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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.

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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)

**CONTINUING CONNECTED TRANSACTIONS
FRANCHISING CONTRACTS**

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

TRINITY

Trinity Corporate Finance Limited

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 1 to 10 of this circular. A letter from the Independent Board Committee is set out on page 11 of this circular. A letter from the Independent Financial Adviser containing its advice to the Independent Board Committee and the Independent Shareholders is set out on pages 12 to 30 of this circular.

The Company will convene the EGM at 1608 Conference Room of Datang International Power Generation Co., Ltd., 9 Guangningbo Street, Xicheng District, Beijing, the People's Republic of China on 16 March 2018 (Friday) at 9:30 a.m.. The notice convening the EGM has been dispatched to the Shareholders on 30 January 2018.

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.

28 February 2018

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DEFINITIONS

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

“associate(s)”	has the meaning ascribed to it under the Listing Rules
“Board”	the board of Directors
“CDC”	China Datang Corporation Limited (formerly known as China Datang Corporation), a wholly state-owned enterprise established under the laws of the PRC and is the 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
“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
“connected person(s)”	has the meaning ascribed to it under the Listing Rules
“connected transaction(s)”	has the meaning ascribed to it under the Listing Rules
“controlling shareholder”	has the meaning ascribed to it under the Listing Rules
“Datang Environment Industry Company”	Datang Environment Industry Group Co., Ltd. is a controlled subsidiary of CDC, details of which are set out in the section headed “Information on the Parties to the Franchising Contracts”
“Denitrification Assets”	the denitrification installations and related assets, including all the facilities, equipment, spare parts and related information, and ancillary equipment of the coal-fired power generation units of Such Companies
“Desulfurisation Assets”	the desulfurisation installations and related assets, including all the facilities, equipment, spare parts and related information, and ancillary equipment of the coal-fired power generation units of Such Companies
“Director(s)”	the director(s) of the Company
“EGM”	the 2018 first extraordinary general meeting of the Company to be held for the Independent Shareholders to consider and, if thought fit, to approve, among others, the transactions under the Franchising Contracts

DEFINITIONS

“Franchising Contracts”	collectively, (i) two contracts on flue gas denitrification and desulfurisation franchising both dated 18 January 2018 entered into between Datang Environment Industry Company and each of Huludao Thermal Power Company and Shendong Thermal Power Company; (ii) two contracts on flue gas denitrification franchising both dated 18 January 2018 entered into between Datang Environment Industry Company and each of Leizhou Power Generation Company and Tangshan Beijiao Thermal Power Company; and (iii) two contracts on flue gas desulfurisation franchising both dated 18 January 2018 entered into between Datang Environment Industry Company and each of Leizhou Power Generation Company and Tangshan Beijiao Thermal Power Company
“Group”	the Company and its subsidiaries
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Huludao Thermal Power Company”	Liaoning Datang International Huludao Thermal Power Company Limited (遼寧大唐國際葫蘆島熱電有限責任公司), a wholly-owned subsidiary of the Company, details of which are set out in the section headed “Information on the Parties to the Franchising Contracts”
“Independent Board Committee”	the independent board committee of the Company, comprising the independent non-executive Directors, which has been formed to advise the Independent Shareholders in respect of the transactions under the Franchising Contracts
“Independent Financial Adviser” or “Trinity Corporate Finance Limited”	Trinity Corporate Finance Limited, a licensed corporation under the SFO permitted to conduct type 6 (advising on corporate finance) regulated activities for the purposes of the SFO, being the independent financial adviser appointed to advise the Independent Board Committee and the Independent Shareholders on the terms of the Franchising Contracts
“Independent Shareholders”	shareholders other than Shareholders who have material interest in the transactions under the Franchising Contracts
“Latest Practicable Date”	26 February 2018, being the latest practicable date prior to the printing of this circular for ascertaining certain information in this circular
“Leizhou Power Generation Company”	Guangzhou Datang International Leizhou Power Generation Co., Ltd. (廣東大唐國際雷州發電有限責任公司), a controlled subsidiary of the Company, details of which are set out in the section headed “Information on the Parties to the Franchising Contracts”

DEFINITIONS

“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“NDRC”	National Development and Reform Commission of the PRC (中華人民共和國國家發展和改革委員會)
“PRC”	the People’s Republic of China
“Previous Transactions”	the franchising contracts entered into between various subsidiaries, power plants and branch companies of the Company with Datang Environment Industry Company in relation to the franchising of the Desulfurisation or Denitrification Assets on 31 October 2012, 22 January 2015, 30 June 2015 and 30 October 2015, details of which are set out in the announcement of the Company dated 30 October 2017
“RMB”	Renminbi, the lawful currency of the PRC
“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
“Shareholder(s)”	the shareholder(s) of the Company
“Shendong Thermal Power Company”	Liaoning Datang International Shendong Thermal Power Company Limited (遼寧大唐國際沈東熱電有限責任公司), a wholly-owned subsidiary of the Company, details of which are set out in the section headed “Information on the Parties to the Franchising Contracts”
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Such Companies”	collectively, Leizhou Power Generation Company, Shendong Thermal Power Company, Huludao Thermal Power Company and Tangshan Beijiao Thermal Power Company
“Tangshan Beijiao Thermal Power Company”	Hebei Datang International Tangshan Beijiao Thermal Power Generation Company Limited (河北大唐國際唐山北郊熱電有限責任公司), a wholly-owned subsidiary of the Company, details of which are set out in the section headed “Information on the Parties to the Franchising Contracts”
“%”	per cent

LETTER FROM 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)

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

Office address:

No. 9 Guangningbo Street
Xicheng District
Beijing, 100033
the PRC

Principal place of business in Hong Kong:

c/o Eversheds Sutherland
21/F, Gloucester Tower
The Landmark
15 Queen's Road Central
Hong Kong

Independent non-executive Directors:

Mr. Liu Jizhen
Mr. Feng Genfu
Mr. Luo Zhongwei
Mr. Liu Huangsong
Mr. Jiang Fuxiu

28 February 2018

To the Shareholders

Dear Sir or Madam,

CONTINUING CONNECTED TRANSACTIONS FRANCHISING CONTRACTS

Reference is made to the announcement of the Company dated 18 January 2018 in relation to the Franchising Contracts. As stated in that announcement, the Company will issue a circular to the Shareholders to provide details of the transactions under the Franchising Contracts.

The purpose of this circular is to, among others, (i) provide you with further details of the Franchising Contracts; (ii) set out the recommendation of the Independent Board Committee in respect of the Franchising Contracts; and (iii) set out the letter of advice from Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders in respect of the Franchising Contracts.

LETTER FROM THE BOARD

I. FRANCHISING CONTRACTS

On 18 January 2018, Such Companies, being subsidiaries of the Company, have entered into various Franchising Contracts with Datang Environment Industry Company, pursuant to which Datang Environment Industry Company agreed to carry out the franchising of the Desulfurisation Assets or Denitrification Assets of the corresponding coal-fired power generating units of Such Companies and to invest in, design, construct, operate, maintain and manage the desulfurisation or denitrification facilities during the franchise period. During the franchise period, Datang Environment Industry Company shall be entitled to the revenue from the desulfurisation or denitrification tariffs and shall reimburse and compensate Such Companies for the costs incurred, including those for water and electricity, for desulfurisation or denitrification.

Date

18 January 2018

Contracting Parties

Leizhou Power Generation Company, Tangshan Beijiao Thermal Power Company, Shendong Thermal Power Company, Huludao Thermal Power Company and Datang Environment Industry Company.

Material Terms of the Franchising Contracts

Such Companies entered into six desulfurisation or denitrification Franchising Contracts with Datang Environment Industry Company in aggregate with substantially the same terms, the material terms of which are summarised as follows:

1. Such Companies authorised Datang Environment Industry Company to carry out the franchising of the Desulfurisation Assets or Denitrification Assets of the corresponding coal-fired power generating units and to invest in, design, construct, operate, maintain and manage the desulfurisation or denitrification facilities during the franchise period. During the franchise period, Datang Environment Industry Company shall be entitled to the revenue from the desulfurisation or denitrification tariffs and shall reimburse and compensate Such Companies for the costs incurred, including those for water and electricity, for desulfurisation or denitrification.
2. Desulfurisation or denitrification tariffs: Desulfurisation or denitrification tariffs are determined in accordance with the national tariff policy and implemented in accordance with relevant requirements of the PRC when there are changes in the national tariff policy. As at the date of the signing of Franchising Contracts, the desulfurisation tariff is RMB0.015/kWh and the denitrification tariff is RMB0.01/kWh.

LETTER FROM THE BOARD

The revenue to be received by Datang Environment Industry Company from the desulfurisation or denitrification tariffs is calculated as follows:

Desulfurisation or denitrification electricity fee = volume of on-grid power generation × desulfurisation or denitrification tariffs^(Note)

Note: The revenue from the desulfurisation or denitrification tariff shall be based on the actual settlement amount of power grid enterprises.

3. Settlement of desulfurisation or denitrification electricity fee: The power grid company shall pay on-grid electricity fee to Such Companies, which shall accrue from the date when (i) the competent environmental protection authorities have granted acceptance documents for the facilities of the projects after inspection; (ii) the desulfurisation or denitrification tariffs have been approved by the relevant government authorities; and (iii) confirmation from the power grid companies has been obtained.

After receiving such on-grid electricity fee, Such Companies shall transfer revenue from the desulfurisation or denitrification tariffs to Datang Environment Industry Company according to the pricing principle of desulfurisation or denitrification electricity fee as set out in paragraph 2 of this section.

It is estimated that the total desulfurisation and denitrification electricity fees (tax exclusive) charged by Datang Environment Industry Company for the provision of desulfurisation or denitrification services to Such Companies for the three years ending 31 December 2018, 31 December 2019 and 31 December 2020 will not exceed RMB92.25 million, RMB314.74 million and RMB370.14 million per year, respectively.

The above-mentioned desulfurisation or denitrification electricity fees shall be calculated with reference to the (i) the current desulfurisation electricity tariff (RMB0.015/kWh) and current denitrification electricity tariff (RMB0.01/kWh); and (ii) corresponding anticipated volume of power generation of Such Companies for the next three years, with total annual utilisation hours which are expected to amount to approximately 6,260 hours, 15,950 hours and 17,300 hours for the three years ending 31 December 2018, 31 December 2019 and 31 December 2020, respectively.

The annual cap for the total desulfurisation and denitrification electricity fees is expected to record a significant increase starting from the year ending 31 December 2019 as compared to that for the year ending 31 December 2018 due to the operations plans of Such Companies which vary from one to another and are expected to result in a significant increase in annual utilisation hours for the year ending 31 December 2019 as illustrated above. The operations of Huludao Thermal Power Company and Tangshan Beijiao Thermal Power Company are expected to commence in stages during 2018, while the operations of Leizhou Power Generation Company is expected to commence in 2019. In view of the above mentioned operation plans, (i) the total annual utilization hours of Huludao Thermal Power Company

LETTER FROM THE BOARD

and Tangshan Beijiao Thermal Power Company are expected to increase by approximately 7,440 hours in the year of 2019 as compared to those in the year of 2018; and (ii) the annual utilization hours of Leizhou Power Generation Company are expected to increase by approximately 2,250 hours in the year of 2019 as compared to those in the year of 2018. As a result, the total annual utilization hours of Such Companies are expected to increase by approximately 9,690 hours (i.e., 2,250 hours + 7,440 hours = 9,690 hours or 15,950 hours – 6,260 hours = 9,690 hours) in the year of 2019 as compared to those in the year of 2018 thereby causing a substantial increase in the annual cap for the year ending 31 December 2019.

4. Settlement of water and electricity costs incurred for desulfurisation or denitrification: During the franchise period, Datang Environment Industry Company shall reimburse and compensate Such Companies for the costs incurred, including those for water and electricity, for desulfurisation or denitrification.

Based on the calculation by making reference with the volume of power generation with utilisation hours between 530 and 5,000 hours in the coming three years upon the commencement of operation of each of the power generating units estimated by Such Companies in accordance with their operation plans, various costs (tax exclusive) including those for water and electricity required for the desulfurisation or denitrification that will be reimbursed and compensated to Such Companies by Datang Environment Industry Company for the three years ending 31 December 2018, 31 December 2019 and 31 December 2020 are estimated to be not more than RMB14.71 million, RMB50.45 million and RMB60.02 million in aggregate per year, respectively. As elaborated in paragraph 3 above, the annual caps for the various costs (including those for water and electricity) incurred for desulfurisation and denitrification is substantially higher for the year ending 31 December 2019 as compared to that for the year ending 31 December 2018 due to the increasing utilisation hours of power generating units in accordance with the operation plans of Such Companies.

5. Franchise period: The franchise period is the same as the operating period of the power generation facilities at which the franchise projects are located (i.e. estimated to be approximately 20 years). During the term of the franchise period, the ownership of the facilities of the franchise projects (excluding the land at which such facilities are located) is vested in Datang Environment Industry Company or in the project company (if any) established by Datang Environment Industry Company to operate the desulfurisation or denitrification project. Further, without the prior consent of Such Companies, Datang Environment Industry Company shall not transfer, lease, charge, pledge, entrust or dispose of the franchise rights, assets and facilities related to the franchising and equity interests in the project companies in any other manner before the expiry of the franchise period.

LETTER FROM THE BOARD

Upon the expiry of the franchise period, Datang Environment Industry Company shall transfer the facilities of entire projects to Such Companies at nil consideration or, if applicable, demolish the facilities of the franchise projects in accordance with request from Such Companies. In any event, Datang Environment Industry Company shall discharge all encumbrances in relation to the desulfurisation or denitrification facilities, including lease, charge or pledge, etc., before the receipt of such facilities by Such Companies.

6. Effective date of the Franchising Contracts: The Franchising Contracts shall become effective upon signing with the respective company seals affixed thereto by the legal representatives, or the authorized persons of Such Companies and Datang Environment Industry Company and subject to obtaining the approval from the Independent Shareholders.

Since the Desulfurisation Assets or Denitrification Assets are the supporting and ancillary facilities of the coal-fired power generating units, the franchise period of the Desulfurisation Assets or Denitrification Assets are the same as the operating periods of their corresponding power generating facilities. The term of the Franchising Contracts is expected to exceed three years. The Company will re-set the annual caps of the transactions under the Franchising Contracts after the expiration of the term for the year ending 31 December 2020 and re-comply with the relevant reporting, announcement and Independent Shareholders' approval (if applicable) requirements in accordance with the relevant requirements of the Listing Rules.

7. Pricing policy and internal control procedures

The desulfurisation or denitrification electricity fee under the Franchising Contracts will be determined by the government-prescribed prices, namely the desulfurisation or denitrification tariffs published by NDRC after taking into consideration the cost of the installation of the environmental protection facilities under (i) "Desulfurisation Tariffs of Coal-fired Generating Units and Operation Management Measures on Desulfurisation Facilities (Trial)" (Fa Gai Jia Ge [2007] No. 1176) (《燃煤發電機組脫硫電價及脫硫設施運行管理辦法(試行)》(發改價格[2007] 1176號)); (ii) "the Notice from National Development and Reform Commission on Adjustment on the Tariffs of North China Power Grid" (Fa Gai Jia Ge [2009] No. 2919)(《國家發展改革委關於調整華北電網電價的通知》(發改價格[2009] 2919號)); (iii) "the Notice from National Development and Reform Commission on Relevant Issue on Expanding the Pilot Scope of Denitrification Tariffs Policy" (Fa Gai Jia Ge [2012] No. 4095)(《國家發展改革委關於擴大脫硝電價政策試點範圍有關問題的通知》(發改價格[2012] 4095號)); and (iv) "the Notice from National Development and Reform Commission on Relevant Matters on Adjustment on Additional Standards for Renewable Energy Tariffs and Green Tariffs" (Fa Gai Jia Ge [2013] No. 1651) (《國家發展改革委關於調整可再生能源電價附加標準與環保電價有關事項的通知》(發改價格[2013] 1651號)), which are updated by NDRC from time to time.

LETTER FROM THE BOARD

According to the requirements of management system of the connected transactions of the Company, the Safety Production Department of the Company is responsible for tracing and monitoring the implementation of connected transactions within the scope of Franchising Contracts, developing management ledger for connected transactions and designating specialists for management and maintenance, and consolidating the transaction amounts incurred in the connected transactions on a quarterly basis. The Company will re-fulfill the necessary approval procedures in respect of continuing connected transactions that are expected to exceed their annual caps.

8. Payment terms

In respect of the payment of denitrification and desulfurisation tariffs, Such Companies shall pay such tariffs on a gross basis to Datang Environment Industry Company in accordance with the agreed settlement cycle, i.e. within 20 working days after the power grid companies have paid the on-grid tariffs to Such Companies. During the same settlement cycle, i.e. within 20 working days after the payment of denitrification and desulfurisation tariffs is made by the power grid companies to Such Companies, Datang Environment Industry Company shall reimburse and compensate Such Companies for the costs of water, electricity, gas and environmental protection fines, etc incurred for desulfurisation and denitrification. Payment and settlement of transactions under the Franchising Contracts shall be made by bank transfer or other methods as may be agreed by the relevant parties.

The Company has engaged the Independent Financial Adviser to provide independent advice in respect of the term of the Franchising Contracts in accordance with the requirements as stipulated in Rule 14A.52 of the Listing Rules, to explain why a longer period is required and to confirm that it is normal business practice for contracts of this type to be of such duration. The advice given by the Independent Financial Adviser in relation to the term of the Franchising Contracts is set out in the “Letter from Independent Financial Adviser” of this circular, which is set out on pages 12 to 30 of this circular.

LETTER FROM THE BOARD

II. HISTORICAL TRANSACTION AMOUNT

Certain subsidiaries controlled by or wholly-owned by the Company engaged in denitrification and desulfurisation franchising with Datang Environment Industry Company in the past, but those companies are different entities from Such Companies.

Moreover, as explained in paragraphs 3 and 4 above, the annual caps under the Franchising Contracts are not determined with reference to the previous transaction amount. Instead, such annual caps are based on the future analysis of the supply and demand of power generation in light of, among others, the operations plans of Such Companies in the next three years ending 31 December 2020.

The Company, therefore, considers that historical transaction amounts of those transactions in relation to denitrification and desulfurisation franchising in the past are of limited reference value and have not been disclosed in this circular. Should those previous transactions in relation to denitrification and desulfurisation franchising are renewed or varied in the future, the Company will comply with the applicable requirements of reporting, announcement and independent shareholders' approval, and the relevant historical transaction amounts will then be disclosed in the announcement and circular (if applicable).

III. INFORMATION ON THE PARTIES TO THE FRANCHISING CONTRACTS

1. Datang Environment Industry Company is a controlled subsidiary of CDC with a registered capital of RMB2,967.542 million. Its scope of business mainly includes the franchising of environmental protection facilities, denitrification catalysts, environmental protection facilities engineering, water treatment business, the energy conservation business and the renewable energy engineering business.
2. Huludao Thermal Power Company, a wholly-owned subsidiary of the Company, with a registered capital of RMB10 million, is responsible for the construction of 2 × 350MW ultra-critical heat supply and coal-fired power generation units of Huludao thermal power project.
3. Leizhou Power Generation Company is a controlled subsidiary of the Company with a registered capital of RMB441.14 million. The shareholding structure of Leizhou Power Generation Company is as follows: the Company holds 34%, Datang Huayin Electric Power Co., Ltd., holds 33%, CDC holds 30%, and Leizhou City Peicai Infrastructure Construction Co., Ltd. holds 3%. Leizhou Power Generation Company is responsible for construction of two sets of 1,000MW ultra-supercritical coal-fired power generation units.

LETTER FROM THE BOARD

4. Shendong Thermal Power Company, a wholly-owned subsidiary of the Company, with a registered capital of RMB99.72 million, is responsible for the construction of two sets of 350MW ultra-critical heat supply and coal-fired power generation units.
5. Tangshan Beijiao Thermal Power Company, a wholly-owned subsidiary of the Company, with a registered capital of RMB37.91 million, is responsible for the construction of two sets of 350MW ultra-critical heat supply and coal-fired power generation units.

IV. REASONS FOR AND BENEFITS OF ENTERING INTO THE FRANCHISING CONTRACTS

The implementation of franchising for desulfurisation and denitrification projects of Such Companies can bring the professional management advantage of Datang Environment Industry company into full play, thus enhancing the operational efficiency of the desulfurisation and denitrification facilities, reducing the risks of environmental protection and minimising the operational costs of the Company. These could in turn enhance the profitability of the Company.

Based on the above, the Directors (including the independent non-executive Directors) are of the view that the terms of the Franchising Contracts have been entered into on normal commercial terms, the terms in relation to, among others, pricing of the Franchising Contracts, are no less favourable to the Company than terms available to independent third parties, and the relevant transactions thereunder are fair, reasonable and in the interests of the Company and its Shareholders as a whole.

V. LISTING RULES IMPLICATIONS

As at the Latest Practicable Date, CDC is the controlling shareholder of the Company, which together with its subsidiaries, holds a total of 34.77% of the issued share capital of the Company. Datang Environment Industry Company is a controlled subsidiary of CDC. Datang Environment Industry Company is therefore a connected person of the Company and the transactions under the Franchising Contracts constitute continuing connected transactions of the Company.

As one or more of the applicable percentage ratios (as defined in Rule 14.07 of the Listing Rules) in respect of the transaction amounts under the Franchising Contracts, when aggregated with the Previous Transactions, is above 5%, the respective transactions under the Franchising Contracts are subject to the reporting, annual review, announcement and Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

LETTER FROM THE BOARD

VI. BOARD'S APPROVAL AND EGM

The fourteenth meeting of the ninth session of the Board of the Company considered and approved the “Resolution on the Entrustment of Datang Environment Company to Undertake Certain EPC and BOT Engineering Projects of Liaoning Datang International Huludao Thermal Power Company Limited” (for details, please refer to the overseas regulatory announcement of the Company dated 23 May 2017) and the sixteenth meeting of the ninth session of the Board considered and approved the “Resolution on the Entrustment of Datang Environment Company to Undertake the EPC Project and the Franchise Project of Desulfurization and Denitrification of Certain Enterprises of the Company” (for details, please refer to the overseas regulatory announcement of the Company dated 15 August 2017).

None of the Directors has any material interest in the transactions under the Franchising Contracts. Chen Jinhang, Liu Chuandong and Liang Yongpan, all being connected Directors, have abstained from voting on such resolutions in accordance with the listing rules of the Shanghai Stock Exchange.

The Company will convene the EGM to consider and approve, among others, the transactions under the Franchising Contracts. The notice convening the EGM has been dispatched to the Shareholders on 30 January 2018.

Any Shareholder with a material interest in the transactions under the Franchising Contracts and its associates will abstain from voting at the EGM to be held by the Company. Therefore, CDC and its associates, which hold approximately 34.77% of the issued share capital of the Company as at the Latest Practicable Date, shall abstain from voting at the EGM in approving the transactions contemplated under the Franchising Contracts.

To the best of the knowledge, information and belief of the Directors having made all reasonable enquiries, apart from CDC and its associates, no other Shareholders have material interest in the transactions contemplated under the Franchising Contracts and shall abstain from voting at the resolution(s) in relation to the approval of the transactions contemplated under the Franchising Contracts at the EGM.

LETTER FROM THE BOARD

VII. RECOMMENDATION

Your attention is drawn to the letter from the Independent Board Committee as set out on page 11 of this circular which contains its recommendation to the Independent Shareholders on the terms of the Franchising Contracts. Your attention is also drawn to the letter of advice received from Trinity Corporate Finance Limited, the independent financial adviser to the Independent Board Committee and the Independent Shareholders as set out on pages 12 to 30 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 Franchising Contracts (including the terms relating to the franchise period), the casting of votes for or against the resolution(s) approving the Franchising Contracts as well as the principal factors and reasons considered by it in concluding its advice.

The Directors (including the independent non-executive Directors) consider that the terms of the Franchising Contracts 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.

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

LETTER FROM THE INDEPENDENT BOARD COMMITTEE



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

28 February 2018

To the Independent Shareholders

Dear Sir or Madam,

**CONTINUING CONNECTED TRANSACTIONS
FRANCHISING CONTRACTS**

We refer to the circular issued by the Company to the Shareholders dated 28 February 2018 (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 transactions under the Franchising Contracts constitute continuing and connected transactions 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 Franchising Contracts and to advise the Independent Shareholders in connection with the Franchising Contracts as to whether, in our opinion, its terms and the transactions contemplated thereunder are fair and reasonable and whether entering into the Franchising Contracts is in the interests of the Company and the Shareholders as a whole. Trinity Corporate Finance Limited has been appointed as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders in this respect.

We wish to draw your attention to the letter from the Board and the letter from Trinity Corporate Finance Limited as set out in this circular. Having considered the principal factors and reasons considered by, and the advice of Trinity Corporate Finance Limited as set out in its letter of advice, we consider that the entering into of the Franchising Contracts is on normal commercial terms. We also consider that the terms of the Franchising Contracts and the transactions contemplated thereunder are fair and reasonable so far as the Shareholders are concerned and that the entering into of the Franchising Contracts is in the interests of the Company and the Shareholders as a whole.

Accordingly, we recommend the Independent Shareholders to vote in favour of the ordinary resolution(s) to approve the Franchising Contracts and the transactions contemplated thereunder at the EGM.

Yours faithfully,

For and on behalf of the Independent Board Committee

Liu Jizhen, Feng Genfu, Luo Zhongwei,

Liu Huangsong, Jiang Fuxiu

Independent non-executive Directors

Datang International Power Generation Co., Ltd.

TRINITY

Trinity Corporate Finance Limited

Suite 7B, 7th Floor,
Two Chinachem Plaza,
68 Connaught Road Central,
Hong Kong.

28 February 2018

*To the Independent Board Committee and the Independent Shareholders of
Datang International Power Generation Co., Ltd.*

Dear Sirs,

**CONTINUING CONNECTED TRANSACTIONS
FRANCHISING CONTRACTS**

INTRODUCTION

We refer to our appointment as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in respect of the terms of the Franchising Contracts (including the terms relating to the franchise period) and the transactions contemplated thereunder, and the aggregated annual caps of the transactions under the Franchising Contracts and the Previous Transactions (together the “**Continuing Connected Transactions**”), details of which are set out in the Letter from the Board (the “**Letter from the Board**”) in the Company’s circular dated 28 February 2018 (the “**Circular**”), of which this letter forms part. Terms used in this letter shall have the same meanings as those defined in the Circular unless the context otherwise requires.

On 18 January 2018, Such Companies (collectively, Leizhou Power Generation Company, Shendong Thermal Power Company, Huludao Thermal Power Company and Tangshan Beijiao Thermal Power Company), being subsidiaries of the Company, have entered into various Franchising Contracts with Datang Environment Industry Company, pursuant to which Datang Environment Industry Company agreed to carry out the franchising of the Desulfurisation Assets or Denitrification Assets of the corresponding coal-fired power generating units of Such Companies and to invest in, design, construct, operate, maintain and manage the desulfurisation or denitrification facilities during the franchise period. During the franchise period, Datang Environment Industry Company shall be entitled to the revenue from the desulfurisation or denitrification tariffs and shall reimburse and compensate Such Companies for the costs incurred, including those for water and electricity, for desulfurisation or denitrification.

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As at the Latest Practicable Date, CDC is the controlling shareholder of the Company, which together with its subsidiaries, holds a total of 34.77% of the issued share capital of the Company. Datang Environment Industry Company is a controlled subsidiary of CDC. Datang Environment Industry Company is therefore a connected person of the Company and the transactions under the Franchising Contracts constitute continuing connected transactions of the Company.

According to the announcement of the Company dated 30 October 2017 in relation to the Previous Transactions (the “**Previous Announcement**”), Certain Power Generation Enterprises of the Company (as defined in the Previous Announcement) had in the past entered into the Previous Transactions with Datang Environment Industry Company and its project-based branches and subsidiaries, respectively. We are not instructed to opine on the Previous Transactions per se.

As one or more of the applicable percentage ratios (as defined in Rule 14.07 of the Listing Rules) in respect of the transaction amounts under the Franchising Contracts, when aggregated with the Previous Transactions, is above 5%, the respective transactions under the Franchising Contracts are subject to the reporting, annual review, announcement and Independent Shareholders’ approval requirements under Chapter 14A of the Listing Rules.

An Independent Board Committee comprising the independent non-executive Directors (namely, Mr. Liu Jizhen, Mr. Feng Genfu, Mr. Luo Zhongwei, Mr. Liu Huangsong and Mr. Jiang Fuxiu) has been appointed to consider the terms of the Franchising Contracts and to advise the Independent Shareholders in connection with the Franchising Contracts as to whether its terms and the transactions contemplated thereunder are fair and reasonable and whether entering into the Franchising Contracts is in the interests of the Company and the Shareholders as a whole. We have been appointed as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in this respect.

BASIS OF OUR OPINION

In formulating our opinion to the Independent Board Committee and the Independent Shareholders, we have relied on the accuracy of the statements, information, opinions and representations contained or referred to in the Circular and the information and representations provided to us by the Company, the Directors and the management of the Company. We have no reason to believe that any information and representations relied on by us in forming our opinion is untrue, inaccurate or misleading, nor are we aware of any material facts the omission of which would render the information provided and the representations made to us untrue, inaccurate or misleading. We have assumed that all information, representations and opinions contained or referred to in the Circular, which have been provided by the Company, the Directors and the management of the Company and for which they are solely and wholly responsible, were true and accurate at the time when they were made and continue to be true as at the Latest Practicable Date and should there be any material changes to our opinion after the despatch of the Circular and up to the date of the EGM, Shareholders would be notified as soon as practicable.

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All Directors jointly and severally accept full responsibility for the accuracy of the information contained in the Circular and confirm, having made all reasonable enquiries, that to the best of their knowledge, opinions expressed in the Circular have been arrived at after due and careful consideration and there are no other facts not contained in the Circular, the omission of which would make any statement in the Circular misleading.

We have not conducted any independent in-depth investigation into the business and affairs of the Group or any parties involved in the Continuing Connected Transactions.

This letter is issued to the Independent Board Committee and the Independent Shareholders solely in connection with their consideration of the Continuing Connected Transactions and, except for its inclusion in the Circular, is not to be quoted or referred to, in whole or in part, nor shall this letter be used for any other purposes other than our role as the Independent Financial Adviser, without our prior written consent.

PRINCIPAL FACTORS AND REASONS CONSIDERED

In formulating our opinion regarding the Continuing Connected Transactions, we have taken into account the following principal factors and reasons:

A. Background of the Company

The Company is one of the largest independent power generation companies in the PRC and is primarily engaged in the construction and operation of power plants, the sale of electricity and thermal power, the repair and maintenance of power equipment and power-related technical services, with its main service areas located in the PRC.

Power generation businesses of the Company and its subsidiaries in operation or under construction are mainly distributed across 18 provinces, municipalities and autonomous regions throughout the country, whereby coal-fired power generators of the Company are centralised in Beijing-Tianjin-Hebei and southeast coastal areas, while most of the hydropower projects are located in the southwest region. Wind power and photovoltaic power are distributed across the country in areas with abundant resources.

B. Financial Performance of the Company

During the financial year ended 31 December 2016, the Company completed the power generation of 172,474.7 million kWh, realizing positive growth in electricity for the first time in the recent five years. The total coal consumption of the Company for power supply was 300.68g/kWh, representing a year-on-year decrease of 5.05g/kWh. The Company put effort on energy conservation and emission reduction, deepened equipment treatment and upgrading, completed power supply and coal consumption of 300.68g/kWh, representing a year-on-year decrease of 5.05g/kWh, creating

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the best historical level. The total operation rate of desulfurisation facilities and the total overall desulfurisation efficiency rate amounted to 100.00% and 97.91%, respectively. The total operation rate of denitrification facilities and the total overall denitrification efficiency rate amounted to 99.54% and 85.60%, respectively. The performance of sulfur dioxide, nitrogen oxides, smoke ash and waste water were 0.12g/kWh, 0.16g/kWh, 0.030g/kWh and 0.027kg/kWh respectively. During the financial year ended 31 December 2016, the Company completed ultra-low emission transformation projects with 28 units. The equipment rate of coal-fired power generating units of the Company reached 100%, much higher than the national average level.

In the first half of 2017, in the face of complex situations such as the in-depth advancing of the reform in power system and the severe condition regarding coal power maintenance, supply and price control, the Company focused on the target of being “an industry leader of world-class standard”, adhered to the main line of “comprehensive quality improvement”, actively adapted to the changes of national policies and market situation, proactively pushed forward production and operation management, comprehensively implemented the forging ahead strategy, strived for efficient power generation, controlled and maintained the coal price at a favourable level and adopted advanced benchmark in fees reduction.

The following table is a summary of the consolidated income statement of the Group for the three years ended 31 December 2014, 2015 and 2016 respectively and six months ended 30 June 2016 and 2017 respectively, as extracted from the annual reports and interim reports of the Company.

	For the year ended 31 December 2014 (audited) RMB'000	For the year ended 31 December 2015 (audited) RMB'000	For the year ended 31 December 2016 (audited) RMB'000	For the six months ended 30 June 2016 (unaudited) RMB'000	For the six months ended 30 June 2017 (unaudited) RMB'000
Operating Revenue	70,194,327	60,050,302	57,291,557	29,198,539	30,047,916
Profit before tax for the financial year/period	5,172,316	9,938,994	8,441,267	3,488,090	1,795,097
Profit for the financial year/period	1,888,494	3,260,372	1,885,321	2,051,679	1,334,996
Profit (Loss) for the financial year/period attributable to equity holders of the Company	1,767,417	2,787,739	(2,753,881)	1,709,340	1,092,019

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During the financial year ended 31 December 2016, the Group realized a consolidated operating revenue from continuing operations of approximately RMB57,292 million, representing a decrease of approximately 4.59% over the previous year, among which, revenue from electricity sales decreased by approximately RMB3,690 million over the previous year. The Group reported a total profit before tax from continuing operations of approximately RMB8,441 million, representing a decrease of approximately 15.07% over the previous year. Net loss attributable to equity holders of the Company amounted to approximately RMB2,754 million, with the decrease in the Group's profit before tax resulted from the loss caused by disposal of coal-to-chemical business segment and related projects.

During the six months ended 30 June 2017, the Group realised an operating revenue of approximately RMB30,048 million, representing an increase of approximately 2.91% over the corresponding period in the previous year, among which revenue from electricity sales was approximately RMB27,130 million, representing an increase of approximately RMB2,068 million or approximately 8.25% over the corresponding period in the previous year. The increase in electricity sales revenue was mainly due to the increase in demand for on-grid electricity. The total profit before tax of the Group amounted to approximately RMB1,795 million, representing a decrease of approximately 48.54% over the corresponding period in the previous year. Among which, the power generation segment recorded an accumulated profit of approximately RMB1,409 million, representing a decrease of approximately 77.01% over the corresponding period in the previous year. The net profit attributable to equity holders of the Company amounted to approximately RMB1,092 million, representing a decrease of approximately 36.11% over the corresponding period in the previous year.

On 30 January 2018, the Company made an announcement in relation to the estimated profit for the annual results for the year ended 31 December 2017. Based on the preliminary assessment by the management of the Company based on the unaudited management accounts of the Group for the year ended 31 December 2017, the Group expected to record a turnaround in operating results for the year ended 31 December 2017 and a net profit attributable to the equity holders of the Company of approximately RMB1.28 billion to RMB1.75 billion was expected to be reported in the consolidated financial statements of the Group for the year ended 31 December 2017. Also, a net profit after deducting non-recurring gains and losses attributable to the equity holders of the Company of approximately RMB1.08 billion to RMB1.48 billion was expected to be reported in the consolidated financial statements of the Group for the year ended 31 December 2017. The estimated profit of the results of the Group was mainly attributable to the following factors: (i) in order to optimize assets structure, the Company disposed of its coal-to-chemical and related projects in 2016. The net profit attributable to the equity holders of the Company as reported in the consolidated statements of the Group thereby decreased by approximately RMB5.518 billion, which was the main reason for the losses incurred by the Group for the year 2016. The Group did not have any material loss resulting from equity transfer for the year 2017; and (ii) the year-on-year increase of utilisation hours of thermal power in the area where the Group is located and the

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gradual commencement of commercial operation of the newly-operated generation units by the Group resulted in a significant year-on-year increase of power generation volume of the Group for the year.

C. Principal Terms of the Franchising Contracts

As mentioned in the Letter from the Board, on 18 January 2018, Such Companies, being subsidiaries of the Company, have entered into various Franchising Contracts with Datang Environment Industry Company, pursuant to which Datang Environment Industry Company agreed to carry out the franchising of the Desulfurisation Assets or Denitrification Assets of the corresponding coal-fired power generating units of Such Companies and to invest in, design, construct, operate, maintain and manage the desulfurisation or denitrification facilities during the franchise period. During the franchise period, Datang Environment Industry Company shall be entitled to the revenue from the desulfurisation or denitrification tariffs and shall reimburse and compensate Such Companies for the costs incurred, including those for water and electricity, for desulfurisation or denitrification.

Such Companies entered into six desulfurisation or denitrification Franchising Contracts with Datang Environment Industry Company in aggregate with substantially the same terms, the material terms of which are summarised as follows:

1. Such Companies authorised Datang Environment Industry Company to carry out the franchising of the Desulfurisation Assets or Denitrification Assets of the corresponding coal-fired power generating units and to invest in, design, construct, operate, maintain and manage the desulfurisation or denitrification facilities during the franchise period. During the franchise period, Datang Environment Industry Company shall be entitled to the revenue from the desulfurisation or denitrification tariffs and shall reimburse and compensate Such Companies for the costs incurred, including those for water and electricity, for desulfurisation or denitrification.
2. Desulfurisation or denitrification tariffs: Desulfurisation or denitrification tariffs are determined in accordance with the national tariff policy and implemented in accordance with relevant requirements of the PRC when there are changes in the national tariff policy. As at the date of the signing of Franchising Contracts, the desulfurisation tariff is RMB0.015/kWh and the denitrification tariff is RMB0.01/kWh.

The revenue to be received by Datang Environment Industry Company from the desulfurisation or denitrification tariffs is calculated as follows:

Desulfurisation or denitrification electricity fee = volume of on-grid power generation x desulfurisation or denitrification tariffs (*Note*)

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Note: The revenue from the desulfurisation or denitrification tariff shall be based on the actual settlement amount of power grid enterprises.

3. Settlement of desulfurisation or denitrification electricity fee: The power grid company shall pay on-grid electricity fee to Such Companies, which shall accrue from the date when (i) the competent environmental protection authorities have granted acceptance documents for the facilities of the projects after inspection; (ii) the desulfurisation or denitrification tariffs have been approved by the relevant government authorities; and (iii) confirmation from the power grid companies has been obtained.

After receiving such on-grid electricity fee, Such Companies shall transfer revenue from the desulfurisation or denitrification tariffs to Datang Environment Industry Company according to the pricing principle of desulfurisation or denitrification electricity fee as set out in paragraph 2 of this section.

According to the Letter from the Board, it is estimated that the total desulfurisation and denitrification electricity fees (tax exclusive) charged by Datang Environment Industry Company for the provision of desulfurisation or denitrification services to Such Companies for the three years ending 31 December 2018, 31 December 2019 and 31 December 2020 will not exceed RMB92.25 million, RMB314.74 million and RMB370.14 million per year, respectively.

We have also been informed by the Company that the above-mentioned desulfurisation or denitrification electricity fees shall be calculated with reference to the (i) the current desulfurisation electricity tariff (RMB0.015/kWh) and current denitrification electricity tariff (RMB0.01/kWh); and (ii) corresponding anticipated volume of power generation of Such Companies for the next three years, with total annual utilisation hours which are expected to amount to approximately 6,260 hours, 15,950 hours and 17,300 hours for the three years ending 31 December 2018, 31 December 2019 and 31 December 2020, respectively.

The annual cap for the total desulfurisation and denitrification electricity fee is expected to record a significant increase starting from the year ending 31 December 2019 as compared to that for the year ending 31 December 2018 due to the operations plans of Such Companies which vary from one to another and are expected to result in a significant increase in annual utilisation hours for the year ending 31 December 2019 as illustrated above. The operations of Huludao Thermal Power Company and Tangshan Beijiao Thermal Power Company are expected to commence in stages during 2018, while the operations of Leizhou Power Generation Company is expected to commence in 2019. In view of the above mentioned operation plans, (i) the total annual utilisation hours of Huludao Thermal Power Company and Tangshan Beijiao Thermal Power Company are expected to increase by approximately 7,440 hours in the year of 2019 as compared to those in the year of 2018; and (ii) the

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annual utilisation hours of Leizhou Power Generation Company are expected to increase by approximately 2,250 hours in the year of 2019 as compared to those in the year of 2018. As a result, the total annual utilisation hours of Such Companies are expected to increase by approximately 9,690 hours (i.e., 2,250 hours + 7,440 hours = 9,690 hours or 15,950 hours – 6,260 hours = 9,690 hours) in the year of 2019 as compared to those in the year of 2018 thereby causing a substantial increase in the annual cap for the year ending 31 December 2019.

4. Settlement of water and electricity costs incurred for desulfurisation or denitrification: During the franchise period, Datang Environment Industry Company shall reimburse and compensate Such Companies for the costs incurred, including those for water and electricity, for desulfurisation or denitrification.

According to the Letter from the Board, based on the calculation by making reference with the volume of power generation with utilisation hours between 530 and 5,000 hours in the coming three years upon the commencement of operation of each of the power generating units estimated by Such Companies in accordance with their operation plans, which we have reviewed, various costs (tax exclusive) including those for water and electricity required for the desulfurisation or denitrification that will be reimbursed and compensated to Such Companies by Datang Environment Industry Company for the three years ending 31 December 2018, 31 December 2019 and 31 December 2020 are estimated to be not more than RMB14.71 million, RMB50.45 million and RMB60.02 million in aggregate per year, respectively. The annual caps for the various costs (including those for water and electricity) incurred for desulfurisation and denitrification are substantially higher for the year ending 31 December 2019 as compared to that for the year ending 31 December 2018 due to the increasing utilisation hours of power generating units in accordance with the operation plans of Such Companies, as elaborated in paragraph 3 above.

5. Franchise period: The franchise period is the same as the operating period of the power generation facilities at which the franchise projects are located (i.e. estimated to be approximately 20 years). During the term of the franchise period, the ownership of the facilities of the franchise projects (excluding the land at which such facilities are located) is vested in Datang Environment Industry Company or in the project company (if any) established by Datang Environment Industry Company to operate the desulfurisation or denitrification project. Further, without the prior consent of Such Companies, Datang Environment Industry Company shall not transfer, lease, charge, pledge, entrust or dispose of the franchise rights, assets and facilities related to the franchising and equity interests in the project companies in any other manner before the expiry of the franchise period.

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Upon the expiry of the franchise period, Datang Environment Industry Company shall transfer the facilities of entire projects to Such Companies at nil consideration or, if applicable, demolish the facilities of the franchise projects in accordance with request from Such Companies. In any event, Datang Environment Industry Company shall discharge all encumbrances in relation to the desulfurisation or denitrification facilities, including lease, charge or pledge, etc., before the receipt of such facilities by Such Companies.

6. Effective date of the Franchising Contracts: The Franchising Contracts shall become effective upon signing with the respective company seals affixed thereto by the legal representatives, or the authorized persons of Such Companies and Datang Environment Industry Company and subject to obtaining the approval from the Independent Shareholders.

We have been informed by the Company that, since the Desulfurisation Assets or Denitrification Assets are the supporting and ancillary facilities of the coal-fired power generating units, the franchise period of the Desulfurisation Assets or Denitrification Assets are the same as the operating periods of their corresponding power generating facilities. The term of the Franchising Contracts is expected to exceed three years. The Company will re-set the annual caps of the transactions under the Franchising Contracts after the expiration of the term for the year ending 31 December 2020 and re-comply with the relevant reporting, announcement and Independent Shareholders' approval (if applicable) requirements in accordance with the relevant requirements of the Listing Rules. As set out in section H below, we agree with the Company that the Desulfurisation Assets or Denitrification Assets are integral and ancillary facilities of the coal-fired power generating units and it is fair and reasonable and commercially sensible for the franchise period of these assets to be the same as the operating periods of their corresponding power generating facilities.

7. Pricing policy and internal control procedures: We have reviewed and confirm that the desulfurisation or denitrification electricity fee under the Franchising Contracts will be determined by the government-prescribed prices, namely the desulfurisation or denitrification tariffs published by NDRC after taking into consideration the cost of the installation of the environmental protection facilities under (i) "Desulfurisation Tariffs of Coal-fired Generating Units and Operation Management Measures on Desulfurisation Facilities (Trial)" (Fa Gai Jia Ge [2007] No. 1176) (《燃煤發電機組脫硫電價及脫硫設施運行管理辦法試行》)(發改價格[2007] 1176號); (ii) "the Notice from National Development and Reform Commission on Adjustment on the Tariffs of North China Power Grid" (Fa Gai Jia Ge [2009] No. 2919) (《國家發展改革委關於調整華北電網電價的通知》)(發改價格[2009] 2919號); (iii) "the Notice from National Development and Reform Commission on Relevant Issue on Expanding the Pilot Scope of Denitrification Tariffs Policy" (Fa Gai Jia Ge [2012] No. 4095) (《國家發展改革委關於擴大脫硝電價政策試點範圍有關問題的通知》)(發改價格[2012] 4095號); and (iv) "the Notice from National Development and Reform Commission on Relevant Matters on Adjustment on Additional Standards for Renewable Energy Tariffs and Green Tariffs" (Fa

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Gai Jia Ge [2013] No. 1651) (《國家發展改革委關於調整可再生能源電價附加標準與環保電價有關事項的通知》(發改價格[2013] 1651號)), which are updated by NDRC from time to time.

After reviewing the Franchising Contracts and the abovementioned national tariff policy of desulfurisation or denitrification, we confirm that the pricing policy of the Franchising Contracts are set up in accordance with the government-prescribed national tariff policy (including the abovementioned rate of desulfurisation tariff and the denitrification tariff). Therefore, we consider the principal terms of the Franchising Contracts are on normal commercial terms and are fair and reasonable.

We have discussed with the Company and the Company confirmed that, according to the requirements of management system of the connected transactions of the Company the safety production department of the Company is responsible for tracing and monitoring the implementation of connected transactions within the scope of the Franchising Contracts, developing management ledger for connected transactions and designating specialists for management and maintenance, and consolidating the transaction management amounts incurred in the connected transactions on a quarterly basis. The Company will re-fulfill the necessary approval procedures in respect of continuing connected transactions that are expected to exceed their annual caps.

8. Payment terms: In respect of the payment of denitrification and desulfurisation tariffs, Such Companies shall pay such tariffs on a gross basis to Datang Environment Industry Company in accordance with the agreed settlement cycle, i.e. within 20 working days after the power grid companies have paid the on-grid tariffs to Such Companies. During the same settlement cycle, i.e. within 20 working days after the payment of denitrification and desulfurisation tariffs is made by the power grid companies to Such Companies, Datang Environment Industry Company shall reimburse and compensate Such Companies for the costs of water, electricity, gas and environmental protection fines, etc incurred for desulfurisation and denitrification. Payment and settlement of transactions under the Franchising Contract shall be made by bank transfer of other methods as may be agreed by the relevant parties.

We have reviewed the abovementioned operation plans of Such Companies as provided by the Company. The operation plans of Such Companies included the details of estimated annual utilisation hours of Such Companies for the three years ending 31 December 2018, 31 December 2019 and 31 December 2020, which are mentioned in Section E below.

After considering the above factors, we are of the opinion that the terms of the Franchising Contracts are on normal commercial terms and are fair and reasonable.

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D. Principal Terms of the Previous Transactions

According to the Previous Announcement, Certain Power Generation Enterprises of the Company (as defined in the Previous Announcement) had in the past entered into the Previous Transactions with Datang Environment Industry Company and its project-based branches and subsidiaries, respectively. The principal terms of the Previous Transactions are also set out in the announcements of the Company dated 2 November 2012, 22 January 2015, 30 June 2015 and 2 November 2015. For details of the terms of the Previous Transactions, the Shareholders are advised to refer to the Previous Announcement and the abovementioned announcements of the Company.

E. Aggregated Annual Caps of the Continuing Connected Transactions

According to the Letter from the Board, Certain Power Generation Enterprises of the Company (as defined in the Previous Announcement) engaged in denitrification and desulfurisation franchising with Datang Environment Industry Company in the past, but those companies are different entities from Such Companies.

Moreover, as explained in paragraphs 3 and 4 in Section C above, the annual caps under the Franchising Contracts are not determined with reference to the Previous Transactions amount. Instead, such annual caps are based on the future analysis of the supply and demand of power generation in light of, among others, the operations plans of Such Companies in the next three years ending 31 December 2020.

After considering the above, we concur with the view of the Company that historical transaction amounts of Previous Transactions in relation to denitrification and desulfurisation franchising in the past are of limited reference value for assessing the terms of the Franchising Contracts.

According to the Previous Announcement, the total actual desulfurisation and denitrification electricity fee (tax exclusive) charged by Datang Environment Industry Company for the provision of desulfurisation or denitrification services to Certain Power Generation Enterprises of the Company for the three years ended 31 December 2014, 31 December 2015, 31 December 2016 and the six months ended 30 June 2017 amounted to approximately RMB504.14 million, RMB1,032.80 million, RMB1,229.55 million and RMB636.81 million in aggregate, respectively. The total actual costs incurred for desulfurisation and denitrification, including water and electricity costs (tax exclusive) received by Certain Power Generation Enterprises of the Company for the three years ended 31 December 2014, 31 December 2015, 31 December 2016 and the six months ended 30 June 2017 amounted to approximately RMB136.83 million, RMB180.57 million, RMB255.56 million and RMB136.61 million in aggregate, respectively.

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Based on the information from the Letter from the Board and the Previous Announcement, Table E.1 below summarises the aggregation of the annual caps of desulfurisation and denitrification electricity fees (tax exclusive) charged by Datang Environment Industry Company for the provision of desulfurisation or denitrification services to Certain Power Generation Enterprises of the Company (under the Previous Transactions) and Such Companies (under the Franchising Contracts) for the three years ending 31 December 2018, 31 December 2019 and 31 December 2020:

Table E.1

	For the year ending 31 December 2018	For the year ending 31 December 2019	For the year ending 31 December 2020
	<i>RMB million</i>	<i>RMB million</i>	<i>RMB million</i>
Previous Transactions	1,357.83	1,360.07	1,354.40
Franchising Contracts	92.25	314.74	370.14
Total	1,450.08	1,674.81	1,724.54

As set out in Table E.1 above, the annual caps of desulfurisation and denitrification electricity fees (tax exclusive) charged by Datang Environment Industry Company for the provision of desulfurisation or denitrification services for the Previous Transactions for the three years ending 31 December 2020, which are projected to be approximately RMB1,358 million, RMB1,360 million and RMB1,354 million per annum respectively, are expected to maintain relatively stable over such period. Whereas, the annual caps of desulfurisation and denitrification electricity fees (tax exclusive) charged by Datang Environment Industry Company for the provision of desulfurisation or denitrification services for the Franchising Contracts for the three years ending 31 December 2020 are estimated on the basis of the expected corresponding volume of power generation as set out in the operation plans of Such Companies and the relevant tariff policy as mentioned in section C above.

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Table E.2 below summarises the aggregation of the annual caps of the total costs incurred for desulfurisation and denitrification, including water and electricity costs (tax exclusive) to be charged on Datang Environment Industry Company, i.e. reimbursed and compensated to Certain Power Generation Enterprises of the Company (under the Previous Transactions) and Such Companies (under the Franchising Contracts) for the three years ending 31 December 2018, 31 December 2019 and 31 December 2020:

Table E.2

	For the year ending 31 December 2018	For the year ending 31 December 2019	For the year ending 31 December 2020
	<i>RMB million</i>	<i>RMB million</i>	<i>RMB million</i>
Previous Transactions	242.47	245.46	241.41
Franchising Contracts	14.71	50.45	60.02
Total	257.18	295.91	301.43

As set out in Table E.2 above, the annual caps of the total costs incurred for desulfurisation and denitrification, including water and electricity costs (tax exclusive) to be charged on Datang Environment Industry Company for the Previous Transactions for the three years ending 31 December 2020, which are projected to be approximately RMB242 million, RMB245 million, RMB241 million per annum respectively, are expected to maintain relatively stable over such period. Whereas, the annual caps of the total costs incurred for desulfurisation and denitrification, including water and electricity costs (tax exclusive) to be charged on Datang Environment Industry Company for the Franchising Contracts for the three years ending 31 December 2020 are estimated on the basis of the expected corresponding volume of power generation as set out in the operation plans of Such Companies and the relevant tariff policy as mentioned in section C above.

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Table E.3 below summarises the estimated annual utilisation hours of Such Companies for the three years ending 31 December 2018, 31 December 2019 and 31 December 2020:

Table E.3

	For the year ending 31 December 2018	For the year ending 31 December 2019	For the year ending 31 December 2020
	<i>Utilisation hours</i>	<i>Utilisation hours</i>	<i>Utilisation hours</i>
Shendong Thermal Power Company	5,000	5,000	5,000
Huludao Thermal Power Company	530	4,300	4,300
Leizhou Power Generation Company	0	2,250	3,600
Tangshan Beijiao Thermal Power Company	730	4,400	4,400
Total	6,260	15,950	17,300

According to the Letter from the Board, the annual cap for the total desulfurisation and denitrification electricity fee is expected to record a significant increase starting from the year ending 31 December 2019 as compared to that for the year ending 31 December 2018 due to the operations plans of Such Companies which vary from one to another and are expected to result in a significant increase in annual utilisation hours for the year ending 31 December 2019. The annual cap for the various costs (including those for water and electricity) incurred for desulfurisation and denitrification is substantially higher for the year ending 31 December 2019 as compared to that for the year ending 31 December 2018 due to the increasing utilisation hours of power generating units in accordance with the operation plan of Such Companies.

According to the operation plans of Such Companies, which we have reviewed, the operations of Huludao Thermal Power Company and Tangshan Beijiao Thermal Power Company (including the respective Desulfurisation Assets and Denitrification Assets) are expected to commence in stages during 2018, while the operations of Leizhou Power Generation Company (including the respective Desulfurisation Assets and Denitrification Assets) is expected to commence in 2019. As a result, the annual cap for the total desulfurisation and denitrification electricity fee and the annual cap for the various costs (including those for water and electricity) incurred for desulfurisation and denitrification for the year ending 31 December 2019 are significantly increased as compared to the annual caps for the year ending 31 December 2018 respectively.

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We have discussed with the Company about the estimation of annual utilisation hours of Such Companies as set out in Table E.3 above and the Company confirmed that the estimated annual utilisation hours of Such Companies for the three years ending 31 December 2018, 31 December 2019 and 31 December 2020 are determined with reference to (i) the historical utilisation hours of the thermal power generation of the provinces, where Such Companies are located in; and (ii) Such Companies' analysis and forecast of the electricity supply and demand of the local market for the three years ending 31 December 2018, 31 December 2019 and 31 December 2020.

According to National Energy Administration of the PRC, Table E.4 below summaries the average utilisation hours of 6,000 kilowatts or above thermal power plants of the provinces, where Such Companies are located in, in 2015 and 2016:

Table E.4

	Province	Year 2015 <i>Utilisation hours</i>	Year 2016 <i>Utilisation hours</i>
Shandong Thermal Power Company and Huludao Thermal Power Company	Liaoning	4,343	4,331
Leizhou Power Generation Company	Guangdong	4,028	3,698
Tangshan Beijiao Thermal Power Company	Hebei	4,846	4,974

As set out in Table E.4 above, the average utilisation hours of the thermal power plants in Liaoning and Hebei remained relatively stable over the period from 2015 to 2016; whereas the average utilisation hours of the thermal power plants in Guangdong decreased from approximately 4,000 hours in 2015 to 3,700 hours in 2016.

After reviewing the above basis of calculation of the aggregated annual caps of the Continuing Connected Transactions and considering the factors involved, in particular, the operation plans of Such Companies, we are of the opinion that the aggregated annual caps of the Continuing Connected Transactions for the three years ending 31 December 2018, 31 December 2019 and 31 December 2020 are fair and reasonable.

LETTER FROM INDEPENDENT FINANCIAL ADVISER

F. Information on the Parties to the Franchising Contracts and the Previous Transactions

(i) *Datang Environment Industry Company*

Datang Environment Industry Company is a controlled subsidiary of CDC with a registered capital of RMB2,967.542 million. Its scope of business mainly includes the franchising of environmental protection facilities, denitrification catalysts, environmental protection facilities engineering, water treatment business, the energy conservation business and the renewable energy engineering business. As Datang Environment Industry Company is a controlled subsidiary of CDC, which is the controlling shareholder of the Company, Datang Environment Industry Company is a connected person of the Company.

(ii) *Such Companies*

- (a) Huludao Thermal Power Company, a wholly-owned subsidiary of the Company, with a registered capital of RMB10 million, is responsible for the construction of 2 × 350MW ultra-critical heat supply and coal-fired power generation units of Huludao thermal power project;
- (b) Leizhou Power Generation Company, a controlled subsidiary of the Company, with a registered capital of RMB441.14 million, has the shareholding structure as follows: the Company holds 34%, Datang Huayin Electric Power Co., Ltd., holds 33%, CDC holds 30%, and Leizhou City Peicai Infrastructure Construction Co., Ltd. holds 3%. Leizhou Power Generation Company is responsible for construction of two sets of 1,000MW ultra-supercritical coal-fired power generation units;
- (c) Shendong Thermal Power Company, a wholly-owned subsidiary of the Company, with a registered capital of RMB99.72 million, is responsible for the construction of two sets of 350MW ultra-critical heat supply and coal-fired power generation units; and
- (d) Tangshan Beijiao Thermal Power Company, a wholly-owned subsidiary of the Company, with a registered capital of RMB37.91 million, is responsible for the construction of two sets of 350MW ultra-critical heat supply and coal-fired power generation units.

LETTER FROM INDEPENDENT FINANCIAL ADVISER

(iii) Certain Power Generation Enterprises of the Company (as defined in the Previous Announcement)

- (a) Zhangjiakou Power Plant, a power plant in Zhangjiakou owned by the Company with an installed capacity of 2,400MW;
- (b) Chaozhou Power Generation Company, a controlled subsidiary of the Company with an installed capacity of 3,200MW, has the equity holding structure as follows: 52.5% of its equity interest is held by the Company, 22.5% of its equity interest is held by CDC and 25% of its equity interest is held by other shareholders;
- (c) Lvsigang Power Generation Company, a controlled subsidiary of the Company with an installed capacity of 2,400MW, has the equity holding structure as follows: 55% of its equity interest is held by the Company, 35% of its equity interest is held by CDC and 10% of its equity interest is held by other shareholders;
- (d) Shentou Power Company, a controlled subsidiary of the Company with an installed capacity of 1,000MW, has the equity holding structure as follows: 60% of its equity interest is held by the Company and 40% of its equity interest is held by other shareholders;
- (e) Zhangjiakou Thermal Power Company, a wholly-owned subsidiary of the Company with an installed capacity of 600MW;
- (f) Wangtan Power Generation Company, a controlled subsidiary of the Company with an installed capacity of 1,200MW, has the equity holding structure as follows: 70% of its equity interest is held by the Company and 30% of its equity interest is held by other shareholders;
- (g) Panshan Power Company, a controlled subsidiary of the Company with an installed capacity of 1,200MW has the equity holding structure as follows: 75% of its equity interest is held by the Company and 25% of its equity interest is held by other shareholders;
- (h) Tuoketuo Power Generation Company, a controlled subsidiary of the Company with an installed capacity of 3,600MW, has the equity holding structure as follows: 60% of its equity interest is held by the Company and 40% of its equity interest is held by other shareholders;

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- (i) Tuoketuo No. 2 Power Generation Company, a controlled subsidiary of the Company with an installed capacity of 2,520MW, has the equity holding structure as follows: 40% of its equity interest is held by the Company, 20% of its equity interest is held by CDC and 40% of its equity interest is held by other shareholders; and
- (j) Wushashan Power Company, a controlled subsidiary of the Company with an installed capacity of 2,400MW, has the equity holding structure as follows: 51% of its equity interest is held by the Company and 49% of its equity interest is held by other shareholders.

G. Reasons for and Benefits of entering into the Franchising Contracts

As mentioned in the Letter from the Board, the implementation of franchising for desulfurisation and denitrification projects of Such Companies can bring the professional management advantage of Datang Environment Industry Company into full play, thus enhancing the operational efficiency of the desulfurisation and denitrification facilities, reducing the risks of environmental protection and minimising the operational costs of the Company. These could in turn enhance the profitability of the Company.

H. Duration of the Franchise Period

Rule 14A.52 of the Listing Rules requires that the period for an agreement governing continuing connected transactions of an issuer must not exceed three years except in special circumstances where the nature of the transaction requires a longer period. According to the Letter from the Board, the franchise period of the Franchising Contracts is the same as the operating period of the power generation facilities at which the franchise projects are located, which is expected to exceed three years.

We have discussed with the Company as to why a longer period is required for the Franchising Contracts and whether it is normal business practice for agreements of this type to be of such duration. In view of the more stringent environmental protection requirements imposed by the PRC government, the Desulfurisation Assets or Denitrification Assets are the supporting and ancillary facilities of the coal-fired power generating units to meet the criteria of environmental protection of the PRC government, and the Desulfurisation Assets or Denitrification Assets will operate with the coal-fired power generating units to achieve flue gas desulfurisation or denitrification. As such, we consider it is reasonable for the franchise period of the Desulfurisation Assets or Denitrification Assets to be the same as the operating period of their corresponding power generation facilities.

LETTER FROM INDEPENDENT FINANCIAL ADVISER

We have also reviewed a relevant announcement (“**Reference Announcement**”) of a company listed on the Stock Exchange which is engaged in the investment, development, operation and management of power plants and coal mines in the PRC. We noted that it has also entered into contracts with its connected person in relation to the provision of, among other things, services to ensure satisfaction of various national emission standards by the engaged party, with the duration of such services being more than three years.

After considering the factors and reasons as mentioned above, we are view of that the duration of the Franchising Contracts, being in excess of three years, is justifiable, and it is fair and reasonable for the franchise period to be the same as the operating period of the power generation facilities at which the franchise project is located, and it is normal business practice for agreements of this type to be of such duration.

RECOMMENDATION

Having considered the principal factors and reasons referred to above, in particular:

- (1) the principal terms of the Franchising Contracts;
- (2) the national desulfurisation and denitrification tariff policy;
- (3) the aggregated annual caps of the transactions under the Franchising Contracts and the Previous Transactions;
- (4) the operation plans of Such Companies; and
- (5) the Reference Announcement,

we are of the opinion that the terms of the Franchising Contracts (including the terms relating to the franchise period) and the transactions contemplated thereunder, and the aggregated annual caps of the Continuing Connected Transactions, are on normal commercial terms or better, are fair and reasonable so far as the Independent Shareholders are concerned, and are in the ordinary and usual course of business of the Group, and entering into the Franchising Contracts is in the interests of the Company and the Independent Shareholders as a whole. Accordingly, we would advise the Independent Shareholders and the Independent Board Committee to recommend the Independent Shareholders to vote in favour of the resolution to approve the Franchising Contracts and the transactions contemplated thereunder at the EGM.

Yours faithfully,

For and on behalf of

Trinity Corporate Finance Limited

Keith Jacobsen

Responsible Officer

Joanne Pong

Responsible Officer

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 OF DIRECTORS, SUPERVISORS AND CHIEF EXECUTIVE OF THE COMPANY**Interest of Directors and chief executive of the Company**

- (a) As at the Latest Practicable Date, save as disclosed below, so far as known to the Board, 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:

Name of Director	Long position/ short position	Capacity/nature of interest	Number of A-shares held	Approximate percentage of the issued share capital of the Company^(Note)
Mr. Liu Jizhen	Long position	Beneficial interest	9,100	0.000068%

Note:

- (1) The percentage is calculated based on the 13,310,037,578 issued shares of the Company as at the Latest Practicable Date.

- (b) 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 2016, 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 of the Company

- (c) 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 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 2016, being the date to which the latest published audited financial statements of the Group were made up, and including the Latest Practicable Date.

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 AND CONSENT

- (a) The following sets out the qualifications of the expert which has given its opinion or advice as contained in this circular:

Name	Qualifications
Trinity Corporate Finance Limited	a licensed corporation under the SFO permitted to conduct type 6 (advising on corporate finance) regulated activities for the purposes of the SFO

As at the Latest Practicable Date, the above expert:

- (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) did 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 2016, 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 Group is at present engaged in any litigation or arbitration of material importance to the Group and no litigation or claim of material importance to the Group is known to the Directors or the Company to be pending or threatened by or against any member of the Group.

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 Sutherland, 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. 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 14 March 2018:

- (a) the memorandum and articles of association of the Company;
- (b) the letter from the Independent Board Committee;
- (c) the consent letter and the letter of advice from the Independent Financial Adviser;
- (d) the Franchising Contracts; and
- (e) this circular.