 2015, its net asset value was approximately RMB80 million. The assets of it are construction-in-progress and as such, there is no net profits attributable to it for the two financial years immediately preceding the transaction contemplated under the Transfer Agreement.

21. Fuxin Huanfa Company is a joint stock company of the Company (shareholding percentage: 80% held by Liaoning Beifang Environmental Protection Co., Ltd., 20% held by Energy and Chemical Company); it is principally engaged in governance of environmental pollution, waste treatment and disposal, environmental protection business consultation, re-cycling of waste materials, operation of environmental friendly products. As of 31 December 2015, its net asset value was approximately RMB25 million. The assets of it are construction-in-progress and as such, there is no net profits attributable to it for the two financial years immediately preceding the transaction contemplated under the Transfer Agreement.

22. Huatang Multi-Water Sources Company is a joint stock company of the Company (shareholding percentage: 75% held by Shenhua Beidian Shengli Energy Co., Ltd., 15% held by Xilinhaote Chenhui Urban Infrastructure Construction and Investment Co., Ltd., 10% held by Xilinhaote Mining Company); it is principally engaged in treatment and utilization of coal mine drainage water, urban wastewater and reclaimed water, development and operation of other water resources. As of 31 December 2015, its net asset value was approximately RMB91 million. The assets of it are construction-in-progress and as such, there is no net profits attributable to it for the two financial years immediately preceding the transaction contemplated under the Transfer Agreement.

23. Keshiketeng Power Source Preliminary Project is a project with a planning generating units of 6 × 660MW, which plans to located in the northeast 1 kilometer from the Keqi Coal-based Gas Company. The coal source of this project is designed to be the screened fine coals of Keqi Coal-based gas project, which intends to consume the fine coals of Keqi Coal-based gas project through an efficient and environmentally way so as to further promote the development of recycling economy. Currently, the project is under the stage of preliminary work and as such, there is no net profits attributable to it for the two financial years immediately preceding the transaction contemplated under the Transfer Agreement.

## LISTING RULES IMPLICATIONS

As one or more of the applicable percentage ratios (as defined in Rule 14.07 of the Listing Rules) of the transaction contemplated under the Transfer Agreement exceeds 25% but less than 75%, the transaction contemplated under the Transfer Agreement constitutes a major transaction of the Company and therefore, is subject to the reporting, announcement and Shareholders' approval requirements under Chapter 14 of the Listing Rules.

As at the Latest Practicable Date, CDC, together with its subsidiaries, holds approximately 34.77% of the issued share capital of the Company. Zhongxin Energy and Chemical is a wholly-owned subsidiary of CDC. As such, Zhongxin Energy and Chemical is a connected person of the Company, and therefore, the transaction contemplated under the Transfer Agreement constitutes a connected transaction of the Company under Chapter 14A of the Listing Rules and is subject to the reporting, announcement and Independent Shareholders' approval requirements.

## INDEPENDENT BOARD COMMITTEE AND INDEPENDENT FINANCIAL ADVISER

An Independent Board Committee comprising the independent non-executive Directors has been formed to advise the Independent Shareholders on the terms of the Transfer Agreement.

The Company has, with the approval of Independent Board Committee, appointed Lego Corporate Finance as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders of the Company on the terms of the Transfer Agreement.

## EGM AND BOARD'S APPROVAL

The Company will convene the EGM to consider and approve the Transfer Agreement. The notice convening the EGM has been dispatched to the Shareholders on 13 July 2016.

Any Shareholder with a material interest in the transaction under the Transfer Agreement will abstain from voting at the EGM to be held by the Company, to consider and approve the Transfer Agreement.

To the best of the knowledge, information and belief of the Directors having made all reasonable enquiries, apart from CDC and its associates, no Shareholder has material interest in the transaction contemplated under the Transfer Agreement. Therefore, CDC and its associates shall abstain from voting at the resolution(s) considering and approving the transaction contemplated under the Transfer Agreement at the EGM. Saved as disclosed above, no other Shareholder shall abstain from voting at the resolution(s) in relation to the approval of the transaction contemplated under the Transfer Agreement at the EGM.

To the best of the Directors' knowledge, information and belief having made all reasonable enquiries, none of the Directors of the 8th session of the Board has material interest in the transaction under the Transfer Agreement. Connected Directors of the 8th session of the Board, namely Chen Jinhang, Hu Shengmu, Wu Jing, and Liang Yongpan, have abstained from voting on this resolution at the relevant Board meeting pursuant to the listing rules of the Shanghai Stock Exchange.

## RECOMMENDATION

Your attention is drawn to the letter from the Independent Board Committee as set out on pages 48 to 49 of this circular which contains its recommendation to the Independent Shareholders on the terms of the Transfer Agreement. Your attention is also drawn to the letter of advice received from Lego Corporate Finance, the independent financial adviser to the Independent Board Committee and the Independent Shareholders as set out on pages 50 to 75 of this circular which contains, among others, its advice to the Independent Board Committee and the Independent Shareholders in relation to the terms of the Transfer Agreement, the casting of votes for or against the resolution(s) approving the Transfer Agreement as well as the principal factors and reasons considered by it in concluding its advice.

The Directors consider that the terms of the Transfer Agreement are fair and reasonable and in the interest of the Shareholders and the Company as a whole and they recommend the Shareholders to vote in favour of the resolution(s) at the EGM.

## GENERAL

**Shareholders and potential investors of the Company should be aware that the transaction under the Transfer Agreement is subject to a number of conditions being satisfied, and consequently the transaction may or may not proceed. Shareholders and potential investors of the Company are reminded to exercise caution when dealing in the shares of the Company.**

Yours faithfully,
By Order of the Board of
**Datang International Power Generation Co., Ltd.**
**Ying Xuejun**
*Secretary to the Board*

大唐国际发电股份有限公司
DATANG INTERNATIONAL POWER GENERATION CO., LTD.

*(a sino-foreign joint stock limited company incorporated in the People's Republic of China)*

**(Stock Code: 00991)**

*office address*
No. 9 Guangningbo Street
Xicheng District
Beijing, 100033
The PRC

12 August 2016

*To the Independent Shareholders*

Dear Sir or Madam,

## MAJOR AND CONNECTED TRANSACTION IN RELATION TO THE DISPOSAL OF COAL-TO-CHEMICAL BUSINESS SEGMENT

We refer to the circular issued by the Company to the shareholders dated 12 August 2016 (the "**Circular**") of which this letter forms part. Terms defined in the Circular shall have the same meanings in this letter unless the context otherwise requires.

Under the Listing Rules, the Transfer Agreement constitutes a major and connected transaction of the Company, and are subject to the approval of the Independent Shareholders at the EGM.

We have been appointed as the Independent Board Committee to consider the terms of the Transfer Agreement and to advise the Independent Shareholders in connection with the Transfer Agreement as to whether, in our opinion, its terms are fair and reasonable and whether the Transfer Agreement is in the interests of the Company and the shareholders as a whole. Lego Corporate Finance has been appointed as the independent financial adviser to advise us in this respect.

We wish to draw your attention to the letter from the Board and the letter from Lego Corporate Finance as set out in this circular. Having considered the principal factors and reasons considered by, and the advice of Lego Corporate Finance as set out in its letter of advice, we consider that the Transfer Agreement is on normal commercial terms, in the ordinary and usual course of business of the Group, and that the transaction contemplated under the Transfer Agreement is in the interests of the Company and the Shareholders as a whole.

We also consider that the terms of the Transfer Agreement are fair and reasonable so far as the Shareholders are concerned. Accordingly, we recommend the Independent Shareholders to vote in favour of the ordinary resolution(s) to approve the Transfer Agreement at the EGM.

Yours faithfully,
For and on behalf of the Independent Board Committee
**Feng Gengfu, Luo Zhongwei, Liu Huangsong, Jiang Fuxiu,**
*Independent non-executive Directors*
**Datang International Power Generation Co., Ltd.**

*The following is the full text of the letter of advice from Lego Corporate Finance, the independent financial adviser to the Independent Board Committees and the Independent Shareholders, in respect of the terms of the Transfer Agreement which have been prepared for the purpose of inclusion in this circular.*

Lego Corporate Finance Limited
力高企業融資有限公司

12 August 2016

*To the Independent Board Committees and the Independent Shareholders*

Dear Sirs or Madams,

# MAJOR AND CONNECTED TRANSACTION IN RELATION TO THE DISPOSAL OF COAL-TO-CHEMICAL BUSINESS SEGMENT

## INTRODUCTION

We refer to our appointment as the independent financial adviser to the Independent Board Committees and the Independent Shareholders in respect of the terms of the Transfer Agreement and the transaction contemplated thereunder, details of which are set out in the "Letter from the Board" (the "**Letter from the Board**") contained in the circular dated 12 August 2016 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 otherwise requires.

On 30 June 2016, the Company entered into the Transfer Agreement with Zhongxin Energy and Chemical, pursuant to which, among others, the Company conditionally agreed to sell and Zhongxin Energy and Chemical conditionally agreed to acquire the Transaction Target at a consideration of RMB1; meanwhile, the Company agreed to waive the Target Companies from repayment of certain entrusted loans provided by the Company, and the maximum principal amount of such exempted entrusted loans shall be RMB10 billion.

CDC together with its subsidiaries holds approximately 34.77% of the issued share capital of the Company and Zhongxin Energy and Chemical is a wholly-owned subsidiary of CDC. As such, Zhongxin Energy and Chemical is a connected person of the Company under Chapter 14A of the Listing Rules. As one or more of the applicable percentage ratios (as defined in Rule 14.07 of the Listing Rules) of the transaction contemplated under the Transfer Agreement exceeds 25% but is less than 75%, the Transfer Agreement and the transaction contemplated thereunder constitute a major and connected transaction of the Company and therefore, is subject to the reporting, announcement and Independent Shareholders' approval requirements.

The Independent Board Committee, comprising all the independent non-executive Directors, namely Feng Genfu, Luo Zhongwei, Liu Huangsong and Jiang Fuxiu, has been established to advise the Independent Shareholders as to whether the terms of the Transfer Agreement and the transaction contemplated thereunder are fair and reasonable so far as the Company and Independent Shareholders are concerned and are in the interests of the Company and the Shareholders as a whole, and to advise the Independent Shareholders on how to vote in respect of the relevant resolution(s) to be proposed at the EGM to approve the Transfer Agreement and the transaction contemplated thereunder. As the Independent Financial Adviser, our role is to give an independent opinion to the Independent Board Committee and the Independent Shareholders in such regard.

As at the Latest Practicable Date, Lego Corporate Finance did not have any relationships or interests with the Company that could reasonably be regarded as relevant to the independence of Lego Corporate Finance. In the last two years, there was no engagement between the Group and Lego Corporate Finance. Apart from normal professional fees paid or payable to us in connection with this appointment as the Independent Financial Adviser, no arrangements exist whereby we have received or will receive any fees or benefits from the Company. Accordingly, we are qualified to give independent advice in respect of the terms of the Transfer Agreement and the transaction contemplated thereunder.

**BASIS OF OUR OPINION**

In formulating our opinion and advice, we have relied on (i) the information and facts contained or referred to in the Circular; (ii) the information supplied by the Group and its advisers; (iii) the opinions expressed by and the representations of the Directors and the management of the Group; and (iv) our review of the relevant public information. We have assumed that all the information provided and representations and opinions expressed to us or contained or referred to in the Circular were true, accurate and complete in all respects as at the date thereof and may be relied upon. We have also assumed that all statements contained and representations made or referred to in the Circular are true at the time they were made and continue to be true as at the date of the Circular and all such statements of belief, opinions and intention of the Directors and the management of the Group and those as set out or referred to in the Circular were reasonably made after due and careful enquiry. We have no reason to doubt the truth, accuracy and completeness of the information and representations provided to us by the Directors and/or the management of the Group. We have also sought and received confirmation from the Directors that no material facts have been withheld or omitted from the information provided and referred to in the Circular and that all information or representations provided to us by the Directors and the management of the Group are true, accurate, complete and not misleading in all respects at the time they were made and continued to be so until the date of the Circular.

We consider that we have reviewed sufficient information currently available to reach an informed view and to justify our reliance on the accuracy of the information contained in the Circular so as to provide a reasonable basis for our recommendation. We have not, however, carried out any independent verification of the information provided, representations made or opinion expressed by the Directors and the management of the Group, nor have we conducted any form of in-depth investigation into the business, affairs, operations, financial position or future prospects of the Company or the Target Company or any of their respective subsidiaries or associates.

## PRINCIPAL FACTORS AND REASONS CONSIDERED

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

### 1. Background of the Transfer Agreement

#### *1.1 Information on the Group*

The Company was established in December 1994 and is principally engaged in the construction and operation of power plants; the sale of electricity and thermal power; the maintenance and debugging of power equipment and power related technical services. It's main service areas located in the PRC.

The following table is a summary of the audited financial information of the Group for the financial years ended 31 December 2014 and 2015, as extracted from the annual report of the Company for the year ended 31 December 2015 (the "**2015 Annual Report**").

| | For the year ended 31 December | | | |
|---|---|---|---|---|
| | **2014** | | **2015** | |
| | *RMB'000* | *%* | *RMB'000* | *%* |
| Revenue | 70,194,327 | 100% | 61,890,285 | 100% |
| – Sales of electricity | 62,589,174 | 89.2% | 55,556,321 | 89.8% |
| – Heat supply | 1,306,685 | 1.9% | 1,434,570 | 2.3% |
| – Sales of coal | 1,757,130 | 2.5% | 267,649 | 0.4% |
| – Sales of chemical products | 1,916,735 | 2.7% | 1,839,983 | 3.0% |
| – Other segments | 2,624,603 | 3.7% | 2,791,762 | 4.5% |
| Profit for the year | 1,888,494 | | 3,260,372 | |

| | As at 31 December 2014 | As at 31 December 2015 |
|---|---|---|
| | *RMB'000* | *RMB'000* |
| Cash and cash equivalents | 5,013,275 | 5,199,317 |
| Bank and other borrowings | 151,444,773 | 144,846,969 |
| Total assets | 307,528,433 | 308,495,439 |
| Total liabilities | 244,070,240 | 244,911,100 |
| Total equity | 63,458,193 | 63,584,339 |

As set out in the table above, revenue of the Group amounted to approximately RMB61,890 million for the year ended 31 December 2015, representing a decrease of approximately 12% as compared to that of approximately RMB70,194 million for the prior year. According to the 2015 Annual Report, such decrease in revenue was primarily attributable to the decrease in revenue from sales of electricity, which decreased by approximately RMB7,033 million or 11% over the previous year. Driven by the decline in standard coal unit price, the total operating costs of the Group decreased by approximately RMB8,570 million or 15% over the year as a result of the lower fuel cost for power generation. In addition, the finance costs of the Group recorded a decrease of approximately RMB730 million or 8% during the period, which was mainly due to the downward adjustment of the interest rate for loan by the central bank for three times in 2015. In light of the above, the Group reported net profit of approximately RMB3,260 million for the year ended 31 December 2015, representing an increase of approximately 73% as compared to the year ended 31 December 2014.

With reference to the 2015 Annual Report, total assets of the Group amounted to approximately RMB308,495 million as at 31 December 2015, representing an increase of approximately RMB967 million over the previous year which was mainly due to the increase in construction in progress and investment in fixed assets as a result of the development strategy implemented by the Group. Moreover, total liabilities of the Group amounted to approximately RMB244,911 million as at 31 December 2015, representing an increase of approximately RMB841 million as compared to that of the prior year which was mainly attributable to the increase in borrowings and amount of debentures of the Group to support daily operation and infrastructure development. As a result of the aforementioned effect, the total equity of the Group remained stable at approximately RMB63,584 million as at 31 December 2015.

As advised by the management of the Group, the coal-to-chemical business segment has recorded severe operating loss and the operating conditions were deteriorating. We understand that the Group has begun to focus on its principal business of power generation in order to further optimize its business structure and enhance the quality of assets of the Group. In light of the overall benefits of transferring of the coal-to-chemical business segment as detailed under the paragraph headed "Reasons for and benefits of entering into the Transfer Agreement" in this letter, the management anticipated that the financial performance of the Group may further improve following the loss reduction in financial operation through the disposal of non-performing assets.

### *1.2 Information on Transaction Target*

Transaction Target refers to the equity interests of the Target Companies and the Power Source Assets held by the Company as follows:

(1) The 100% equity interest in Energy and Chemical Company held by the Company. Energy and Chemical Company holds equity interests in the following companies: 51% equity interest in Keqi Coal-based Gas Company; 90% equity interest in Fuxin Coal-to-gas Company; 60% equity interest in Duolun Coal Chemical Company; 100% equity interest in Hulunbeier Chemical Fertiliser Company; 90% equity interest in Dashimen Hydropower Company; 51% equity interest in Duolun Hydropower Company; 80% equity interest in Fuxin Sewage Disposal Company; 100% equity interest in Energy and Chemical Marketing Company; 100% equity interest in Huachuan Zhuoyue Plastic Products Company; 100% equity interest in Chemical Technology Research Institute; 100% equity interest in Fuxin Engineering Company; 100% equity interest in Jibei Maintenance Company (held by Fuxin Engineering Company); 15% equity interest in Zhaluomude Hydropower Company; 20% equity interest in Fuxin Huanfa Company (held by Fuxin Coal-to-gas Company).

(2) The 100% equity interest in Xilinhaote Brown Coal Integrated Development Company held by the Company.

(3) The 100% equity interest held in Xilinhaote Power Generation Company held by the Company.

(4) The 60% equity interest in Xilinhaote Mining Company held by the Company. Xilinhaote Mining Company holds 10% equity interest in Huatang Multi-Water Sources Company.

(5) The assets under Keshiketeng Power Source Preliminary Project held by the Company.

*Energy and Chemical Company*

Energy and Chemical Company is a wholly-owned subsidiary of the Company with a registered capital of RMB9,733.25 million; it is principally engaged in technology development in energy and chemical, technology transfer, technology consultation, technology service; investment management; engineering design; repair, installation and debugging of chemical and power equipment; import or export of goods, import and export agency, import and export of technology. As of 31 December 2015, its net asset value was approximately RMB1,972 million. The assessed value under the asset-based approach is approximately RMB-6,945 million. For 2014, the total loss was approximately RMB503 million. For 2015, the total loss was approximately RMB1.588 billion.

*Keqi Coal-based Gas Company*

Keqi Coal-based Gas Company is a subsidiary of the Company (shareholding percentage: Energy and Chemical Company 51%, Beijing Gas Group Company Limited 34%, CDC 10%, Tianjin Jinneng Investment Company 5%) with a registered capital of RMB5,091 million; it is principally engaged in the construction and operation of the coal-based gas project with production of 4 billion cubic meters of natural gas per annum of Inner Mongolia Dating International Keshiketeng Coal-based Natural Gas Project. As of 31 December 2015, its net asset value was approximately RMB5,182 million. The assessed value under the asset-based approach is approximately RMB-936 million. For 2014, the total loss was approximately RMB0.3 million. For 2015, the net profit before taxation was approximately RMB47 million and the net profit after taxation was approximately RMB47 million.

*Fuxin Coal-to-gas Company*

Fuxin Coal-to-gas Company is a subsidiary of the Company (shareholding percentage: Energy and Chemical Company 90%, CDC 10%) with a registered capital of RMB2,946.2 million and is principally engaged in the construction and operation of the coal-based gas project with production of 4 billion cubic meters of natural gas per annum of Liaoning Datang International Fuxin Coal-based Natural Gas Project. As of 31 December 2015, its net asset value was approximately RMB1,740 million. The assessed value under the asset-based approach is approximately RMB152 million. For 2014, the net profit before taxation was approximately RMB0.14 million and the net profit after taxation was approximately RMB0.11 million. For 2015, the total loss was approximately RMB1,299 million.

*Duolun Coal Chemical Company*

Duolun Coal Chemical Company is a subsidiary of the Company (shareholding percentage: Energy and Chemical Company 60%, CDC 40%) with a registered capital of RMB4,050 million; it is principally engaged in the construction and operation of the coal-based olefin project with an annual production of 460,000 tons of Datang Inner Mongolia Duolun Coal Chemical Company Limited. As of 31 December 2015, its net asset value was approximately RMB-5,112 million. The assessed value under the asset-based approach is approximately RMB-13,105 million. For 2014, the total loss was approximately RMB4,595 million. For 2015, the total loss was approximately RMB2,813 million.

*Hulunbeier Chemical Fertiliser Company*

Hulunbeier Chemical Fertiliser Company is a wholly-owned subsidiary of the Company, with a registered capital of RMB548.2 million; it is principally engaged in the construction and operation of the ammonia synthesis project with an annual production of 180,000 tons/ urea project with an annual production of 300,000 tons of Datong Inner Mongolia Hulunbeier Project. As of 31 December 2015, its net asset value was approximately RMB-325 million. The assessed value under the asset-based approach is approximately RMB-727 million. For 2014, the total loss was approximately RMB556 million. For 2015, the total loss was approximately RMB251 million.

*Dashimen Hydropower Company*

Dashimen Hydropower Company is a subsidiary of the Company (shareholding percentage: Energy and Chemical Company 90%, Keshiketeng Qi Metalworking State-owned Asset Operation Ltd. 10%), with a registered capital of RMB10 million; it is principally engaged in the construction and operation of the Dashimen hydropower project of Inner Mongolia Datang International Keshiketeng Project. As of 31 December 2015, its net asset value was approximately RMB-20 million. The assessed value under the asset-based approach is approximately RMB-55 million. For 2014, the total loss was approximately RMB13 million. For 2015, the total loss was approximately RMB27 million.

*Duolun Hydropower Company*

Duolun Hydropower Company is a subsidiary of the Company (shareholding percentage: Energy and Chemical Company 51%, Duolun County Hydropower Generation Company Limited 49%) with a registered capital of RMB28.52 million; it is principally engaged in the construction and development of the Xishanwan Reservoir and Dahekou Reservoir in Duolun county of Inner Mongolia. As of 31 December 2015, its net asset value was approximately RMB36 million. The assessed value under the asset-based approach is approximately RMB268 million. For 2014, the net profit before taxation was approximately RMB17 million and the net profit after taxation was approximately RMB12 million. For 2015, the net profit before taxation was approximately RMB8 million and the net profit after taxation was approximately RMB6 million.

*Fuxin Sewage Disposal Company*

Fuxin Sewage Disposal Company is a subsidiary of the Company (shareholding percentage: Energy and Chemical Company 80%, Fuxin State-owned Assets Supervision and Administration Commission of the Fuxin City People's Government 20%), with a registered capital of RMB1.30 million; it is principally engaged in treatment and recycling and utilization of sewage water, consultation in the sewage water field. As of 31 December 2015, its net asset value was approximately RMB129 million. The assessed value under the asset-based approach is approximately RMB190 million. For 2014, the net profit before taxation was approximately RMB2 million and the net profit after taxation was approximately RMB2 million. For 2015, the total loss was approximately RMB1 million.

*Energy and Chemical Marketing Company*

Energy and Chemical Marketing Company is a wholly-owned subsidiary of the Company with a registered capital of RMB50 million; it is principally engaged in the wholesales of flammable liquids, flammable solids, spontaneous combustible substances and flammable substances when wet; and the sales of minerals, building materials, chemical products (excluding hazardous chemicals), metal materials, chemical fertilizer, etc. As of 31 December 2015, its net asset value was approximately RMB107 million. The assessed value under the asset-based approach is approximately RMB93 million. For 2014, the net profit before taxation was approximately RMB5 million and the net profit after taxation was approximately RMB4 million. For 2015, the net profit before taxation was approximately RMB15 million and the net profit after taxation was approximately RMB11 million.

*Huachuan Zhuoyue Plastic Products Company*

Huachuan Zhuoyue Plastic Products Company is a wholly-owned subsidiary of the Company with a registered capital of RMB7 million; it is principally engaged in the production, processing and sale of plastic products. As of 31 December 2015, its net asset value was approximately RMB2 million. The assessed value under the asset-based approach is approximately RMB6 million. For 2014, the total loss was approximately RMB4 million. For 2015, the total loss was approximately RMB6 million.

*Chemical Technology Research Institute*

Chemical Technology Research Institute is a wholly-owned subsidiary of the Company, with a registered capital of RMB50 million; it is principally engaged in the research and development of the coal chemical technology, coal gasification technology, coal liquefaction technology, fuel cell chemical technology; the related technology consultation, technology training, technology transfer and technology service; and the sales of chemical products. As of 31 December 2015, its net asset value was approximately RMB57 million. The assessed value under the asset-based approach was approximately RMB186 million. For 2014, the net profit before taxation was approximately RMB0.4 million and the net profit after taxation was approximately RMB0.4 million. For 2015, the net profit before taxation was approximately RMB0.9 million and the net profit after taxation was approximately RMB0.6 million.

*Fuxin Engineering Company*

Fuxin Engineering Company is a wholly-owned subsidiary of the Company, with a registered capital of RMB30 million; it is principally engaged in the equipment debugging and maintenance, construction and installation of small engineering projects, electric power overhaul, high voltage electrical test, fire control facilities engineering, machinery processing, metal welding inspection, technology service, machinery and equipment leasing and ordinary cargo transportation. As of 31 December 2015, its net asset value was approximately RMB76 million. The assessed value under the asset-based approach was approximately RMB120 million. For 2014, the net profit before taxation was approximately RMB25 million and the net profit after taxation was approximately RMB19 million. For 2015, the net profit before taxation was approximately RMB8 million and the net profit after taxation was approximately RMB6 million.

*Jibei Maintenance Company*

Jibei Maintenance Company is a wholly-owned subsidiary of the Company with a registered capital of approximately RMB15.5242 million; it is principally engaged in the installation, debugging and maintenance of the power plant equipment and related technology consultation service; planting and nursing services of the trees and flowers in factory area; the cleaning service of factory area and equipment; and the repair and maintenance of the factory buildings. As of 31 December 2015, its net asset value was approximately RMB1. The assessed value under the asset-based approach was approximately RMB43 million. For 2014, the net profit before taxation was approximately RMB0.9 million and the net profit after taxation was approximately RMB0.9 million. For 2015, the net profit before taxation was approximately RMB0.08 million and the net profit after taxation was approximately RMB0.08 million.

*Xilinhaote Brown Coal Integrated Development Company*

Xilinhaote Brown Coal Integrated Development Company is a wholly-owned subsidiary of the Company with a registered capital of approximately RMB212.7 million; it is principally engaged in the preparation of the lignite drying project. As of 31 December 2015, its net asset value was approximately RMB236 million. The assessed value under the asset-based approach was approximately RMB85 million. For 2014, the net profit before taxation was approximately RMB0.3 million and the net profit after taxation was approximately RMB0.3 million. For 2015, the net profit before taxation was approximately RMB0.4 million and the net profit after taxation was approximately RMB0.4 million.

*Xilinhaote Power Generation Company*

Xilinhaote Power Generation Company is a wholly-owned subsidiary of the Company with a registered capital of approximately RMB10 million; it is principally engaged in the preliminary works of 4 × 660MW project of Datang Xilinhaote Power Generation Plant. The assessed value under the asset-based approach is approximately RMB52 million. The assets of it are construction-in-progress and as such, there is no net profits attributable to it for the two financial years immediately preceding the transaction contemplated under the Transfer Agreement.

*Xilinhaote Mining Company*

Xilinhaote Mining Company is a subsidiary of the Company (shareholding percentage: the Company 60%, China Datang Coal Industry Co., Ltd. 40%), with a registered capital of RMB1,666.05 million; it is principally engaged in the development, construction and operation of the Shengli Open-pit Coal Mine East Unit 2 project. As at 31 December 2015, its net asset value was approximately RMB-1,311 million. The assessed value under the asset-based approach is approximately RMB-2,552 million. For 2014, the total loss was approximately RMB1,262 million. For 2015, the total loss was approximately RMB745 million.

*Zhaluomude Hydropower Company*

Zhaluomude Hydropower Company is a joint stock company of the Company (shareholding percentage: 28% held by Huaneng Hulunbeir Energy Development Co., Ltd., 25% held by Inner Mongolia Water Investment (Group) Co., Ltd., 20% held by Hulunbeier Water Investment Co., Ltd., 15% held by Energy and Chemical Company, 8% held by Huadian Inner Mongolia Energy Co., Ltd., and 4% held by China Shenhua Energy Company Limited); it is principally engaged in water supply and power generation, and the construction and operation management of water and electricity engineering. As of 31 December 2015, its net asset value was approximately RMB80 million. The assets of it are construction-in-progress and as such, there is no net profits attributable to it for the two financial years immediately preceding the transaction contemplated under the Transfer Agreement.

*Fuxin Huanfa Company*

Fuxin Huanfa Company is a joint stock company of the Company (shareholding percentage: 80% held by Liaoning Beifang Environmental Protection Co., Ltd., 20% held by Energy and Chemical Company); it is principally engaged in governance of environmental pollution, waste treatment and disposal, environmental protection business consultation, re-cycling of waste materials, operation of environmental friendly products. As of 31 December 2015, its net asset value was approximately RMB25 million. The assets of it are construction-in-progress and as such, there is no net profits attributable to it for the two financial years immediately preceding the transaction contemplated under the Transfer Agreement.

*Huatang Multi-Water Sources Company*

Huatang Multi-Water Sources Company is a joint stock company of the Company (shareholding percentage: 75% held by Shenhua Beidian Shengli Energy Co., Ltd., 15% held by Xilinhaote Chenhui Urban Infrastructure Construction and Investment Co., Ltd., 10% held by Xilinhaote Mining Company); it is principally engaged in treatment and utilization of coal mine drainage water, urban wastewater and reclaimed water, development and operation of other water resources. As of 31 December 2015, its net asset value was approximately RMB91 million. The assets of it are construction-in-progress and as such, there is no net profits attributable to it for the two financial years immediately preceding the transaction contemplated under the Transfer Agreement.

*Power Source Assets*

Power Source Assets are the assets of Keshiketeng Power Source Preliminary Project, which plans to generate units of 6 × 660MW and locate in the northeast 1 kilometer from the Keqi Coal-based Gas Company. The coal source of this project is designed to be the screened fine coals of Keqi Coal-based gas project, which intends to consume the fine coals of Keqi Coal-based gas project through an efficient and environmentally way so as to further promote the development of recycling economy. Currently, the project is under the stage of preliminary work and as such, there is no net profits attributable to it for the two financial years immediately preceding the transaction contemplated under the Transfer Agreement.

According to the Audit Report prepared in accordance with the relevant accounting standards and regulations applicable to enterprises established in the PRC, as at the Benchmark Date: (1) the aggregate book value of net assets of the Target Companies and Power Source Assets amounted to approximately RMB6,538.04 million; (2) the aggregate outstanding principal amount of the entrusted loans (including those extended in the Transitional Period) provided by the Company (excluding its controlled related parties) to the Target Companies (including its subsidiaries) amounted to approximately RMB10,198.20 million; (3) the aggregate principal amount of the loans of the Transaction Target guaranteed by the Company (including its controlled related parties) in various forms amounted to RMB18,514.00 million; (4) the third-party loans attached to the Power Source Assets amounted to RMB0. As advised by the management of the Group, the loss of the Target Companies and Power Source Assets reached approximately RMB6.4 billion in 2014 and approximately RMB5.0 billion in 2015.

**2. Reasons for and benefits of entering into the Transfer Agreement**

The Company is one of the largest independent power producers in the PRC and mainly engaged in power generation and development business. As advised by the management of the Group, the Company began to venture into the usage of coal resources years ago, followed by investment in the development, construction and operation of coal-to-chemical projects in order to enhance profitability and diversify risks. However, due to the complexity of technology, instability of operating equipment and the constantly changing market environment, some of the coal-to-chemical projects failed to commence operation and reach production capacity on schedule and hence adversely impacted the existing operating conditions. Furthermore, we noted that coal price has reached a historic low this year, representing over 60% decline from its peak in 2011. We have reviewed the information released from China Coal Resource (中國煤炭資源網) (www.sxcoal.com) and noted that the Inner Mongolia Dating International Keshiketeng Coal-based Natural Gas Project, being the first large-scale coal-based natural gas pilot project approved by the National Development and Reform Commission of the PRC, have experienced downward price adjustments for two times in 2013 and 2015 which placed pressure on its gross profit margin. Taking into account the significant amount of administrative expense incurred in the project, net operating loss from the existing business is likely to be continued.

Based on the statistical data in relation to the coal industry in the PRC published by the National Bureau of Statistics of China, we noted that the aggregate volume of coal production in the PRC had recorded a decline of approximately 2.5% in 2014. Despite the aforesaid decrease in coal production, we noted that the coal inventory level remained relatively high across the coal and power generation companies in the PRC. By the end of 2015, the total coal inventory level in the PRC has remained above 300 million tonnes for more than 48 consecutive months. In addition, in view of crude oil being a substitute for coal-chemical products and low oil prices since 2014, we noted that the operating environment of coal-to-chemical segment remained highly competitive and the profitability of chemical products is difficult to maintain. With the effect of the strong efforts endured by the central government on environmental protection, coal-to-chemical business has been facing increasing pressure on its profit margins due to the introduction of environmental tax.

Furthermore, we understand that with the promulgation of 國務院關於煤炭行業化解過剩產能實現脫困發展的意見 published by State Council of the PRC in February 2016, it is expected that the coal-to-chemical industry will remain overcapacity in the near future.

We have discussed with the management of the Company and obtained the financial statements of each of the Target Companies for the past few years and noted that, the operating loss of the Target Companies and Power Source Assets was approximately RMB6.4 billion and RMB5.0 billion in 2014 and 2015, respectively. In particular, we noted that the significant losses of the Company's coal-to-chemical segment was primarily attributable to the operation of coal-based olefin project with an annual production of 460,000 tons undertaken by Duolun Coal Chemical Company. Due to the relatively low load factor and decline in selling prices of chemical products, Duolun Coal Chemical Company has reported further losses of approximately RMB4.6 billion and RMB2.8 billion in 2014 and 2015, respectively.

In light of the above, in particular, (i) the recent market conditions in relation to the coal to chemical business in the PRC; and (ii) the operating environment of the Transaction Target in 2014 and 2015, we are of the view that the outlook of the coal-to-chemical business segment is expected to remain negative which would further deteriorate the current loss-making coal-to-chemical business of the Company and hence the Transaction Target will continue to suffer operating losses in the near future. Nevertheless, it is expected that upon completion of the Transfer Agreement, the adverse impact of this loss-making business segment will be terminated and the profit-generating ability of the Group will be further improved.

In addition, we understand that the Company has been offering various debt financing and financial guarantee support to maintain the continuous business operation of the coal-to-chemical segment. As advised by the management of the Group, as of 31 March 2016, the total principal amount of the loan guaranteed by the Company to coal-to-chemical related projects amounted to approximately RMB18,514 million. We have reviewed the guarantee arrangements and noted that Energy and Chemical Company and Duolun Coal Chemical Company accounted for approximately RMB10 billion and RMB7,224 million of the total principal amount, respectively. Upon the completion of the Transfer Agreement, we understand that the guarantee obligations of the Company with secured party/creditor will be released through novating, repayment before the maturity date or any other legal means which would ensure that the Company's guarantee obligations will be terminated. Moreover, we further noted that if the termination procedures cannot be completed thoroughly by the expiration of the aforesaid term, counter guarantee will be provided on the parts of the guarantee obligations of the Company that are not timely released. In this regard, we consider that the aforementioned arrangement will release the Company from its obligations on loan guarantees which will reduce the financial burden of the Company from the deteriorating coal-to-chemical projects and therefore enhance the overall financial conditions of the Group.

As stated in the Letter from the Board, the Company has been principally engaged in the business of power generation business. Leveraging on the strengths of the main business of power generation and constantly reduced production and operation costs, we noted that the profitability of the Company has improved steadily and in particular, the profit from the power generation segment continuously grew and reached new high. As advised by the management of the Company, we noted that the Group has been pursuing strategic opportunities to enter into transactions to optimize the asset and business structure of the Company. In particular, the Company entered into (i) sale and purchase contract of chemical products and framework agreement of sale of natural gas in April 2014; and (ii) capital contribution agreement in relation to power fuel business of the Group in November 2011. We consider that through the disposal of non-performing assets, the asset structure of the Company will be further optimized and therefore the entering into of the Transfer Agreement is made in the ordinary and usual course of business of the Group.

We have further reviewed the financial statements of cash flows of the Target Companies and Power Source Assets and understand that the Transaction Target generated net operating cash inflows of approximately RMB453 million for the year ended 31 December 2014 and net operating cash outflows of approximately RMB901 million for the year ended 31 December 2015. Amongst the Target Companies, Xilinhaote Mining Company recorded the largest operating cash outflows of approximately RMB1,012 million during its latest financial year. In light of the above, we are of the view that the members of the Target Companies are not likely to have sufficient working capital to repay the total outstanding amount of the entrusted loans of approximately RMB10,198 million and hence the Company will not be able to recover the total principal amount from disposing the assets of the Transaction Target. As a result, we are of the view that it is reasonable for the Target Companies to have a one-off waiver of certain entrusted loans instead of having other alternatives such as extending the repayment terms of the entrusted loans.

Having considered that (i) the coal-to-chemical business segment had recorded total operating loss of approximately RMB11.4 billion in aggregate for the two years ended 31 December 2015 which is higher than the potential one-off loss on long-term equity interest investment of approximately RMB8.0 billion; (ii) the disposal of the loss-making coal-to-chemicals business would enhance the profitability of the Group and promote optimization of asset structure of the Group; and (iii) the release of guarantee obligations of the Company would reduce the financial risks and enhance the overall financial conditions of the Company, we concur with the Directors' view that the entering into of the Transfer Agreement are in the interests of the Company and the Shareholders as a whole.

**3. Principal terms of the Transfer Agreement**

As set out in the Letter from the Board, on 30 June 2016, the Company entered into the Transfer Agreement with Zhongxin Energy and Chemical, pursuant to which, among others, the Company conditionally agreed to sell and Zhongxin Energy and Chemical conditionally agreed to acquire the Transaction Target at a consideration of RMB1. Meanwhile, the Company agreed to waive the Target Companies from repayment of certain entrusted loans provided by the Company, and the principal amount of such waived entrusted loans shall be not more than RMB10 billion.

***3.1 Valuation***

As described in the Letter from the Board, as of the Benchmark Date, the appraised net asset value of the Target Companies and Power Source Assets amounted to approximately RMB-9,356.7115 million, as appraised by the Independent Valuer based on the asset-based approach and the valuation has been filed according to the filing procedure for the valuation of state-owned-assets.

In order to assess the basis in determining the appraised value of the Target Companies and Power Source Assets, we have reviewed the valuation report ("**Valuation Report**") prepared by the Independent Valuer and discussed with the management in respect of the valuation of the Transaction Target (the "**Valuation**"). For the purpose of due diligence, we have reviewed and enquired into the steps taken by the Independent Valuer when conducting the Valuation and the Independent Valuer has confirmed that they are independent from the Company and the other parties involved in the Transfer Agreement. We have further reviewed the terms of the engagement of the valuation and noted that the scope of work is appropriate to the opinion required to be given and we are not aware of any limitation on the scope of work which might have an adverse impact on the degree of assurance given by the Independent Valuer. Therefore, on such basis, we are satisfied with the terms of engagement of the Independent Valuer for performing the Valuation, and we are of the view that the scope of work of the Independent Valuer is appropriate.

In the course of our assessment with respect to the suitability of the Independent Valuer for performing the Valuation, we have carried out due diligence interview with the Independent Valuer to inquiries into their qualification and experience. Having considered that (i) we have obtained and reviewed the relevant certificates of the Independent Valuer and note that the Independent Valuer is a qualified asset appraisal firm authorised by the Ministry of Land and Resources and the Ministry of Finance of the PRC to perform valuation works in the PRC; (ii) we have obtained and reviewed the qualifications of the responsible team leaders of the Independent Valuer, Ms. Peng and Mr. Yu, and note that they possess over 10 years of experience in the industry; (iii) we have discussed with the responsible team of the Independent Valuer in relation to their experiences and note that they possess experience in various valuation projects which involves acquisition and disposal transactions of listed companies in Hong Kong and the PRC; (iv) the Independent Valuer has an extensive client base including many well-known public companies listed on the Main Board of the Stock Exchange and provided services on valuation of companies operating in a variety of industries such as banking, insurance, transportation, power supply and oilfield services; and (v) we have conducted research and note that the Independent Valuer possess experience in performing valuation for companies engaging in similar line of business as the Company, we concur with the Directors' view that the qualification and experience of the Independent Valuer is suitable for performing the Valuation and therefore we are of the view that it is not necessary to engage a second independent valuer or conduct alternative valuation on the Transaction Target to form our opinion.

We were given to understand that the Independent Valuer has considered three generally accepted approaches in the valuation, namely the income approach, market approach and asset based approach. As discussed with the Independent Valuer, having considered that (i) the Transaction Target has been suffering from severe operating loss; (ii) some of the coal-to-chemical projects failed to commence operation and reach production capacity on schedule due to the instability of operating equipment; and (iii) the change in business environment of the coal-to-chemical segments as mentioned in the Letter from the Board, we agree with the Independent Valuer that it would be difficult to compile a reliable long-term income forecasts for the Transaction Target and thus income approach is not appropriate in view of the high degree of uncertainties in the economy and industry. In addition, we note that market approach adopts the publicly trading prices of comparable companies to deliver market valuations. Since existing market transaction data of listed companies principally engaged in coal-to-chemical business segment is limited, we agree that market approach is also considered not practicable. We understand from the Independent Valuer that asset-based approach assesses the value of assets and liabilities on the balance sheet of the Transaction Target with reference to the replacement cost of the relevant items, and in particular (i) assessing the market value of coal inventories and coal-to-chemical products to reflect any latest price adjustments or incidents; (ii) restating the value of machineries and equipment of Transaction Target with appropriate adjustment of depreciation in order to reflect the low productivity of production plants. In light of the above, we believe that asset-based approach has factored in the changes in the coal-to-chemical business environment after the publication of 2015 Annual Report and such approach is therefore considered to be the most appropriate in determining the valuation of the Transaction Target.

In the course of our assessments, we noted that the appraised value was substantially lower than the net asset value of the Transaction Target as stated in the Valuation Report, amounting to approximately RMB14.7 billion with an impairment rate of approximately 189.8%. In order to assess the basis on the change in value of the Transaction Target, we have discussed with the Valuer and understand that such change was primarily attributable to the impairment of equity interest as a result of the impairment on assets of Duolun Coal Chemical Company, Keqi Coal-based Gas Company, Fuxin Coal-togas Company, and Xilinhaote Mining Company, of which their total impairment amount accounted for over 95% of the total change in value of the Target Companies and Power Source Assets.

Upon our enquiry to the Valuer, we have further reviewed the working materials on the adjustment to the Target Companies and understand that the majority impairment was mainly due to, among others:

(i) impairment of inventories which was due to high costs of products of Duolun Coal Chemical Company, Keqi Coal-based Gas Company and Xilinhaote Mining Company as compared to the low current market price. We understand from the Valuer that the majority of inventories are raw coal and related catalyst which their prices have been recently dragged down by the global economy as well as national policies and thereby an impairment loss was recognised when the cost of such inventories exceeds their recoverable amount according to the general accounting principles;

(ii) impairment of buildings and constructions under fixed assets including (a) non-deductible value-added tax of pipes purchased before 2009 which we noted from "The Provisional Regulations of the People's Republic of China on Value-Added Tax" that value-added tax of certain type of goods including pipes has become deductible since 1 January 2009 thus resulting in lower realizable value; (b) high expenses amortized under assets which was mainly due to the expense in fore period management including consultation fees and finance costs as a result of the delayed commencement of operations; (c) corresponding decrease in value as a result of the failure to reach the target production capacity, which we understand from the Valuer that was due to the low productivity of pioneer production plants; (d) impairment of buildings, which we understand from the Valuer that steel, being the major construction material, recorded a decline in price per tonnes from approximately RMB4,000 to approximately RMB2,600 during the recent years; (e) lower cost of capital for construction which we noted that the central bank cut the interest rates for three times in 2015, roughly from 5.1% to approximately 4.4% and therefore resulting in loss in value; and (f) impairment of coal mining right as a result of the unfavourable mining condition which we noted that coal prices collapsed to a historic low this year;

(iii) impairment of machineries and equipment under fixed assets including (a) non-deductible value-added tax of coal production equipment purchased before 2009, which was under the effect of "The Provisional Regulations of the People's Republic of China on Value-Added Tax" as discussed above; (b) shorter useful lives of equipment which we understand from the Valuer that was mainly due to the difference in definition under accounting and valuation standards and hence shorter period of profits were recorded; (c) corresponding decrease in value of equipment as a result of the low productivity of pioneer mining equipment which failed to meet target production capacity; and

(iv) impairment of non-current liabilities which we noted that the central government has adopted subsidy scheme in support of industry growth and therefore waiving out certain liabilities of Fuxin Coal-to-gas Company and resulting in an appreciation of value of net assets.

In addition, we were advised by the auditor of the Group (the "**Auditor**") that they have adopted the discounted cash flow method in the course of preparing the financial statements of the Target Companies and Power Source Assets as at 31 December 2015. We have also discussed with the Independent Valuer and understand that in light of the changes in the coal-to-chemical business environment after the publication of 2015 Annual Report, asset-based approach has been adopted in the valuation of Transaction Target as at 31 March 2016 in view of the uncertainties in the prospect of the coal-to-chemical business segment of the Company. Having considered (i) the Directors' view on the adverse impact of the change in business environment of coal-to-chemical business segment as disclosed in the Letter from the Board; and (ii) the basis of appraised impairment on the Transaction Target by the Independent Valuer and the determination of provision for impairment in the financial statements by the Auditor, we concur with their view on the differences in the valuation of the Transaction Target.

We have further looked into the general assumptions made in arriving at the value of the Transaction Target, namely the transaction assumption, open market assumption, continued use assumption and going concern assumption. We understand that these assumptions are in line with normal market practice and have been validated in order to provide a reasonable basis. As we are not aware of any major factors which would cause us to doubt the fairness and reasonableness of the above, we are of the view that the impairment made are in line with the significant accounting policies and therefore the Valuation is fair and reasonable.

***3.2 Consideration***

As stated in the Letter from the Board, the Company considered a number of factors in entering into the transaction contemplated under the Transfer Agreement, including the appraised value of the Transaction Target (i.e. approximately RMB-8,335.9597 million) as valued as at the Benchmark Date in the Asset Valuation Report, the losses suffered by some of the companies under the Transaction Target in recent years, the benefits of entering into the transaction to the Company as set out in the section headed "Reasons for and benefits of entering into the Transfer Agreement" including the release of the guarantee obligations of the Company as set out in the section headed "Guarantee arrangement", and the potential future loss of the Transaction Target which may drag down the future performance of the Company as the accounts of the Transaction Target are consolidated to that of the Company.

Having considered the above factors, the Company considered that it is in its interest to dispose of the Transaction Target and started negotiations with Zhongxin Energy and Chemical. As the appraised value of the Transaction Target is of approximately RMB-8,335.9597 million and the operational loss of the Transaction Target during the Transitional Period will further reduce the appraised value of the Transaction Target, the parties, after arm's length negotiations, agreed to waive certain portion of the outstanding principal amount of the entrusted loans (including those extended in the Transitional Period) provided by the Company to the Target Companies to offset the corresponding level of negative appraised value of the Transaction Target and agreed the consideration for the Transfer of the Transaction Target to be RMB1. The said consideration of the transfer is not subject to further adjustment. The said consideration is not subject to further adjustment. Based on the abovementioned arrangement, Zhongxin Energy and Chemical agreed to enter into the transfer agreement and the transaction contemplated under the Transfer Agreement.

For the purpose of this transaction and in the normal completion circumstances, certain principal amount of the entrusted loans provided by the Company to the Target Companies is to be waived on the Completion Date. The principal amount of the waived entrusted loans is the sum of: (A) the appraised absolute value of the Transaction Target of approximately RMB8,335.9597 million; and (B) the absolute value of the operating loss of the Transaction Target in the Transitional Period which shall be borne by the Company based on its shareholding/proportion to the equity interests as determined by the special audit report for the Transitional Period in accordance with the section headed "Arrangement for the Transitional Period" below. The Company is entitled at its discretion to decide the borrowers of the waived entrusted loans and their principal amount. The waived entrusted loans could be the entrusted loans provided to the Target Companies by the Company (including those provided in the Transitional Period) which have not yet been repaid or newly-added entrusted loans. The details of the waived entrusted loans, including but not limited to the contract number of the relevant entrusted loans contracts to be waived, names of the relevant borrower, the principal amount of the entrusted loan to be waived, details about the termination/revision of the original entrusted loan contracts and other subsequent arrangements, will be set out in the notice to be given by the Company to Zhongxin Energy and Chemical at the material time. The maximum aggregate amount of the above-mentioned waived entrusted loans amounted to RMB10 billion.

Based on the above, we understand that the amount of the waived entrusted loans ("**Waived Amount**") is equivalent to the sum of the appraised value of the Transaction Target ("**Appraised Value**") and the absolute value of the operating loss in the Transitional Period of the Transaction Target to be borne by the Company ("**Value of Operating Loss**"). In light of the deteriorating operating conditions of coal-to-chemical segment as discussed under the section headed "Reasons for and benefits of entering into the Transfer Agreement", we understand that the operational loss of the Transaction Target during the Transitional Period may further reduce the appraised value of the Transaction Target. However, we consider that further adjustment on the consideration is not necessary after taking into account that, among others,

(i) the Waived Amount is a variable which is dependent on the Value of Operating Loss which will be determined by carrying out a special audit by accounting firm for the profit or loss of the Transaction Target recorded in the Transitional Period, and in another words the principal amount of the entrusted loans to be waived will take into account such value of operating loss; and

(ii) the maximum aggregate amount of the above-mentioned waived entrusted loans amounted to RMB10 billion, which means the loss of the Company from the waiver of entrusted loans is limited to RMB10 billion, whereas the sum of the negative appraised value and the possible further reduction of value of the Transaction Target (i.e. operating loss of the Transaction Target during the Transitional Period) can reach beyond RMB10 billion.

As a result, we consider that the cost of acquiring the Transaction Target by Zhongxin Energy and Chemical, which can be interpreted as the combined amount of Appraised Value and the Value of Operating Loss, will be completely offset by the Waived Amount to be exempted by the Company and thereby the aforementioned arrangement of the entrusted loans is fair and reasonable to both parties entering into the Transfer Agreement and we are of the view that RMB1 represents a nominal consideration of the transfer of Transaction Target.

Despite the fact that the Transfer Agreement will result in the loss of approximately RMB8 billion of long-term equity interest investment and the loss from the waiver of entrusted loans of approximately RMB10 billion for the Company, having considered that, among others:

(i) the past and current operating conditions were deteriorating in light of the factors mentioned in the section headed "Reasons for and benefits of entering into the Transfer Agreement" in this letter;

(ii) the market condition is unfavourable to the coal-to-chemical segment taking into account the reasons discussed in this letter and hence the Transaction Target is unlikely to achieve turnaround and the Company will continue to suffer losses from the operation of Transaction Target in the near future;

(iii) the financial results of the Transaction Target will no longer to be consolidated in the consolidated financial statements of the Company and therefore the adverse impact of the operation of the Transaction Target will be terminated upon the completion of Transfer Agreement;

(iv) the Target Companies and Power Source Assets had recorded total operating loss of approximately RMB11.4 billion in aggregate for the two years ended 31 December 2015 which is already higher than the potential one-off loss on long-term equity interest investment of approximately RMB8.0 billion and therefore, in long run the potential loss from the operation of the Transaction Target is likely to exceed the one-off loss on the current disposal;

(v) Zhongxin Energy and Chemical may not be willing to enter into the transaction contemplated under the Transfer Agreement if the Company failed to offset the level of negative appraised value of the Transaction Target and in that case the Company may continue to record severe loss from the operation of Transaction Target; and

(vi) having a waiver of certain portion of the outstanding principal amount of the entrusted loans to offset the negative appraised value of the Transaction Target is reasonable given that the members of the Target Companies are not likely to have sufficient working capital to repay the total outstanding amount due to the net operating cash outflows for the year ended 31 December 2015.

We are of the view that the Transfer Agreement and the consideration of RMB1 is in the interest of the Company and the Shareholders as a whole given that the profitability of the Group will be further improved upon the completion of the transfer of Transaction Target.

***3.3 Comparable Analysis***

In the course of our analysis, we have conducted searches for (i) listed companies in Hong Kong which are engaged in similar line of business as the Transaction Target, i.e. coal-to-chemical segment in the PRC with the majority of their revenue generated from such business based on their respective latest published financial reports; and (ii) acquisition or disposal of company which engages in similar line of business as the Transaction Target by listed companies in Hong Kong. To the best of our knowledge, there are neither listed companies nor recent transactions which met the said criteria. As part of our assessment of the transfer of Transaction Target, we were engaged by the Company to advise the fairness of such transaction in the Hong Kong capital market. We noted that the market sentiments, the price-to-earnings ratio, the price-to-book ratio are different from other capital markets. As such, for the purpose of our analysis, we have expanded the selection criteria to identify comparable transactions in Hong Kong which (i) involve disposal of subsidiaries of listed companies in Hong Kong; and (ii) the consideration of which ranging from HK$1 to HK$3. To the best of our knowledge and as far as we are aware of, we have identified three listed companies which involved transactions (the "**Comparable Transactions**") that met the aforesaid criteria in the past four years according to our research on the website of the Stock Exchange. The table below illustrates the details of the Comparable Transactions:

| Date of announcement | Company name | Stock code | Description of transaction | Aggregate consideration |
|---|---|---|---|---|
| 31 October 2014 | First Mobile Group Holdings Limited | 865 | Disposal of three wholly-owned subsidiaries to a connected person | HK$1 |
| 5 September 2014 | Changhong Jiahua Holdings Limited | 8016 | Disposal of two wholly-owned subsidiaries to an independent third party | HK$1 |
| 18 January 2013 | Warderly International Holdings Limited *(Note 1)* | 607 | Disposal of three wholly-owned subsidiaries to a connected person | HK$3 *(Note 2)* |

*Source: Website of the Stock Exchange (www.hkex.com.hk)*

*Notes:*

1. The name of the comparable company has been changed from Warderly International Holdings Limited to Fullshare Holdings Limited on 22 October 2014.

2. The consideration for each of the disposed companies is HK$1.

Despite the fact that the principal business, revenue model and geographical presence of the disposed companies in the Comparable Transactions (the "**Disposed Companies**") may not be directly comparable to the Transaction Target, after taking into account that (i) the Disposed Companies were loss-making and recorded aggregate net liabilities during their respective latest financial year; and (ii) the transaction considerations of the Comparable Transactions were determined after arm's length negotiations and represented a nominal consideration, we are of the view that the Comparable Transactions are comparable to the current disposal of Transaction Target and can provide a meaningful benchmark in respect of the fairness and reasonableness of the transaction consideration. In addition, we further noted that pursuant to the disposal agreement entered into by Changhong Jiahua Holdings Limited ("**Changhong Jiahua**"), the total amount of debts and liabilities owed to Changhong Jiahua by its subsidiaries will be waived upon the completion of the transaction. In light of the above, we consider that the transfer of Transaction Target at a nominal consideration of RMB1 is not uncommon in the market and the terms of Transfer Agreement are on normal commercial terms.

As disclosed in the 2015 Annual Report, we noted that the Company and China Reform Holdings Corporation Ltd. entered into a framework agreement for the reorganisation of coal-to-chemical segment and related projects of the Company in July 2014. However, after negotiations, the parties could not reach consensus and therefore on 29 March 2016, the parties entered into a termination agreement to the said framework agreement. As discussed with the management of the Group, the Company could not find a new interested buyer for the Transaction Target which offered better terms than China Reform Holdings Corporation Ltd. As a result, we understand that the Company has used its best effort but failed to dispose the Transaction Target to an independent third party with terms more favourable to the Company than the terms offered by Zhongxin Energy and Chemical and having considered that the terms of the Transfer Agreement are on an arm's length basis, therefore we are of the view that the Transfer Agreement is on normal commercial terms or better.

In view of, among others, (i) the foregoing reasons for and benefits of entering into the Transfer Agreement; (ii) the fairness and reasonableness of the Valuation; and (iii) RMB1 represents a nominal consideration of the transfer of Transaction Target, we concur with the Directors' view that the consideration for the transfer of the Transaction Target is fair and reasonable.

### *3.4 Arrangement for the Transitional Period*

As stated in the Letter from the Board, the profit or loss of the Transaction Target recorded in the Transitional Period shall be enjoyed or borne by the Company; both parties agreed that the Company will not take the impact of appreciation or impairment of the Transaction Target into account nor conduct corresponding financial processing. Within 30 working days after the Completion Date, the Company will entrust the accounting firm which issued the Audit Report to carry out a special audit for the profit or loss of the Transaction Target recorded in the Transitional Period and issue a special audit report. Please refer to the section headed "Arrangement for the Transitional Period" in the Letter from the Board for details.

### *3.5 Arrangement of entrusted loans*

As stated in the Letter from the Board, the aggregate principal amount of the waived entrusted loans is the sum of: (A) appraised absolute value of the Transaction Target of approximately RMB8,335.9597 million; and (B) the absolute value of the operating loss in the Transitional Period of the Transaction Target which shall be borne by the Company based on its shareholding/proportion to the equity interests as determined by the special audit report for the Transitional Period in accordance with the section headed "Arrangement for the Transitional Period" above. Regarding the corresponding interest of the entrusted loans to be waived which form part of the consideration of the transaction as at the Completion Date, the borrowers of the entrusted loans to be waived shall pay it to the Company at the Completion Date; if the payment of the abovementioned interest is later than the Completion Date, the interest between the next day of the Completion Date to the actual payment date is also payable; as of the Completion Date, except the entrusted loans to be waived, the remaining entrusted loans and the newly-added entrusted loans in the Transitional Period shall be performed as agreed in the original entrusted loan agreement. For details in relation to the right of the Company to recover the principal amount and the relevant interest of the entrusted loans, please refer to the section headed "Arrangement of entrusted loans" in the Letter from the Board.

### *3.6 Guarantee arrangement*

As stated in the Letter from the Board, after the Completion Date, Zhongxin Energy and Chemical shall use all endeavour to prevent the occurrence of situations where the Company will need to perform the guarantee obligations after the Completion Date, and it shall complete the procedures for changes to the guarantee arrangement in a timely manner to replace the guarantee of the Company. As all significant guarantee obligations of the Company will be released and counter guarantee will be provided by Zhongxin Energy and Chemical on the parts that are not released, we concur with the Directors' view that the Group will no longer bear any relevant obligations upon the completion of changes to the guarantee arrangement. For details in relation to the termination of the guarantee obligations of the Company with secured party/creditor, please refer to the section headed "Guarantee arrangement" in the Letter from the Board.

### *3.7 Arrangement for accumulated undistributed profits*

As stated in the Letter from the Board, after the Completion Date, the accumulated undistributed profits of the Target Companies will be shared by all the then shareholders of the Target Companies in proportion to their respective shareholdings.

### *3.8 Arrangement of the Company's contractual debt of the Target Companies and Power Source Assets*

As stated in the Letter from the Board, as at the Benchmark Date, there were certain contracts of which the rights and obligations shall be borne by the Target Companies and Power Source Assets. However, the Company remained the party of such contracts as the change of party to such contracts had not yet completed. Zhongxin Energy and Chemical agreed and undertook that, after the Completion Date, it will endeavor to novate the Company's and Power Source Assets to complete the procedures for the change of contract subject in a proactive manner. As Zhongxin Energy and Chemical agreed to repay the creditor on behalf of the Company and provide compensation to the Company upon its performance of obligations to the creditor under the relevant contract, we concur with the Directors' view that the Group will be free from all relevant obligations and responsibilities upon the completion of the procedures for the change of contract subject. For details in relation to the arrangement of contractual obligations, please refer to the section headed "Arrangement of the Company's contractual debt of the Target Companies and Power Source Assets" in the Letter from the Board.

### *3.9 Conclusion*

After discussing with the management of the Group and having considered that, among others, (i) RMB1 represents a nominal consideration of the transfer of Transaction Target; and (ii) the Group will no longer bear the relevant liabilities and obligations arising from the Transaction Target under the aforesaid guarantee arrangement, arrangements of entrusted loans and arrangement of the Company's contractual debt upon the completion of transfer of Transaction Target, we concur with the Directors' view that the terms of the Transfer Agreement are fair and reasonable, on normal commercial terms and in the interests of the Company and the Shareholders as a whole.

## 4. Possible financial effects of the Transfer Agreement

### *4.1 Net assets value*

As confirmed by the Directors, upon the completion of the transfer of Transaction Target, the assets and liabilities of the Target Companies and the Power Source Assets will no longer be consolidated in the consolidated financial statements of the Company.

As stated in the Letter from the Board, and the assets and liabilities of the Company are expected to be reduced by approximately RMB78.2 billion and RMB69.7 billion, respectively, resulting in a decrease in net assets value following the completion of the Transfer Agreement.

### *4.2 Earnings*

Upon the completion of the transfer of Transaction Target, the Target Companies (including its subsidiaries) will cease to be subsidiaries of the Company. As such, the financial results of the Target Companies and the Power Source Assets will no longer be consolidated in the consolidated financial statements of the Company.

As set out in the Letter from the Board, the book value as at the Benchmark Date was approximately RMB8.0 billion based on the long term equity interest investment of the Target Companies held by the Company. As such, the transfer of Transaction Target is expected to result in the loss of approximately RMB8.0 billion of long-term equity interest investment. Based on the transaction, it is expected that the loss from the waiver of entrusted loans of the Company amounted to approximately RMB10.0 billion.

Nonetheless, despite the immediate one-off negative impact on the earnings of the Group, after taking into account the overall benefits of transferring the coal-to-chemical business segment as detailed under the paragraph headed "Reasons for and benefits of entering into the Transfer Agreement" in the Letter from the Board, we concur with the Directors' that the impact on the earnings of the Group is acceptable. In addition, having considered the loss of Target Companies and Power Source Assets of approximately RMB6.4 billion in 2014 and RMB5.0 billion in 2015, we consider that upon the completion of the transfer of the coal-to-chemical business segment, the Group will no longer bear such losses and therefore the profitability of the Group will be improved in the future.

### *4.3 Gearing ratio*

With reference to the 2015 Annual Report, the gearing ratio is calculated as total liabilities divided by total assets, which amounted to approximately 79% as at 31 December 2015. Having considered that the total assets and liabilities of the Company will decrease upon the completion of the transfer of Transaction Target, the gearing ratio of the Company is expected to be decreased by approximately 3%.

## RECOMMENDATION

Having taken into consideration the factors and reasons as discussed above and in particular the following (which should be read in conjunction with and interpreted in the full context of this letter):

- the reasons for and benefits of entering into the Transfer Agreement as discussed above;
- the consideration for the transfer of the Transaction Target is fair and reasonable having considered, among others, the Valuation;
- the aforementioned arrangements are fair and reasonable and in the interest of the Company and the Shareholders as a whole; and
- the one-off negative impact on the earnings of the Group is acceptable.

We are of the opinion that the relevant terms of the Transfer Agreement are fair and reasonable, have been entered into after arm's length negotiation between all parties thereto and determined on normal commercial terms, are in the ordinary and usual course of business of the Company and in the interests of the Company and the Shareholders as a whole. Accordingly, we advise the Independent Shareholders, as well as the Independent Board Committee to recommend the Independent Shareholders, to vote in favour of the relevant resolution to be proposed at the EGM to approve the transaction contemplated under the Transfer Agreement.

Yours faithfully,
For and on behalf of
**Lego Corporate Finance Limited**
**Gary Mui**
*Chief Executive Officer*

*Mr. Gary Mui is a licensed person registered with the SFC and a responsible officer of Lego Corporate Finance to carry out Type 6 (advising on corporate finance) regulated activity under the SFO. He has over 15 years of experience in the finance and investment banking industry.*

## (1) FINANCIAL INFORMATION OF THE GROUP

The financial information of the Group (i) for the year ended 31 December 2013 has been disclosed on pages 85 to 201 of the annual report of the Company for the year ended 31 December 2013 published on 24 April 2014 (http://www.hkexnews.hk/listedco/listconews/SEHK/2014/0424/LTN201404241613.pdf); (ii) for the year ended 31 December 2014 has been disclosed on pages 88 to 217 of the annual report of the Company for the year ended 31 December 2014 published on 24 April 2015 (http://www.hkexnews.hk/listedco/listconews/SEHK/2015/0424/LTN201504241508.pdf); (iii) for the year ended 31 December 2015 has been disclosed on pages 107 to 245 of the annual report of the Company for the year ended 31 December 2015 published on 29 April 2016 (http://www.hkexnews.hk/listedco/listconews/SEHK/2016/0429/LTN201604292267.pdf). All the above annual reports of the Company have been published on the website of the Stock Exchange (www.hkexnews.hk) and the website of the Company (www.dtpower.com).

## (2) FINANCIAL AND TRADING PROSPECTS OF THE GROUP

In 2016, in the face of opportunities and challenges brought along by the new norms, by continuously upholding its value and efficiency-oriented philosophy, adhering to the basis of safety and stability and insisting on the basis of quality and effectiveness enhancement, and driven by reformation and innovation, the Company will strive to push forward the upgrade of power generation business. Specific works are as follow:

1) Continue to step up safety management and control by strengthening the foundation of safety production and solidifying the development concept of safety development, the Company will adequately deploy the long-term effective mechanism of safety management with in-depth implementation of responsibility for safety production and establishment of comprehensive responsibility system for safety risk management and control. The Company will constantly upgrade the standard of production management and endeavor to obtain the title of national grade A reliability generating unit. The Company will establish a comprehensive technological management system and enhance the innovation of technology in order to promote the upgrade of inventory and increment of development and to push forward the establishment of innovative corporations.

2) Proactively upgrade the market competitiveness. The Company will proactively study and carry out relevant documents of reformation of power system. The Company will adopt the new state of power reformation as soon as possible and closely keep up with the new movement of power reformation in order to accelerate the establishment of power sale system with the orientation of market and users' needs while striving to achieve the greatest effectiveness of power generation. The Company will continue to enhance the effort to

achieve the planned power volume and proactively grasp the initiative of direct supply to large users. The Company will also enhance the effort on all kinds of markets for power generation and strive to achieve a breakthrough on power generation of 170.0 billion kWh.

The Company will continue to optimise the structure of electricity and coal and grasp the control on fuel cost; deepen the cost management standard, adopt effective measures and strive to achieve the gearing ratio of not more than 78.7%. The Group monitors capital on the basis of the gearing ratio. The calculation of this ratio is total liabilities divided by total assets.

3) Promote the upgrade of power generation business with full effort. The Company will facilitate the preliminary works for key projects with high quality and high efficiency in order to endure the completion of work commencement and production commencement plan of key projects. The Company will place full effort to accomplish approved power generation projects of 6,331 thousand kW and strive to realise the construction commencement of 6,475 thousand kW power generation projects and the production commencement and power generation of 2,029.7 thousand MW power generation project.

The Company will continue to promote a further optimisation of regional structure, business structure and equity structure and constantly improve the quality of the Company's assets.

4) Enhance internal control and improve the capability of corporate governance. The Company will enhance the effectiveness of internal control and strengthen the checking on risk management indicators while insisting on facilitating the development of internal control through risk evaluation and internal control assessment. The Company will also deepen the compliance of corporate governance from governance level in order to ensure every business is operating normally and in compliance with laws and regulations.

**(3) INDEBTEDNESS**

As at the close of business on 30 June 2016, the Group had unaudited outstanding interest bearing debts of approximately RMB211.2 billion, comprising borrowings from financial institutions of RMB161.8 billion, and bonds outstanding of RMB28.5 billion, and financial leasing outstanding of RMB20.9 billion.

Save as aforesaid and apart from intra-group liabilities, the Group did not have any mortgages, charges, debentures, loan capital, bank loans and overdrafts, debt securities or other similar indebtedness, finance leases or hire purchase commitments, liabilities under acceptances or acceptances credits, or any guarantees, or any other contingent liabilities outstanding at the close of business on 30 June 2016.

As at the Latest Practicable Date, the Directors are not aware of any material adverse changes in the Group's indebtedness position and contingent liabilities since the close of business on 30 June 2016.

## (4) WORKING CAPITAL

The Directors are of the opinion that, after taking into account the present available banking facilities and the internally generated resources of the Group, the Group has sufficient working capital for its requirements with the next 12 months from the date of this circular.

## (5) EFFECT ON EARNINGS, ASSETS AND LIABILITIES OF THE COMPANY

The entering into of the Transfer Agreement between the Company and Zhongxin Energy and Chemical are beneficial to the Company.

Upon the transfer of Transaction Target, the Target Companies (including its subsidiaries) will cease to be subsidiaries of the Company. In addition, the Power Source Assets will cease to be assets of the Company. The financial results, assets and liabilities of the Target Companies and the Power Source Assets will no longer be consolidated in the consolidated financial statements of the Company. The assets and liabilities of the Company are expected to be reduced by approximately RMB78.2 billion and RMB69.7 billion, respectively, after the transfer of the Transaction Target. The liabilities-to-asset ratio is expected to be decreased by approximately 3%.

The book value as at the Benchmark Date was RMB8.043 billion based on the long term equity interest investment of the Target Companies held by the parent company of the Company. As such, the transfer of Transaction Target is expected to result in the loss of approximately RMB8.043 billion of long-term equity interest investment. Based on the transaction, it is expected that the loss from the waiver of entrusted loans of the Company amounted to approximately RMB10 billion.

Given undistributed net profit of the parent company of the Company for 2016 is expected to be negative, the distribution of dividends to the Shareholders by the Company for the period will be affected.

*The following is the summary of the valuation reports prepared by Beijing Pan-China Assets Appraisal Co., Ltd. in relation to the valuation of the Transaction Target under the Transfer Agreement as at 31 March 2016.*

# CONSOLIDATED VALUATION CONCLUSION IN RELATION TO THE REORGANISATION OF COAL-TO-CHEMICAL SEGMENT AND RELATED PROJECTS OF DATANG

We, Beijing Pan-China Assets Appraisal Co., Ltd. refer to the engagement for valuation on all assets and liabilities of the companies included in the reorganisation in relation to coal-to-chemical segment and related projects of Datang by Datang International Power Generation Co., Ltd.. We have complied with the relevant laws, regulations, assets valuation standards and generally accepted assets valuation principles and performed assets valuation services in accordance with necessary valuation procedures to give a fair view of the market value of these assets and liabilities as at 31 March 2016, and the said valuation shall be valid for one year (i.e., from 31 March 2016 to 30 March 2017). The assets valuation is reported as follows:

The basis of the assets valuation standards are as follows:

i. *Asset Valuation Standards – Basic Standards (Cai Qi [2004] No. 20)*;

ii. *Code of Professional Ethics for Asset Valuation – Basic Standards (Cai Qi [2004] No. 20)*;

iii. *Code of Professional Ethics for Asset Valuation – Independence (Zhong Ping Xie [2012] No. 248)*;

iv. *Asset Valuation Standards – Valuation Reports (Zhong Ping Xie [2007] No. 189)*;

v. *Asset Valuation Standards – Valuation Procedures (Zhong Ping Xie [2007] No. 189)*;

vi. *Asset Valuation Standards – Business and Agreements (Zhong Ping Xie [2007] No. 189)*;

vii. *Asset Valuation Standards – Working Papers (Zhong Ping Xie [2007] No. 189)*;

viii. *Asset Valuation Standards – Machinery and Equipment (Zhong Ping Xie [2007] No. 189)*;

ix. *Guidelines for Valuation Report of State-owned Assets of Enterprises (Zhong Ping Xie [2008] No. 218)*;

x. *Guidelines on Quality Control of Business Operations of Valuation Institutions (Zhong Ping Xie [2010] No. 214)*;

xi. *Guiding Opinions for Types of Value of Assets under Valuation (Zhong Ping Xie [2007] No. 189)*;

xii. *Guiding Opinions for Certified Public Valuers on Concerns Relating to the Legal Title of Subjects under Valuation (Hui Xie [2003] No. 18);*

xiii. *Guidelines for Internal Procedures for Valuation Company (Zhong Ping Xie [2010] No. 121)*; and

xiv. *Guiding Opinions No. 6 for Asset Valuation Expert – Disclosure for Major Asset Reorganization for Listed Companies (Zhong Ping Xie [2015] No. 67).*

**I. Valuation purpose**

Pursuant to "Notice on Carrying out Preliminary Work Regarding Reorganisation and Transfer of Coal-to-chemical Segment and Related Assets" (Zi Ben [2016] No. 7) (《關於開展煤化工及相關資產重組轉讓前期工作的通告》(資本[2016]7號)) issued by China Datang Corporation and "Written Resolution of the Board of Directors of Datang International Power Generation Co., Ltd. regarding Approval of Signing of the Reorganisation Framework Agreement in respect of the Coal-to-chemical Segment and Related Projects with China Datang Corporation"《大唐國際發電股份有限公司董事會關於同意與中國大唐集團公司就煤化工及相關項目簽訂重組框架協議的書面決議》, Datang International Power Generation Co., Ltd. proposes to transfer its 100% equity interest in Datang Energy and Chemical Company Limited, its 60% equity interest in Inner Mongolia Datang International Xilinhaote Mining Company Limited, its 100% equity interest in Inner Mongolia Datang International Xilinhaote Brown Coal Integrated Development Company Limited, its 100% equity interest in Inner Mongolia Datang International Xilinhaote Power Generation Company Limited and its Keqi Power Plant Project. This valuation on the entire equity interest or total assets and liabilities of the above companies or project is conducted in order to provide a reference to the proposed transfer.

**II. Valuation target**

The entire equity interest in Energy and Chemical Company, Xilinhaote Mining Company, Xilinhaote Brown Coal Integrated Development Company and Xilinhaote Power Generation Company as well as the total assets and liabilities of the Keshiketeng Power Source Preliminary Project.

**III. Scope of valuation**

Total assets and liabilities of Energy and Chemical Company and its controlled subsidiaries, of Xilinhaote Mining Company, of Xilinhaote Brown Coal Integrated Development Company, of Xilinhaote Power Generation Company, and of the Keshiketeng Power Source Preliminary Project.

Set out below is the audited book value as at the valuation reference date:

**(I) Energy and Chemical Company**

*Unit: RMB0'000*

| Item | Book value |
|---|---|
| Current assets | 3,449,539.35 |
| Non-current assets | 667,959.65 |
| Including: Long-term equity investment | 639,523.89 |
| Investment properties | |
| Fixed assets | 609.58 |
| Construction-in-progress | 1,026.18 |
| Others | 26,800.00 |
| **Total assets** | **4,117,499.00** |
| Current liabilities | 829,209.08 |
| Non-current liabilities | 2,514,820.37 |
| **Total liabilities** | **3,344,029.45** |
| **Net Assets** | **773,469.55** |

**(II) Duolun Coal Chemical Company**

*Unit: RMB0'000*

| Item | Book value |
|---|---|
| Current assets | 108,746.03 |
| Non-current assets | 2,266,962.88 |
| Including: Long-term equity investment | |
| Fixed assets | 2,195,349.14 |
| Construction-in-progress | 8,009.14 |
| Construction materials | |
| Intangible assets | 63,081.95 |
| Long-term deferred expenses | 522.65 |
| **Total assets** | **2,375,708.91** |
| Current liabilities | 1,621,100.86 |
| Non-current liabilities | 1,343,747.07 |
| **Total liabilities** | **2,964,847.93** |
| **Net Assets** | **-589,139.02** |

**(III) Keqi Coal-based Gas Company**

*Unit: RMB0'000*

| **Item** | **Book value** |
|---|---|
| Current assets | 78,472.16 |
| Non-current assets | 2,383,735.05 |
| Including: Fixed assets | 1,619,653.91 |
| Construction-in-progress | 675,354.71 |
| Construction materials | 61,810.71 |
| Intangible assets | 23,722.19 |
| **Total assets** | **2,462,207.21** |
| Current liabilities | 1,910,237.96 |
| Non-current liabilities | 57,816.98 |
| **Total liabilities** | **1,968,054.94** |
| **Net Assets** | **494,152.27** |

**(IV) Fuxin Coal-to-gas Company**

*Unit: RMB0'000*

| **Item** | **Book value** |
|---|---|
| Current assets | 10,443.35 |
| Non-current assets | 1,504,796.01 |
| Including: Long-term equity investment | 400.00 |
| Fixed assets | 19,232.74 |
| Construction-in-progress | 1,385,673.83 |
| Construction materials | 45,595.11 |
| Intangible assets | 53,290.38 |
| Others | 603.95 |
| **Total assets** | **1,515,239.36** |
| Current liabilities | 639,211.80 |
| Non-current liabilities | 702,030.57 |
| **Total liabilities** | **1,341,242.37** |
| **Net Assets** | **173,996.99** |

**(V) Hulunbeier Chemical Fertilizer Company**

*Unit: RMB0'000*

| Item | Book value |
|---|---|
| Current assets | 3,624.72 |
| Non-current assets | 239,087.60 |
| Including: Long-term equity investment | – |
| Investment properties | – |
| Fixed assets | 235,317.18 |
| Construction-in-progress | – |
| Intangible assets | 3,770.42 |
| Including: Land use rights | 3,402.12 |
| Others | – |
| **Total assets** | **242,712.32** |
| Current liabilities | 187,217.57 |
| Non-current liabilities | 96,500.00 |
| **Total liabilities** | **283,717.57** |
| **Net Assets** | **-41,005.25** |

**(VI) Fuxin Engineering Company**

*Unit: RMB0'000*

| Item | Book value |
|---|---|
| Current assets | 11,482.58 |
| Non-current assets | 942.82 |
| Including: Long-term equity investment | 354.40 |
| Fixed assets | 588.42 |
| Others | – |
| **Total assets** | **12,425.40** |
| Current liabilities | 4,453.08 |
| Non-current liabilities | – |
| **Total liabilities** | **4,453.08** |
| **Net Assets** | **7,972.32** |

### (VII) Chemical Technology Research Institute

*Unit: RMB0'000*

| Item | Book value |
|---|---|
| Current assets | 9,913.20 |
| Non-current assets | 1,210.50 |
| Including: Long-term equity investments | |
| Fixed assets | 998.81 |
| Construction-in-progress | |
| Intangible assets | 163.59 |
| Others | 48.10 |
| **Total assets** | **11,123.70** |
| Current liabilities | 1,963.87 |
| Non-current liabilities | 4,411.44 |
| **Total liabilities** | **6,375.31** |
| **Net assets** | **4,748.39** |

### (VIII) Energy and Chemical Marketing Company

*Unit: RMB0'000*

| Item | Book value |
|---|---|
| Current assets | 113,162.36 |
| Non-current assets | 109.04 |
| Including: Long-term equity investments | |
| Fixed assets | 74.52 |
| Intangible assets | 34.52 |
| Including: land use rights | |
| Others | |
| **Total assets** | **113,271.40** |
| Current liabilities | 102,503.11 |
| Non-current liabilities | |
| **Total liabilities** | **102,503.11** |
| **Net assets** | **10,768.29** |

### (IX) Duolun Hydropower Company

*Unit: RMB0'000*

| Item | Book value |
|---|---|
| Current assets | 3,264.62 |
| Non-current assets | 9,131.79 |
| Including: Fixed assets | 5,165.53 |
| Construction-in-progress | 297.82 |
| Intangible assets | 3,668.44 |
| **Total assets** | **12,396.41** |
| Current liabilities | 8,652.31 |
| Non-current liabilities | – |
| **Total liabilities** | **8,652.31** |
| **Net assets** | **3,744.10** |

### (X) Dashimen Hydropower Company

*Unit: RMB0'000*

| Item | Book value |
|---|---|
| Current assets | 981.03 |
| Non-current assets | 31,452.64 |
| Including: Fixed assets | 30,321.12 |
| Intangible assets | 46.70 |
| Others | 1,084.82 |
| **Total assets** | **32,433.67** |
| Current liabilities | 34,688.14 |
| Non-current liabilities | 57,816.98 |
| **Total liabilities** | **1,968,024.10** |
| **Net assets** | **-2,254.47** |

**(XI) Huachuan Zhuoyue Plastic Products Company**

*Unit: RMB0'000*

| Item | Book value |
|---|---|
| Current assets | 222.33 |
| Non-current assets | 4,326.50 |
| Including: Long-term equity investments | |
| Investment properties | |
| Fixed assets | 4,045.20 |
| Construction-in-progress | |
| Intangible assets | 56.56 |
| Including: land use rights | 56.56 |
| Others | |
| **Total assets** | **4,548.83** |
| Current liabilities | 4,651.65 |
| Non-current liabilities | |
| **Total liabilities** | **4,651.65** |
| **Net assets** | **-102.82** |

**(XII) Fuxin Sewage Disposal Company**

*Unit: RMB0'000*

| Item | Book value |
|---|---|
| Current assets | 3,668.36 |
| Non-current assets | 29,289.31 |
| Including: Fixed assets | 21,754.53 |
| Construction-in-progress | 7,534.79 |
| Construction materials | |
| Intangible assets | |
| **Total assets** | **32,957.67** |
| Current liabilities | 7,953.74 |
| Non-current liabilities | 12,053.08 |
| **Total liabilities** | **20,006.81** |
| **Net assets** | **12,950.86** |

**(XIII) Zhaluomude Hydropower Company**

*Unit: RMB0'000*

| Item | Book value |
|---|---|
| Current assets | 341.54 |
| Non-current assets | 8,023.26 |
| Including: Long-term equity investments | – |
| Investment properties | – |
| Fixed assets | 103.02 |
| Construction-in-progress | 7,878.25 |
| Intangible assets | – |
| Including: land use rights | – |
| Others | 42.00 |
| **Total assets** | **8,364.80** |
| Current liabilities | 364.80 |
| Non-current liabilities | 0 |
| **Total liabilities** | **364.80** |
| **Net assets** | **8,000.00** |

**(XIV) Xilinhaote Mining Company**

*Unit: RMB0'000*

| Item | Book value |
|---|---|
| Current assets | 126,153.43 |
| Non-current assets | 1,320,443.06 |
| Including: Fixed assets | 168,531.75 |
| Construction-in-progress | 798,473.66 |
| Intangible assets | 194,386.30 |
| Including: land use rights | 15,623.88 |
| Others | 159,051.35 |
| **Total assets** | **1,446,596.49** |
| Current liabilities | 715,819.21 |
| Non-current liabilities | 879,267.75 |
| **Total liabilities** | **1,595,086.96** |
| **Net assets** | **-148,490.47** |

**(XV) Xilinhaote Brown Coal Integrated Development Company**

*Unit: RMB0'000*

| Item | Book value |
|---|---|
| Current assets | 847.92 |
| Non-current assets | 107,860.33 |
| Including: Fixed assets | 2,604.56 |
| Construction-in-progress | 104,476.82 |
| Intangible assets | 137.35 |
| **Total assets** | **108,708.25** |
| Current liabilities | 39,613.89 |
| Non-current liabilities | 45,446.05 |
| **Total liabilities** | **85,059.94** |
| **Net assets** | **23,648.31** |

**(XVI) Xilinhaote Power Generation Company**

*Unit: RMB0'000*

| Item | Book value |
|---|---|
| Current assets | 3,356.57 |
| Non-current assets | 24,884.89 |
| Including: Fixed assets | 36.17 |
| Construction-in-progress | 13,600.72 |
| Others | 11,248.00 |
| **Total assets** | **28,241.46** |
| Current liabilities | 23,064.71 |
| **Total liabilities** | **23,064.71** |
| **Net assets** | **5,176.75** |

**(XVII) Keshiketeng Power Source Preliminary Project**

*Unit: RMB0'000*

| Item | Book value |
|---|---|
| Current assets | |
| Non-current assets | 6,026.14 |
| Including: Long-term equity investments | |
| Investment properties | |
| Fixed assets | 36.76 |
| Construction-in-progress | 5,989.38 |
| Intangible assets | |
| Including: land use rights | |
| Others | |
| **Total assets** | **6,026.14** |
| Current liabilities | 5,746.14 |
| Non-current liabilities | 280.00 |
| **Total liabilities** | **6,026.14** |
| **Net assets** | **–** |

**(XVIII) Jibei Maintenance Company**

*Unit: RMB0'000*

| Item | Book value |
|---|---|
| Current assets | 6,771.08 |
| Non-current assets | 111.53 |
| Including: Fixed assets | 108.77 |
| Construction-in-progress | |
| Construction materials | |
| Intangible assets | 2.76 |
| **Total assets** | **6,882.61** |
| Current liabilities | 1,625.79 |
| Non-current liabilities | 3,782.80 |
| **Total liabilities** | **5,408.59** |
| **Net assets** | **1,474.02** |

**(XIX) Fuxin Huanfa Company**

*Unit: RMB0'000*

| **Project** | **Book value** |
|---|---|
| Current assets | 1,224.13 |
| Non-current assets | 6,964.77 |
| Including: Long-term equity investments | – |
| Investment properties | – |
| Fixed assets | 58.25 |
| Construction-in-progress | 6,906.52 |
| Intangible assets | – |
| Including: land use rights | – |
| Others | – |
| **Total assets** | **8,188.90** |
| Current liabilities | 142.77 |
| Non-current liabilities | 5,619.00 |
| **Total liabilities** | **5,761.77** |
| **Net assets** | **2,427.1** |

**(XX) Huatang Multi-Water Sources Company**

*Unit: RMB0'000*

| **Item** | **Book value** |
|---|---|
| Current assets | 794.19 |
| Non-current assets | 8,317.13 |
| Including: Long-term equity investments | – |
| Investment properties | – |
| Fixed assets | – |
| Construction-in-progress | 527.13 |
| Intangible assets | – |
| Including: land use rights | – |
| Others | 7,790.00 |
| **Total assets** | **9,111.31** |
| Current liabilities | 11.31 |
| Non-current liabilities | – |
| **Total liabilities** | **11.31** |
| **Net assets** | **9,100.00** |

**IV. Valuation type:** The valuation established hereunder is market value.

**V. Reference date of the valuation:** 31 March 2016.

**VI. Valuation approach adopted for the valuation conclusion:** Asset-based approach.

The asset-based approach used for assessing the value of an enterprise is a valuation method where the value of the target is determined on the basis of a reasonable evaluation of various assets and liabilities of the enterprise based on its balance sheet as at the valuation reference date. The valuation process of various assets and liabilities is stated as follows:

◆ **Valuation of current assets and liabilities**

Current assets involved include bank and cash, notes receivable, accounts receivable, prepayments, other receivables, inventories, non-current assets due within one year and other current assets; liabilities include short-term borrowings, accounts payable, advanced payments, staff remuneration payable, tax payable, interest payable, dividend payable, other payables, non-current liabilities due within one year, long-term borrowings, long-term payables, provisions, other non-current liabilities.

1. Bank and cash: include bank deposits and other monetary funds; the appraised value is determined by verifying bank reconciliation statements, bank confirmations and other appropriate evidence. Funds denominated in foreign currencies are translated into RMB at the exchange rate by the State Administration of Foreign Exchange as at the valuation reference date.

2. Notes receivable: Valuation of notes receivable is conducted by verifying accounting records, examining registration book of notes receivable, and physically counting the notes receivable. For certain notes receivable of material value, relevant sales contracts and documentation of inventory movement and other primary records are inspected.

3. Accounts receivable and other receivables: accounts receivable and other receivables are valued according to their likely recoverable amount on the basis that they have been verified. With regard to those receivables which are, with sufficient reason, believed to be fully recoverable, the appraised value is the total amount of the accounts receivable; with regard to those which have conclusive evidence proving that the receivable cannot be recovered, the appraised value is zero.

4. Prepayments: they are valued by reference to the value of assets or rights to be received by the Company due to these prepayments. For those assets or rights that will flow to the Company, the appraised value is their verified carrying amount. For these prepayments of which it is with conclusive evidence that there will be no corresponding assets or rights to be received, the appraised value is zero.

5. Inventories

Inventories included in the scope of valuation mainly include raw materials, finished goods, low-value consumables in storage and low-value consumables in use, etc.

Raw materials: for materials purchased externally which have short stock turnover period, are of high liquidity and whose market price do not fluctuate significantly, they are valued by reference to the book value after verification procedures are peformed. For materials purchased externally which have long stock turnover period, are of low liquidity and whose market price fluctuates significantly, they are valued by reference to their public market prices on the valuation reference date plus the usual procuring costs.

Finished goods: market method is adopted for this valuation. By market method, finished goods are valued by reference to their total costs plus the likely amount of profits to be arising from their sales, or the finished goods are valued below cost, depending on the market conditions of the particular finished goods. For goods with a booming market, they are valued by reference to their selling price minus all associated selling expenses and taxes. For goods with a regular market, they are valued by reference to their selling price minus all associated selling expenses and taxes, and minus an appropriate amount of relevant net profits after tax. For goods with a slow market, they are valued by reference to their selling price minus all associated selling expenses and taxes, and minus all associated net profits after tax. For unsalable, obsolete and discounted products, they are valued by reference to their net realizable value.

Materials in transit at the factory and materials in transit at the warehouse: they are materials belonging to the entities which have already been applied for production but yet to be used as of the valuation reference date. They mainly consist of spare parts and are amortized in full when being used. Market method is adopted for this valuation. These materials are valued by reference to their prevailing market prices plus reasonable freight and other miscellaneous costs and wastage.

6. Liabilities: After reviewing and verification, various categories of liabilities are valued by reference to their amounts for which the appraised entities are liable after the proposed transfer set out in the "Valuation Purpose" is completed. For those liabilities for which the appraised entities will no longer be liable after the proposed transfer, the appraised value is nil.

◆ **Valuation of non-current assets**

**1. Financial assets available for sale**

Financial assets available for sale are investments held by the appraised entities with low shareholding percentage, for which no investment dividends were received in past years. They are valued by reference to the value of net assets of the invested entities at the valuation reference date, multiplied by the appraised entities' shareholding percentage in the invested entities as at the valuation reference date.

"Financial assets available for sale – other investments" included in the scope of valuation refer to the investment in Zhaluomude Hydropower Company and the investment in Huatang Multi-Water Sources Company.

Since the appraised entity has not received any dividend from its investment in Zhaluomude Hydropower Company and the shareholding percentage by the appraised entity in Zhaluomude Hydropower Company is 15%, this financial asset available for sale-other investments is therefore valued by reference to net assets per share based on the balance sheet of Zhaluomude Hydropower Company as at the valuation reference date, multiplied by the number of shares of Zhaluomude Hydropower Company held by the appraised entity as at the valuation reference date.

As shareholding held by the appraised entity in Huatang Multi-Water Sources Company. is 10%, Huatang Multi-Water Sources Company had not been officially put into operation as at the valuation reference date and the appraised entity has not received any dividend from its investment in Huatang Multi-Water Sources Company by the appraised entity, this financial asset available for sale-other investments is therefore valued by reference to the net asset value of Huatang Multi-Water Sources Company as at the valuation reference date, multiplied by the shareholding percentage in Huatang Multi-Water Sources Company held by the appraised entity as at the valuation reference date.

**2. Long term equity investment**

Within the scope of valuation, there are long term equity investments in 13 entities, including five wholly-owned subsidiaries of Energy and Chemical Company, six partly owned subsidiaries of Energy and Chemical Company., a wholly-owned subsidiary of Fuxin Engineering Company (i.e. Jibei Maintenance Company Limited) and an associate (20% shareholding) of Fuxin Coal-to-gas Company (i.e. Fuxin Huanfa Wastage Company).

For long term equity investment in the wholly-owned and partly-owned subsidiaries, full valuation of the subsidiaries is first conducted, and the long term equity investment is valued by reference to the appraised value of the subsidiaries multiplied by the shareholding percentage in the subsidiaries held by the appraised entities.

For investment in Fuxin Huanfa Wastage Company, as the shareholding percentage held by the appraised entity is relatively small and the appraised entity has not received any dividend from this investment, the long term equity investment is valued by reference to net asset value of Fuxin Huanfa Wastage Company as at the valuation reference date, multiplied by the shareholding percentage in Fuxin Huanfa Wastage Company held by the appraised entity as at the valuation reference date.

**3. Equipment**

Equipment within the scope of valuation includes three major categories: machinery equipment, transportation equipment and electrical equipment.

Equipment is valued by using the replacement cost method, taking into consideration of the valuation purpose and the assumption that equipment will continue to be in use after the proposed transfer. The replacement cost of equipment is based on its comparable market price, taking into account of the special features of the equipment and the relevant information of the equipment collected.

Appraised value= full replacement cost × comprehensive rate of newness

***(1) Machinery equipment***

① *Valuation of the full replacement cost*

Full replacement cost = equipment acquisition cost + freight costs + installation costs + basic expenses + other expenses + costs on capital – value-added tax

➢ Equipment acquisition cost

Acquisition cost of equipment which was acquired domestically is valued by making enquiry to relevant manufacturers or trading companies, with reference to "2016 Quotation Manual for Electromechanical Products" (《2016機電產品報價手冊》) and recent contractual prices of comparable equipment. In respect of the equipment of which acquisition price is not available upon enquiries, its equipment acquisition cost is valued by using the price index method.

Acquisition cost of imported equipment is valued by reference to the prevailing or recently settled FOB price or CIF price of comparable imported equipment after verifying the FOB price or CIF price of the equipment by reviewing and checking the import contracts and import declaration forms of relevant equipment. With the prevailing price of the equipment as the base reference of its valuation, the valuation also take into account of the following fees or expenses: marine cargo insurance premiums, customs duties, value-added tax for imported goods, bank fees, handling fees in relation to foreign trade and inspection fees. In respect of the imported equipment of which acquisition price is not available upon enquiries, its equipment acquisition cost is valued by using the price index method.

➢ Freight costs

Freight costs are valued at different rates based on equipment acquisition cost. The valuation also takes into consideration: the distance between the factory of the manufacturer and the current location of the equipment, as well as the weight, shape and size of the equipment.

➢ Installation costs

The installation costs are valued at different rates based on equipment acquisition cost and depending on the features, weight and installation complexity of the equipment.

For small-scale equipment or equipment which does require installation, no installation costs are taken into account in the valuation.

➢ Other expenses

Other expenses include management expenses, expenses for feasibility report and valuation, design fee, fees for supervising the engineering process, etc. It is valued by reference to the standard of "other construction expenses" of the location in which the equipment situates, and the features of the equipment. The sum of acquisition price, freight costs, basic expenses and installation costs is the base reference of the valuation of other expenses.

➢ Cost on capital

Cost on capital is valued by reference to the loan interest rate on the valuation reference date applied evenly over reasonable construction period.

Cost on capital = (acquisition cost + freight costs + installation costs + basic expenses + other expenses) × loan interest rate × construction period × 1/2

② *Determination of comprehensive rate of newness*

Comprehensive rate of newness = surveyed rate of newness × 0.6 + theoretical rate of newness × 0.4

(For details for the determination of the newness rate of the machinery and equipment, please refer to the Evaluation Criteria on Machinery and Equipment. The general determination is as follows: the comprehensive newness rate shall be determined in accordance with the on-site survey and based on the serviced life of the machinery and equipment as well as the economic useful life of different types of equipment. In carrying out the comprehensive evaluation, the on-site surveyed newness rate (N1) and theoretical newness rate (N2) shall be calculated separately and the comprehensive newness rate (N) shall be determined by adopting the weighted average method:

$N = N1 \times 60\% + N2 \times 40\%$

See below the reasonable construction period for each project:

| **Projects** | **Reasonable construction period** | **Actual construction period of the project** |
|---|---|---|
| Duolun Coal Chemical Company | 5 | 7 |
| Keqi Coal-based Gas Company | 4 | 7 |
| Fuxin Coal-to-gas Company | 3 | 6 |
| Hulunbeier Chemical Fertiliser Company | 3.5 | 5 |
| Dashimen Hydropower Company | 1 | 2 |
| Xilinhaote Brown Coal Integrated Development Company | 2 | 5 |
| Xilinhaote Power Generation Company | 5 | 8 |

➢ Surveyed rate of newness

The surveyed rate of newness is determined mainly according to the actual conditions of the equipment, by surveying and scoring various aspects of the equipment one by one, including technical conditions and maintenance of the equipment and the work environment surrounding the equipment.

➢ Theoretical rate of newness

Theoretical rate of newness is determined by reference to the economic life (or remaining service life) and the serviced life of the equipment.

Theoretical rate of newness = (economic life – serviced life)/economic life × 100%

Theoretical rate of newness = remaining service life/(serviced life + remaining service life)

③ *Determination of the appraised value*

After the construction of the equipment is completed and the equipment is put into operation, the actual production capacity of the equipment can be lower than its designed production capacity, due to geological or technical issues. Therefore, functional depreciation is taken into account in the valuation of equipment.

The calculation of net appraised value of equipment is as follows:

Net appraised value = full replacement cost × (1 – rate of physical depreciation) × (1 – rate of functional depreciation)

***(2) Valuation of Vehicles***

① ***Full replacement cost of vehicles***

The full replacement cost of vehicles consists of purchase price, taxes in connection with purchasing the vehicles and other reasonable expenses (such as fees of inspecting the vehicles, license fee and handling fee). The purchase price is valued by reference to the market price of similar vehicles in latest transactions.

② ***Determination of comprehensive rate of newness***

Pursuant to relevant requirements under the Mandatory Scrapping Standards for Motor Vehicles (Decree [2012] No. 12 of the Ministry of Commerce, the National Development and Reform Commission, the Ministry of Public Security and the Ministry of Environmental Protection of China) (《機動車強制報廢標準規定》(商務部、發改委、公安部、環境保護部令2012年第12號)), the mileage-based rate of newness of a vehicle shall be determined based on its mileage and subject to adjustment according to field survey (no adjustment is needed in the case of little discrepancy between the field survey results and the mileage-based rate of newness).

③ ***Determination of the appraised value of motor vehicles***

Appraised value = full replacement cost of motor vehicles × comprehensive rate of newness

*(3)* ***Valuation of Electronic Equipment***

① ***Valuation of full replacement cost for electronic equipment***

Electronic equipment represents mostly office equipment such as computers, printers and air conditioners. The distributors of the electronic equipment undertake the delivery and installation of such equipment. Their replacement cost are valued by direct reference to their purchase price.

② ***Determination of rate of newness***

For electronic equipment, air conditioners and other small devices, their comprehensive rate of newness rate is determined mainly according to their economic life. For large electronic equipment, when determining their comprehensive rate of newness, the valuers also consider other factors including the work environment surrounding the equipment and the operating conditions of the equipment.

③ ***Determination of appraised value***

Appraised value = full replacement cost of electronic equipment × comprehensive rate of newness

For vehicles and electronic equipment which were purchased a long time ago, ceased to be produced and have no comparable prices, they are valued mainly by reference to second-hand transaction prices using the market method.

**4. Buildings and structures**

Buildings and structures are primarily valued using the replacement cost method.

Appraised value = full replacement cost x comprehensive rate of newness

***(1) Valuation of full replacement cost for buildings and structures***

Full replacement cost = total construction and installation costs + upfront fees and other expenses + cost on capital

For large-scale, high-value and significant buildings and structures, the total construction and installation costs are valued by calculating costs of civil engineering work and costs of various installation work respectively in accordance with local pricing standards and relevant expenditure documents.

For low-value and simple-structured buildings and structures, the total construction and installation costs are valued by using the unit cost method.

Upfront fees and other expenses are valued according to industry standards and relevant local regulations on administrative and institutional fees. Cost on capital is valued by reference to the lending interest rate on the valuation reference date and the normal construction period of such type of buildings. The full replacement cost is valued by the summation of the three items above.

***(2) Determination of comprehensive rate of newness***

Comprehensive rate of newness is determined as follows:

Comprehensive rate of newness = (economic life – serviced life)/economic life

The remaining service life within the formula above is determined based on the economic life and serviced life of the target buildings, with reference to field survey, historical renovations and maintenance of the buildings. Determination of comprehensive rate of newness is subject to continuous service function of the valuation target, mainly depending on stability and firmness of its foundation and main structure, conditional upon which the newness of fitting-out and ancillary facilities may be determined and considered as an adjustment to the rate of newness of the foundation and main structure.

*(3) Determination of Appraised Value*

After the construction of the buildings is completed and the building is put into use, the actual capacity of the buildings can be lower than its production capacity. Therefore, functional depreciation is taken into account in the valuation of buildings and structures.

The calculation of net appraised value is as follows:

Net appraised value = full replacement cost × (1 – rate of physical depreciation) × (1 – rate of functional depreciation)

**5. Construction-in-progress**

Cost approach is adopted in the valuation of Construction-in-progress. In order to avoid duplicated valuation or omission of certain assets for valuation, in light of the unique characteristics of Construction-in-progress, the type and specific conditions of each Construction-in-progress, the following valuation methods are adopted:

(1) For construction projects that have been completed and ready for their intended use but yet to be transferred to fixed assets, the valuation is conducted using the corresponding valuation method for fixed assets.

(2) For Construction-in-progress whose major equipment or main structure has been transferred to fixed assets with part of the construction expenses yet to be transferred to fixed assets, if their value has been included in the appraised value of fixed assets, the appraised value of such type of Construction-in-progress is nil.

(3) Uncompleted construction projects

1) For projects under construction with a commencement date within six months from the valuation reference date, they are valued by reference to the declared amount of projects after verifying the accounts against the corresponding physical assets, minus any unreasonable expenditures.

2) For projects under normal construction with a commencement date is beyond six months from the valuation reference date, and if there are no material changes in the prices of equipment, materials and labour involved in the investment during such period, these projects are valued by reference to the book value of the projects, minus any unreasonable expenditures from the book value, plus appropriate cost on capital. If there are material changes in the prices of equipment, materials or labour involved in the investment during such period, the replacement value of such projects is determined by reference to all necessary costs to complete the works of such Construction-in-progress under normal circumstances on the valuation reference date.

(4) For the land use right in connection with Construction-in-progress that has been individually valued and included in other categories of assets, its appraised value under this category is nil in order to avoid any duplicated valuation.

**6. Construction materials**

The valuers, first, investigate the progress of projects corresponding to the construction materials, conduct a financial investigation in respect of the purchase and use of construction materials, inspect selectively relevant vouchers and verify purchase contracts, performed physical count of the construction materials at the warehouse and verify the corresponding accounts and records against the result of the physical count. For materials purchased externally which have short stock turnover period, are of high liquidity and whose market price do not fluctuate significantly, they are valued by reference to the book value after performing verification procedures. For materials purchased externally which have long stock turnover period, are of low liquidity and whose market price fluctuates significantly, they are valued by reference to their public market prices on the valuation reference date plus usual procuring costs.

**7. Land use rights**

Pursuant to Regulations on Valuation of Urban Land (《城鎮土地估價規程》) (GB/T18508-2014), the current prevailing valuation methods for land include market comparison method, income capitalization method, residue method (assumed development method), cost approximation method, and benchmark land premium coefficient correction method. Market comparison method and cost approximation method are adopted in this valuation, after considering the local real estate market development, characteristics of the target assets and the valuation purpose as well as information collected by the valuers. In particular, for the mining area of which land use certificate is still in the process of seeking approval, the valuation will be conducted with reference to land acquired through administrative allocation.

### *(1) Cost approximation method*

By cost approximation method, the subject land is valued by using the sum of various expenses consumed for the development of the subject land plus a certain amount of profit, interest, taxes payable and land appreciation earnings (for the land acquired through administrative allocation, land appreciation earnings shall not be taken into account).

Its basic formula is as follows:

$$V=E_a+E_d+T+R_1+R_2+R_3$$
$$=V_E+R_3$$

Wherein: V: land price
$E_a$: land acquisition fee
$E_d$: land development fee
T: tax
$R_1$: interest
$R_2$: profit
$R_3$: land appreciation
$V_E$: land cost

### *(2) Market comparison method*

Market comparison method is a valuation method to value the subject land based on a replacement model, by comparing the value of the subject land with the traded price of a comparable land sold in the market close to the valuation date after making appropriate modifications to the traded price. Its basic formula is as follows:

$$V=VB\times A\times B\times D\times E$$

Wherein: V: valuation of the subject land
VB: the traded prices available for comparison
A: the condition index of the subject land/condition index of comparable land = normal condition index/condition index of comparable land
B: price index of the subject land as at the date of valuation/price index of comparable land as at the date of transaction
D: regional element condition index of the subject land/regional element condition index of comparable land
E: specific element condition index of the subject land/specific element condition index of comparable land

**8. Mining rights**

Pursuant to relevant provisions under Basic Principles for Mining Rights Evaluation Technique (《礦業權評估技術基本準則》) (CMVS00001-2008), Criteria for Income Sources Assessment Methods (《收益途徑評估辦法規範》) (CMVS12100-2008)and the Measures for Administration of the Transfer of Exploration and Mining Rights (《採礦權採礦權評估管理暫行辦法》), we believe that the target mining rights possess the capability to produce profits independent and can be measured and valued. Their future profits are predictable and can be measured in monetary terms while their future risks can be estimated and quantified. The valuation targets fulfill the requirements of the discounted cash flow method. Therefore, such method is adopted in this valuation. The calculation formula is as follows:

$$P = \sum_{t-1}^{n} (CI - CO)_t \bullet \frac{1}{(1+i)^t}$$

Wherein: P: appraised value of mining rights;
CI: annual cash inflow;
CO: annual cash outflow;
(CI-CO)t: net annual cash flow;
i: discount rate;
t: sequence number of the year (t=1, 2, …, n);
n: appraised number of years.

**9. Other intangible assets**

Other intangible assets represent the management software purchased, which is valued by reference to its book value after performing verification procedures.

**10. Long-term deferred expenses**

Long-term deferred expenses are valued by reference to the value of assets and entitlements that are still held by the appraised entities after the valuation reference date. For deferred expenses with no corresponding entitlements or value, or deferred expenses that have been taken into account in other categories of assets, their appraised value is nil. For deferred expenses that have corresponding entitlements or value, such entitlements or value is valued by reference to their original cost and the ratio of the remaining life of such entitlements over their full life of amortisation.

There are sufficient statistics and data which serve as a basis and foundation for justifying the selection of the economic and technical parameters concerning each of the various assets in the valuation. Accordingly, the use of the asset-based approach in the valuation is justified.

## VII. Valuation assumptions

### (I) General assumptions

1. Transaction assumption: It is assumed that all assets to be appraised are in the process of transaction. The valuer conducts the valuation according to simulated market conditions such as the trading conditions of the assets to be appraised.

2. Open market assumption: Open market assumption is a hypothesis made on the conditions of the market where the assets are intended to be entered as well as on the kinds of impact on the assets in such market conditions. Open market is a market where there are fully-developed and flawless conditions, and also refers to a competitive market where there are a voluntary buyer and a voluntary seller and where each of the buyer and the seller is offered equal status in terms of the opportunity and time to have access to sufficient market information in this market, in which the transaction between both the buyer and the seller is conducted in a voluntary and rational way, without compulsion or unrestricted conditions.

3. Continued use assumption: The continued use assumption is a hypothesis made on the conditions of the market where the assets are intended to be entered as well as the state of the assets in such market conditions. It is assumed that the assets to be appraised are in use, and it is further assumed that the assets that are in use will be in a state of continued use. For the continued use assumption, no consideration is given to the conversion of the use of the assets or the best use of the assets. Thus, the valuation results derived from the use of this assumption are subject to a restricted scope of applicability.

4. Going concern assumption: This assumption is a hypothesis where the overall assets of the enterprise are treated as the valuation target, whereby the enterprise (as a business entity) operates in the external environment in accordance with its business goals on a going concern basis. It is also presumed that the business operators of the enterprise should be accountable for, and are competent in, discharging their duties and responsibilities. It is also presumed that the enterprise operates its business in a legitimate manner, and is able to obtain appropriate profits in order for the enterprise to maintain its operating ability.

**(II) General profit and loss assumptions**

1. There will be no material changes to the relevant prevailing laws and policies, industrial policies or macro-economic situations in the country as well as the political, economic and social environment of regions where the entity operates, and there will be no material adverse impacts arising from other force majeure or unforeseeable factors.

2. In respect of the actual status of the assets as at the valuation reference date, it is assumed that the operation of the company will be continued.

3. The operators of the company are responsible and have the capability to assume their duties.

4. The company complies with all related laws and regulations save for indicated otherwise therein.

5. The accounting policies to be adopted by the company will be in line with those adopted in preparing this report in all material aspects.

6. Based on the existing mode and standard of management of the company, the scope and mode of operation will remain consistent with the existing direction.

7. There will be no material changes to the interest rates, exchange rates, tax bases, tax rates and charges arising from various government policies.

8. There will be no material adverse impacts on the company arising from other force majeure or unforeseeable factors.

For details, please refer to the respective valuation reports.

According to the requirement of asset valuation, the abovementioned conditions are confirmed to be viable as at the valuation reference date. The valuers take no responsibilities for any change in valuation conclusion due to the change of assumption conditions in case of any substantial change in future economy.

## VIII. Valuation Conclusion

In this assessment, the result of asset-based approach is chosen to be the final valuation conclusion. Subject to the going-concern assumption, as at the valuation reference date being 31 March 2016, the consolidated valuation conclusion of all equity interest in Energy and Chemical Company and its 12 subsidiaries (14 companies in total, 2 of which are investee companies not controlled by the Company), Xilinhaote Mining Company, Xilinhaote Brown Coal Integrated Development Company, Xilinhaote Power Generation Company, and all assets and liabilities of the Keshiketeng Power Source preliminary Project, is as follows:

### (I) Valuation of five target companies/project

*Unit: RMB0'000*

| No. | Name of the company | Book value A | Appraised Value B | Increase/ decrease C=B-A | Appreciation rate % D=C/A×100 | Shareholding percentage | Value of equity interest held |
|---|---|---|---|---|---|---|---|
| 1 | Energy and Chemical Company (headquarters) | 773,469.55 | -694,475.57 | -1,467,945.12 | -189.79 | 100% | -694,475.57 |
| 2 | Xilinhaote Mining Company | -148,490.47 | -255,187.95 | -106,697.48 | -71.85 | 60% | -153,112.77 |
| 3 | Xilinhaote Brown Coal Integrated Development Company | 23,648.31 | 8,476.69 | -15,171.62 | -64.16 | 100% | 8,476.69 |
| 4 | Xilinhaote Power Generation Company | 5,176.75 | 5,229.00 | 52.25 | 1.01 | 100% | 5,229.00 |
| 5 | Keshiketeng Power Source Preliminary Project | – | 286.68 | 286.68 | | 100% | 286.68 |
| Total: | | 653,804.14 | -935,671.15 | -1,589,475.29 | -324.79 | | -833,595.97 |

### (II) Valuation of subsidiaries and investees

*Unit: RMB0'000*

| No. | Name of company | Book value A | Appraised Value B | Increase/ decrease C=B-A | Appreciation rate % D=C/A×100 | Shareholder | Shareholding percentage | Value of equity interest held |
|---|---|---|---|---|---|---|---|---|
| 1 | Duolun Coal Chemical Company | -589,139.02 | -1,310,488.26 | -721,349.24 | -122.44 | Energy and Chemical | 60% | -786,292.96 |
| 2 | Keqi Coal-based Gas Company | 494,152.27 | -93,592.07 | -587,744.34 | -118.94 | Energy and Chemical | 51% | -47,731.96 |
| 3 | Fuxin Coal-to-gas Company | 173,996.99 | 15,237.48 | -158,759.51 | -91.24 | Energy and Chemical | 90% | 13,713.73 |
| 4 | Hulunbeier Chemical Fertilizer Company | -41,005.25 | -72,716.52 | -31,711.27 | -77.33 | Energy and Chemical | 100% | -72,716.52 |
| 5 | Fuxin Engineering Company | 7,972.32 | 11,966.85 | 3,994.53 | 50.1 | Energy and Chemical | 100% | 11,966.85 |
| 6 | Chemical Technology Research Institute | 4,748.39 | 18,608.91 | 13,860.52 | 291.9 | Energy and Chemical | 100% | 18,608.91 |
| 7 | Energy and Chemical Marketing Company | 10,768.29 | 9,259.43 | -1,508.86 | -14.01 | Energy and Chemical | 100% | 9,259.43 |
| 8 | Duolun Hydropower Company | 3,744.10 | 26,805.70 | 23,061.60 | 615.95 | Energy and Chemical | 51% | 13,670.91 |
| 9 | Dashimen Hydropower Company | -2,254.47 | -5,545.98 | -3,291.51 | -146 | Energy and Chemical | 90% | -4,991.38 |
| 10 | Huachuan Zhuoyue Plastic Products Company | -102.82 | 575.93 | 678.75 | 660.13 | Energy and Chemical | 100% | 575.93 |
| 11 | Fuxin Sewage Disposal Company | 12,950.86 | 19,040.92 | 6,090.06 | 47.02 | Energy and Chemical | 80% | 15,232.74 |
| 12 | Zhaluomude Hydropower Company | 8,000.00 | 8,000.00 | 0 | 0 | Energy and Chemical | 15% | 1,200.00 |
| | Sub-total: | 83,831.66 | -1,372,847.61 | -1,456,679.27 | | | | -827,504.32 |
| 13 | Jibei Maintenance Company (investee) | 1,474.02 | 4,321.61 | 2,847.59 | 193.19 | Fuxin Engineering Company | 100% | 4,321.61 |
| 14 | Fuxin Huanfa Company (investee) | 2,427.10 | 2,427.10 | 0 | 0 | Fuxin Coal-based Gas | 20% | 485.42 |
| 15 | Huatang Multi-Water Sources Company (investee) | 9,100.00 | 9,100.00 | 0 | 0 | Xilinhaote Mining | 10% | 910.00 |

*Note:* The above information is extracted from the respective valuation report or explanation notes to the valuation report, which set out details of valuation conclusion of each target being valued.

## IX. Qualification of the appraisal company and certified public valuers signing on this report

### (I) Overview of the appraisal company:

Beijing Pan-China Assets Appraisal Co., Ltd. ("**Pan-China**") was established by the Ministry of Finance in 1982 as a professional valuation institution. We are one of the earliest professional institutions in China providing consulting services for enterprises including asset valuation service, and are also one of the largest asset valuation institutions in the asset valuation sector in China. We maintain leading advantages in the industry in terms of the business scale, number of valuers, professional standards and concept of service. We are one of the most competitive and innovative professional valuation institutions in the certified asset valuation industry in China.

We have extensive professional experience. Apart from carrying on the assets valuation business, Pan-China also has professional experience in financial consulting for corporate reorganization, acquisition and merger under certain complicated circumstances. While providing professional services in respect of assets valuation, it has professional capability in providing constructive advice in respect of customer's reorganization proposal, management consulting, investment and financing consulting, asset verification, financial structure design, risk control, due diligence, asset transfer, strategy consulting, and audit of infrastructure projects, etc.. We have provided services to over hundreds of large-scale enterprises, which covers a wide range of national economic sectors and all provinces and municipalities of China (excluding Taiwan).

Headquartered in Beijing, we have branches and subsidiaries in Xinjiang, Shanghai, Shenzhen, Liaoning, Hunan, Jiangsu, Anhui, Shandong, Tianjin, Shaanxi, Sichuan and Gansu etc.. We also have business departments in Heilongjiang, Hebei, Chongqing, Hubei, Henan and Fujian etc.

### (II) Overview of qualifications

Pan-China has following qualifications:

- ***Qualification certificate of asset valuation (issued by the Ministry of Finance)***

  The certificate is a qualification certificate for practicing. Certificate holder is eligible to perform asset valuation services. The scope of asset valuation includes state-owned assets and non-state-owned assets.

- ***Qualification certificate of business valuation in relation to securities and futures (jointly issued by the Ministry of Finance and the China Securities Regulatory Commission)***

  The certificate is a qualification certificate of performing securities related services. Certificate holder is eligible to perform asset valuation services in relation to listed companies (such as listing of company, share issuance, acquisition of listed company, and transfer of equities and assets).

- ***Qualification certificate of exploration right and mining right valuation (issued by the Ministry of Land and Resources)***

  The certificate is a qualification certificate for practicing. Certificate holder is eligible to perform asset valuation services for exploration right and mining right.

- ***Qualification certificate of land valuation (issued by China Real Estate Valuers Association)***

  The certificate is Grade A qualification certificate. The certificate is held by Beijing Tianjianliren Land and Property Valuation Co., Ltd. (北京天健利人土地房地產評估有限公司) which specialises in land valuation. As an integrated arm of Pan-China, it is mainly engaged in land valuation and real estate valuation. It has obtained first grade land valuation qualification, and is eligible to perform land valuation and real estate valuation services nationwide.

- ***Qualification certificate of construction cost consultation (issued by the Ministry of Housing and Urban-Rural Development)***

  The certificate is Grade A qualification certificate. The certificate is held by Beijing Tianjianzhongyu Engineering Consulting Co., Ltd. (北京天健中宇工程諮詢有限公司). As an integrated arm of Pan-China, it is eligible to perform consultation services on construction cost nationwide.

- ***Consultation for military and confidential business (certified by the State Administration for Science, Technology and Industry for National Defense)***

  In 2013, Pan-China was certified by the Certification Center of Military Confidential Qualification and obtained the qualification for undertaking military and confidential business.

**(III) Certificated public valuers who signed this report are as follows:**

| **No.** | **Name** | **Company Name** | **Valuers' Certificate No.** |
|---|---|---|---|
| 1 | Peng Jie (彭潔) | Beijing Pan-China Assets Appraisal Co., Ltd. | 11110108 |
| 2 | Hou Xiaoli (侯曉利) | Beijing Pan-China Assets Appraisal Co., Ltd. | 11090017 |
| 3 | Sha Hui (沙輝) | Beijing Pan-China Assets Appraisal Co., Ltd. | 22040002 |
| 4 | Zhang Hongchun (張紅春) | Beijing Pan-China Assets Appraisal Co., Ltd. | 11130087 |

## X. Notes

The valuers have made special explanatory notes to the defects of assets identified in the process of valuation in the respective valuation reports. Report users are advised to pay attention to such notes.

We emphasize that this valuation opinion is solely to provide a reference to the value of the proposed asset transaction by the parties, rather than a substitution for the pricing decision to be made by the parties in the equity transaction.

This report together with its conclusion only serves for the intended valuation purpose and shall not be used for other purposes.

According to relevant regulations of the PRC, the validity of this report is one year commencing from the valuation reference date (31 March 2016) to 30 March 2017.

*The English version of this document is translation only. Should there be any inconsistency between the Chinese and English versions, the Chinese version shall prevail.*

## 1. RESPONSIBILITY STATEMENT

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

## 2. DISCLOSURE OF INTERESTS

**Interest of Directors and chief executive of the Company**

(i) As at the Latest Practicable Date, none of the Directors, supervisors and chief executive of the Company have any interests and short positions in the shares, underlying shares and/or debentures (as the case may be) of the Company or any of its associated corporations (within the meaning of the SFO) which was required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which any such Director, chief executive or supervisor is taken or deemed to have under such provisions of the SFO) or which was required to be entered into the register required to be kept by the Company under section 352 of the SFO or which was otherwise required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers in the Listing Rules.

(ii) As at the Latest Practicable Date, none of the Directors, proposed Directors, supervisors or proposed supervisors of the Company has any direct or indirect interest in any assets which have since 31 December 2015 (being the date to which the latest published audited financial statements of the Company were made up) been acquired or disposed of by or leased to any member of the Group, or are proposed to be acquired or disposed of by or leased to any member of the Group.

**Interest of substantial Shareholders**

(iii) As at the Latest Practicable Date, none of the Directors, proposed Directors, supervisors or proposed supervisors of the Company has any direct or indirect interest in any assets which have since 31 December 2015 had interests or short positions in the shares or underlying shares which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or were, directly or indirectly interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of the Group.

## 3. SERVICE AGREEMENTS

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

## 4. INTEREST IN ASSETS OR CONTRACT

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

## 5. MATERIAL CHANGES

The Directors are not aware of any material adverse change in the financial or trading position of the Group since 31 December 2015, being the date to which the latest published audited financial statements of the Group were made up.

## 6. COMPETING INTEREST

As at the Latest Practicable Date, none of the Directors of the Company and its subsidiaries, or their respective associates has interests in the businesses which compete or are likely to compete, either directly or indirectly, with the businesses of the Company and its subsidiaries.

## 7. EXPERT

(a) The following sets out the qualifications of the experts which has given their opinions or advice as contained in this circular:

| Name | Qualifications |
|---|---|
| Lego Corporate Finance | a licensed corporation for type 6 (advising on corporate finance) regulated activities under the SFO |
| Beijing Pan-China Assets Appraisal Co., Ltd. | an independent professional asset valuer |

As at the Latest Practicable Date, each of the above experts:

(b) did not have any shareholding, direct or indirect, in any members of the Group or any rights (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any members of the Group.

(c) does not have any interest, direct or indirect, in any assets which have been acquired or disposed of by or leased to any members of the Group, or which are proposed to be acquired or disposed of by or leased to any members of the Group since 31 December 2015, the date to which the latest published audited financial statements of the Company were made up.

(d) has given and has not withdrawn its written consent to the issue of this circular with the inclusion of its letter and references to its name in the form and context in which they are included.

## 8. LITIGATION

No member of the Company and its subsidiaries is at present engaged in any litigation or arbitration or material importance to the Company and its subsidiaries and no litigation or claim of material importance to the Company and its subsidiaries is known to the Directors or the Company to be pending or threatened by or against any member of the Company and its subsidiaries.

## 9. MISCELLANEOUS

(a) The registered office and office address of the Company is No. 9 Guangningbo Street, Xicheng District, Beijing, the PRC.

(b) The place of business of the Company in Hong Kong is at c/o Eversheds, 21/F, Gloucester Tower, The Landmark, 15 Queen's Road Central, Hong Kong.

(c) The Hong Kong share registrar and transfer office of the Company is Computershare Hong Kong Investor Services Limited at 46/F, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong.

(d) The secretary to the Board of the Company is Mr. Ying Xuejun.

## 10. MATERIAL CONTRACTS

In the two years immediately preceding the date of this circular and up to the Latest Practicable Date, the following contracts, not being contracts entered into the ordinary course of business, were entered into by the Company or any of its subsidiaries which are or may be material:

(1) On 7 July 2014, the Company entered into the Framework Agreement for Reorganisation of Coal-to-chemical Segment and Related Projects with China Reform Holdings Corporation Ltd. ("**China Reform Corporation**") for the proposed reorganisation of the Company's coalto-chemical business segment and related projects. China Reform Corporation will, through the reorganisation, acquire the assets or equity interests of the coal-to-chemical business segment and related projects of the Company.

(2) On 27 August 2014, the Company, Energy and Chemical Company, Datang Finance Company and Duolun Coal Chemical Company entered into the Entrusted Loan Framework Agreement in relation to the provision of the Entrusted Loan of an aggregate amount of RMB4 billion by the Company or Energy and Chemical Company to Duolun Coal Chemical Company within the term of agreement, in which Datang Finance Company acts as the lending agent.

(3) On 30 October 2014, the Company entered into Renewable Resource Agreement (New) with Datang Finance Company and Inner Mongolia Datang International Renewable Energy Resource Development Company Limited ("**Renewable Resource Company**") in relation to the provision of an entrusted loan of no more than RMB850 million by the Company to Renewable Resource Company through the Entrusted Loan Arrangement, in which Datang Finance Company acts as the lending agent.

(4) On 30 October 2014, the Company entered into the Xilinhaote Mining Entrusted Loan Agreement with Datang Finance Company and Xilinhaote Mining Company in relation to the provision of an entrusted loan of no more than RMB1,000 million by the Company to Xilinhaote Mining Company through the Entrusted Loan Arrangement, in which Datang Finance Company acts as the lending agent.

(5) On 26 November 2014, 13 shareholders of Datang Finance Company, including the Company and CDC, entered into the Capital Increase Agreement with Datang Finance Company, pursuant to which the parties agreed to increase the registered capital of Datang Finance Company by RMB1,869,871,590.23 from RMB3,000,000,000 to RMB4,869,871,590.23. The parties agreed to settle the capital increase to Datang Finance Company by way of cash or transfer of undistributed profit. After the completion of the capital increase, the Company's shareholding in Datang Finance Company will decrease from 20% to 15.8931%.

(6) On 23 December 2014, the Company entered into the Fuel Purchase Framework Agreement (Beijing) with Beijing Datang Fuel Company, pursuant to which the Company and certain of its subsidiaries agreed to purchase coal from Beijing Datang Fuel Company with a maximum aggregate annual transaction amount of approximately RMB21,289 million for a term of one year commencing from 1 January 2015 to 31 December 2015.

(7) On 23 December 2014, the Company entered into the Fuel Purchase Framework Agreement (Inner Mongolia) with Inner Mongolia Fuel Company, pursuant to which the Company and certain of its subsidiaries agreed to purchase coal from Inner Mongolia Fuel Company with a maximum aggregate annual transaction amount of approximately RMB5,228 million for a term of one year commencing from 1 January 2015 to 31 December 2015.

(8) On 19 December 2014, Energy and Chemical Marketing Company and Keqi Coal-based Gas Company extended the Framework Agreement of Sale of Natural Gas, pursuant to which Keqi Coal-based Gas Company agreed to sell coal-based natural gas to Energy and Chemical Marketing Company. The annual transaction amount would be approximately RMB4.029 billion. The extended term of the agreement is from 1 January 2015 to 31 December 2015.

(9) On 19 December 2014, Energy and Chemical Marketing Company and Keqi Coal-based Gas Company extended the Sale and Purchase Contract of Chemical Products (Keqi), pursuant to which Keqi Coal-based Gas Company would sell chemical products to Energy. The annual transaction amount would be approximately RMB623 million. The extended term of the agreement is from 1 January 2015 to 31 December 2015.

(10) On 19 December 2014, Energy and Chemical Marketing Company and Duolun Coal Chemical Company extended the "Sale and Purchase Contract of Chemical Products (Duolun)", pursuant to which Duolun Coal Chemical Company would sell the chemical products produced by it to Energy and Chemical Marketing Company; the annual sales amount of the chemical products would be approximately RMB4.147 billion. The extended term of the agreement is from 1 January 2015 to 31 December 2015.

(11) On 12 February 2015, the Company, Duolun Coal Chemical Company and Datang Finance Company entered into the Entrusted Loan Contract. The Company shall entrust Datang Finance Company as the lending agent to provide the entrusted loan of an aggregate amount of RMB1 billion to Duolun Coal Chemical Company during the term of the contract.

(12) On 21 May 2015, the Company, Duolun Coal Chemical Company and Construction Bank Railway Sub-branch entered into the Entrusted Loan Contract, pursuant to which, the Company shall entrust Construction Bank Railway Sub-branch to act as the lending agent to provide the entrusted loan of an aggregate amount of RMB1 billion to Duolun Coal Chemical Company during the term of the contract.

(13) On 19 June 2015, the Company and Xilinhaote Mining Company entered into the Entrusted Loan Agreement with Construction Bank Railway Sub-branch, pursuant to which, the Company agreed to entrust Construction Bank Railway Sub-branch to act as the lending agent to provide entrusted loan of an aggregate amount of RMB1.5 billion to Xilinhaote Mining Company during the term of the agreement.

(14) On 29 June 2015, the Company and ICBC Xuanwu Branch entered into the Entrusted Loan Framework Agreement, pursuant to which, the Company entrusted ICBC Xuanwu Branch to act as the lending agent to provide entrusted loan of an aggregate amount of RMB4.0 billion to Duolun Coal Chemical Company during the term of the agreement.

(15) On 29 June 2015, the Company and Xilinhaote Mining Company entered into the Entrusted Loan Agreement with Construction Bank Railway Sub-branch, pursuant to which, the Company agreed to entrust Construction Bank Railway Sub-branch to act as the lending agent to provide entrusted loan of an aggregate amount of RMB2.0 billion to Xilinhaote Mining Company during the term of the agreement.

(16) On 3 June 2015, 23 July 2015, 30 July 2015 and 5 August 2015, Duolun Coal Chemical Company entered into four Financial Leasing Contracts with Cornerstone Financial Leasing Company, pursuant to which Duolun Coal Chemical Company engages in financial leasing transaction with Cornerstone Financial Leasing Company by way of sale and leaseback of leased assets, total principal of financial leasing amounted to approximately RMB8 billion.

(17) On 11 September 2015, the Company and Shanghai Datang Financial Lease Co., Ltd. entered into the Leasing and Factoring Business Cooperation Agreement, pursuant to which Shanghai Datang Financial Lease Co., Ltd. shall provide support on financial leasing and factoring business to the Company and its subsidiaries with a principal of not exceeding RMB10.0 billion for every 12 months for a term of 36 months from the date of entering into the agreement.

(18) On 22 December 2015, Energy and Chemical Marketing Company and Keqi Coal-based Gas Company extended the Framework Agreement of Sale of Natural Gas, pursuant to which Energy and Chemical Marketing Company agreed to purchase natural gas from Keqi Coal-based Gas Company. The maximum transaction amount under the agreement would be approximately RMB3.075 billion in aggregate per year. The agreement is effective from 1 January 2016 to 31 December 2016.

(19) On 22 December 2015, Energy and Chemical Marketing Company and Keqi Coal-based Gas Company extended the Sale and Purchase Contract of Chemical Products (Keqi), pursuant to which Energy and Chemical Marketing Company agreed to purchase chemical products from Keqi Coal-based Gas Company. The maximum transaction amount under the agreement would be approximately RMB296 million in aggregate per year. The agreement is effective from 1 January 2016 to 31 December 2016.

(20) On 22 December 2015, Energy and Chemical Marketing Company and Duolun Coal Chemical Company extended the Sale and Purchase Contract of Chemical Products (Duolun), pursuant to which Energy and Chemical Marketing Company agreed to purchase chemical products from Duolun Coal Chemical Company. The maximum transaction amount under the agreement would be approximately RMB3.7 billion in aggregate per year. The agreement is effective from 1 January 2016 to 31 December 2016.

(21) On 25 December 2015, the Company, Energy and Chemical Marketing Company, China Construction Bank Railway Sub-branch and entered into the Entrusted Loan Framework Agreement (Duolun), pursuant to which the Company shall entrust China Construction Bank Railway Sub-branch to act as the lending agent to provide entrusted loan of an aggregate amount of RMB6 billion to Duolun Coal Chemical Company during the term of the agreement.

(22) On 25 December 2015, the Company, Renewable Resource Company and China Construction Bank Railway Sub-branch entered into the Entrusted Loan Framework Agreement (Renewable Resource), pursuant to which the Company shall entrust China Construction Bank Railway Sub-branch to act as the lending agent to provide entrusted loan of an aggregate amount of RMB4 billion to Renewable Resource Company during the term of the agreement.

(23) On 25 December 2015, the Company, Energy and Chemical Company, China Construction Bank Railway Sub-branch and Xilinhaote Mining Company entered into the Entrusted Loan Framework Agreement (Xilinhaote), pursuant to which the Company shall entrust China Construction Bank Railway Sub-branch to act as the lending agent to provide entrusted loan of an aggregate amount of RMB1 billion to Xilinhaote Mining Company during the term of the agreement.

(24) On 29 December 2015, the Company entered into the Framework Agreement for Engineering Materials Procuring with China Water Resources and Power, pursuant to which the Company agreed to centralise the procuring of machinery, equipment and materials required for project construction through China Water Resources and Power. The maximum transaction amount of the continuing connected transaction under the Framework Agreement for Engineering Materials Procuring for the year ended 31 December 2016 was RMB1.9 billion.

(25) On 31 December 2015, the Company entered into the Fuel Purchase Framework Agreement (Beijing) with Beijing Datang Fuel Company, pursuant to which the Company and certain of its subsidiaries agreed to purchase coal from Beijing Datang Fuel Company. The maximum transaction amount under the agreement would be approximately RMB13,712 million in aggregate per year for a term of one year commencing from 1 January 2016 to 31 December 2016.

(26) On 31 December 2015, the Company entered into the Fuel Purchase Framework Agreement (Inner Mongolia) with Inner Mongolia Fuel Company, pursuant to which the Company and certain of its subsidiaries agreed to purchase coal from Inner Mongolia Fuel Company. The maximum transaction amount under the agreement would be approximately RMB3,239 million in aggregate per year for a term of one year commencing from 1 January 2016 to 31 December 2016.

(27) On 31 December 2015, the Company entered into the Fuel Purchase Framework Agreement (Chaozhou) with Chaozhou Fuel Company, pursuant to which the Company and certain of its subsidiaries agreed to purchase coal from Chaozhou Fuel Company. The maximum transaction amount under the agreement would be approximately RMB598 million in aggregate per year for a term of one year commencing from 1 January 2016 to 31 December 2016.

## 11. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents are available for inspection at the principal place of business in Hong Kong of the Company at 21/F, Gloucester Tower, The Landmark, 15 Queen's Road Central, Hong Kong during normal business hours from the date of this circular up to and including 29 August 2016:

(1) the memorandum and articles of association of the Company;

(2) the financial information of the Company as set out in Appendix I to this Circular;

(3) the annual reports of the Company for the years ended 31 December 2014 and 31 December 2015;

(4) the material contracts referred to in the paragraph headed "Material Contracts" in this Appendix;

(5) the Transfer Agreement;

(6) the Asset Valuation Report;

(7) the consent letters from Lego Corporate Finance and the Independent Valuer;

(8) the letter of advice from Lego Corporate Finance; and

(9) this circular.