
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 obtain independent professional advice.

If you have sold or transferred all your shares in Huaneng Power International, Inc., you should at once hand this circular and, where applicable, the form of proxy and reply slip to the purchaser or transferee or to the bank, or a 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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華能國際電力股份有限公司

HUANENG POWER INTERNATIONAL, INC.

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

(Stock Code: 902)

**DISCLOSEABLE AND CONNECTED TRANSACTIONS/CONTINUING
CONNECTED TRANSACTIONS UNDER THE HUANENG GROUP
FRAMEWORK AGREEMENT,
THE TIANCHENG LEASING FRAMEWORK AGREEMENT AND
THE FRAMEWORK AGREEMENTS; AND
INCREASE THE CAP AMOUNT ON THE LOAN ADVANCEMENT
WITH HUANENG FINANCE**

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



Gram Capital Limited
嘉林資本有限公司

A letter from the board of Directors of Huaneng Power International, Inc. is set out on pages 6 to 47 of this circular. A letter from the Independent Board Committee of Huaneng Power International, Inc. is set out on pages 48 to 49 of this circular. A letter from Gram Capital containing its advice to the Independent Board Committee and the Independent Shareholders of Huaneng Power International, Inc. is set out on pages 50 to 78 of this circular.

A notice convening the EGM to be held at 9:00 a.m. on 20 December 2022 (which has now been postponed to be held on 30 December 2022) at the headquarters of the Company at Conference Room A102, Huaneng Building, 6 Fuxingmennei Street, Xicheng District, Beijing, the PRC together with the relevant reply slip and proxy form had been issued to H Shareholders separately.

If you intend to attend the EGM, you should complete and return the reply slip in accordance with the instructions printed thereon as soon as possible.

Whether or not you are able to attend, you should complete and return the form of proxy in accordance with the instructions printed thereon and return it to Hong Kong Registrars Limited at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, as soon as possible and in any event by not later than 24 hours before the time appointed for holding such meeting or any adjournment thereof.

Completion and return of the form of proxy will not preclude you from attending and voting at the EGM should you so wish.

16 December 2022

CONTENTS

	<i>Page</i>
Definitions	1
Letter from the Board	6
Letter from the Independent Board Committee	48
Letter from Gram Capital	50
Appendix – General Information	I-1

DEFINITIONS

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

“2022 Huaneng Group Framework Agreement”	the framework agreement on the continuing connected transactions for 2022 between Huaneng Power International, Inc. and China Huaneng Group Co., Ltd. entered into between the Company and Huaneng Group on 3 November 2021
“A Shares”	domestic tradable shares in the ordinary share capital of the Company with a nominal value of RMB1.00 each, which are listed on the Shanghai Stock Exchange
“A Shareholder(s)”	holder(s) of A Shares
“associate(s)”	has the meaning ascribed to it in the Hong Kong Listing Rules
“Board”	the board of Directors of the Company
“Chaohu Power”	Huaneng Chaohu Power Generation Co., Ltd.
“Company”, “Huaneng International”	Huaneng Power International, Inc., a sino-foreign joint stock limited company incorporated in the PRC and the H Shares and A Shares of which are listed on the Hong Kong Stock Exchange and the Shanghai Stock Exchange, respectively, and its subsidiaries (as the case may be)
“connected person(s)”	has the meaning ascribed to it in the Hong Kong Listing Rules
“connected subsidiary(ies)”	has the meaning ascribed to it in the Hong Kong Listing Rules
“Director(s)”	the director(s) (including independent non-executive directors) of the Company

DEFINITIONS

“EGM” or “Extraordinary General Meeting”	the 2022 first extraordinary general meeting of the Company to be held at 9:00 a.m. on 30 December 2022 (originally 20 December 2022) at the headquarters of the Company at Conference Room A102, Huaneng Building, 6 Fuxingmennei Street, Xicheng District, Beijing, the PRC to consider and approve (among other things) the proposal regarding the continuing connected transactions (including the respective caps) for 2023 contemplated under the Huaneng Group Framework Agreement, the proposal regarding the discloseable and continuing connected transactions contemplated under the Tiancheng Leasing Framework Agreement; the proposal regarding the adjustment by increasing the cap amount of the continuing connected transactions on loan advancement contemplated under the Supplemental Agreement to Huaneng Finance Framework Agreement; the proposal regarding the appointment of auditors of the Company for 2023 and the proposal regarding the provision of renewable entrusted loans by the Company to its connected subsidiaries contemplated under the Framework Agreements
“Framework Agreements”	collectively, the Framework Agreements on Renewable Entrusted Loans signed by the Company with Shandong Company and Chaohu Power respectively on 2 November 2022
“Gram Capital”, “Independent Financial Adviser”	Gram Capital Limited, a licensed corporation to carry on Type 6 (advising on corporate finance) regulated activity as defined under the SFO, acting as the independent financial adviser to the Independent Board Committee and the Independent Shareholders in respect of the purchase of fuel and transportation services and accepting the technical services, engineering contracting services and other services (including the respective caps) contemplated under the Huaneng Group Framework Agreement; the transactions contemplated under the Tiancheng Leasing Framework Agreement and the provision of renewable entrusted loans by the Company to its connected subsidiaries contemplated under the Framework Agreements
“H Shares”	overseas listed foreign shares in the ordinary share capital of the Company with a nominal value of RMB1.00 each, which are listed on the Hong Kong Stock Exchange
“H Shareholder(s)”	holder(s) of H Shares
“HIPDC”	Huaneng International Power Development Corporation
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC

DEFINITIONS

“Hong Kong Listing Rules”	the Rules Governing the Listing of Securities on the Hong Kong Stock Exchange
“Hua Neng HK”	China Hua Neng Group Hong Kong Limited
“Huaihe Energy”	Huaihe Energy Power Group Co., Ltd.
“Huaneng Finance”	China Huaneng Finance Corporation Limited
“Huaneng Finance Framework Agreement”	the framework agreement on the continuing connected transactions (for 2022 to 2024) between Huaneng Power International, Inc. and China Huaneng Finance Corporation Limited entered into between the Company and Huaneng Finance on 26 October 2021
“Huaneng Group”	China Huaneng Group Co., Ltd.
“Huaneng Group Framework Agreement”	the framework agreement on the continuing connected transactions for 2023 between Huaneng Power International, Inc. and China Huaneng Group Co., Ltd. entered into between the Company and Huaneng Group on 25 October 2022
“Huaneng Treasury”	China Huaneng Group Treasury Management (Hong Kong) Limited
“IFRS”	International Financial Reporting Standard
“Independent Board Committee”	a committee of the Board established for the purpose of considering the terms of the purchase of fuel and transportation services and accepting the technical services, engineering contracting services and other services (including the respective caps) contemplated under the Huaneng Group Framework Agreement; the transactions contemplated under the Tiancheng Leasing Framework Agreement and the provision of renewable entrusted loans by the Company to its connected subsidiaries contemplated under the Framework Agreements comprising Mr. Xu Mengzhou, Mr. Liu Jizhen, Mr. Xu Haifeng, Mr. Zhang Xianzhi and Mr. Xia Qing, the independent non-executive Directors of the Company
“Independent Shareholders”	Shareholders other than Huaneng Group and HIPDC and their respective associates, and who are not involved in, or interested in the transactions contemplated by each of the Huaneng Group Framework Agreement, the Tiancheng Leasing Framework Agreement, the Supplemental Agreement to Huaneng Finance Framework Agreement and the Framework Agreements

DEFINITIONS

“Latest Practicable Date”	12 December 2022, being the latest practicable date prior to the printing of this circular for ascertaining certain information contained herein;
“Lease Interest”	the interest, together with handling fee, if any, under the Tiancheng Leasing Framework Agreement
“Lease Principal”	the maximum daily balance of the principal of the finance lease under the Tiancheng Leasing Framework Agreement
“Notice of EGM”	the notice for convening the EGM dated 4 November 2022, which has been issued to the H Shareholders separately and a copy of which can be downloaded from the Company’s website (www.hpi.com.cn) and the website of the Stock Exchange (www.hkex.com.hk)
“Other Transactions”	the transactions regarding the purchase of ancillary equipment and parts; leasing of facilities, land and office spaces; provision of entrusted sale and related services to Huaneng Group and its subsidiaries and associates; accept the provision of entrusted sale services from Huaneng Group and its subsidiaries and associates; sale of products and related services; purchase of heat products and related services; sale of heat products and related services; purchase of carbon emission reduction resources and related services; sale of carbon emission reduction resources and related services; and borrowing trust loans and accepting loans to be conducted between the Company and its subsidiaries and Huaneng Group and its subsidiaries and its associates in 2023 contemplated under Huaneng Group Framework Agreement;
“PBOC”	The People’s Bank of China
“PRC”, “China”	The People’s Republic of China
“RMB”	Renminbi, the lawful currency of the PRC
“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
“Shandong Company”	Huaneng Shandong Power Generation Co., Ltd.
“Shareholder(s)”	A Shareholder(s) and H Shareholder(s)
“SSE Listing Rules”	The Rules Governing the Listing of Securities on the Shanghai Stock Exchange

DEFINITIONS

“Stock Exchange”, “Hong Kong Stock Exchange”	The Stock Exchange of Hong Kong Limited
“subsidiary(ies)”	has the meaning ascribed to it in the Hong Kong Listing Rules
“Supplemental Agreement to Huaneng Finance Framework Agreement”	the supplemental agreement to Huaneng Finance Framework Agreement on the continuing connected transactions for 2022 to 2024 between Huaneng Power International, Inc. and China Huaneng Finance Corporation Limited entered into between the Company and Huaneng Finance on 25 October 2022
“Supplemental Agreement to 2022 Huaneng Group Framework Agreement”	the Supplemental Agreement to Huaneng Group Framework Agreement on the continuing connected transactions for 2022 between Huaneng Power International, Inc. and China Huaneng Group Co., Ltd. entered into between the Company and Huaneng Group on 18 October 2022
“Tiancheng Leasing”	Huaneng Tiancheng Financial Leasing Co., Ltd.
“Tiancheng Leasing Framework Agreement”	the framework agreement on the continuing connected transactions (for 2023 to 2025) between Huaneng Power International, Inc. and Huaneng Tiancheng Financial Leasing Co., Ltd. entered into between the Company and Tiancheng Leasing on 25 October 2022
“Transaction”	the proposed advancement of the renewable entrusted loan of no more than RMB12 billion by the Company to its controlled subsidiary Shandong Company, and the proposed advancement of the renewable entrusted loan of no more than RMB1.2 billion by the Company to its controlled subsidiary Chaohu Power

LETTER FROM THE BOARD



華能國際電力股份有限公司

HUANENG POWER INTERNATIONAL, INC.

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

(Stock Code: 902)

Executive Director:

Zhao Keyu

Non-executive Directors:

Huang Jian

Wang Kui

Lu Fei

Teng Yu

Mi Dabin

Cheng Heng

Li Haifeng

Lin Chong

Registered Address:

Huaneng Building

6 Fuxingmennei Street

Xicheng District

Beijing 100031

PRC

Independent Non-executive Director:

Xu Mengzhou

Liu Jizhen

Xu Haifeng

Zhang Xianzhi

Xia Qing

16 December 2022

To the Shareholders

Dear Sir or Madam,

**DISCLOSEABLE AND CONNECTED TRANSACTIONS/CONTINUING
CONNECTED TRANSACTIONS UNDER THE HUANENG GROUP
FRAMEWORK AGREEMENT,
THE TIANCHENG LEASING FRAMEWORK AGREEMENT AND
THE FRAMEWORK AGREEMENTS; AND
INCREASE THE CAP AMOUNT ON THE LOAN ADVANCEMENT
WITH HUANENG FINANCE**

LETTER FROM THE BOARD

I. INTRODUCTION

Background

On 25 October 2022, the Company published, among others, an announcement regarding (i) the continuing connected transactions (including the respective caps) for 2023 contemplated under the Huaneng Group Framework Agreement; (ii) the discloseable and the continuing connected transactions contemplated under the Tiancheng Leasing Framework Agreement; and (iii) the adjustment by increasing the cap amount of the continuing connected transactions on loan advancement contemplated under the Supplemental Agreement to Huaneng Finance Framework Agreement.

On 2 November 2022, the Company further published an announcement regarding the provision of renewable entrusted loans by the Company to its connected subsidiaries contemplated under the Framework Agreements.

The continuing connected transactions (including the respective caps) for 2023 contemplated under the Huaneng Group Framework Agreement

Under the Hong Kong Listing Rules, the purchase of fuel and transportation services and accepting the technical services, engineering contracting services and other services (including the respective proposed caps) for 2023 contemplated under the Huaneng Group Framework Agreement between the Company (and its subsidiaries) and Huaneng Group and its subsidiaries and associates shall require Independent Shareholders' approval. The Other Transactions are only subject to the reporting, annual review and announcement requirements under the Hong Kong Listing Rules. However, as required by the SSE Listing Rules, the Company is required to propose the ordinary resolution for the continuing connected transactions for 2023 between the Company and its subsidiaries and Huaneng Group and its subsidiaries and associates for approval by Independent Shareholders at the EGM. Accordingly, with respect to ordinary resolution no.2 of the Notice of EGM, all the continuing connected transactions for 2023 contemplated under the Huaneng Group Framework Agreement, i.e. the purchase of fuel and transportation services, accepting the technical services, engineering contracting services and other services and Other Transactions will be treated as one single resolution for approval by Independent Shareholders at the EGM.

The discloseable and continuing connected transactions contemplated under the Tiancheng Leasing Framework Agreement

Under the Hong Kong Listing Rules, the discloseable and continuing connected transaction under the Tiancheng Leasing Framework Agreement require approval by Independent Shareholders at the EGM. Accordingly, the Company will submit the resolution regarding the discloseable and continuing connected transactions contemplated under the Tiancheng Leasing Framework Agreement (being resolution no.3 of the Notice of EGM) for approval by Independent Shareholders at the EGM.

LETTER FROM THE BOARD

The adjustment by increasing the cap amount of the loan advancement contemplated under the Supplemental Agreement to Huaneng Finance Framework Agreement

Under Rule 14A.90 of the Hong Kong Listing Rules, the adjustment by increasing the cap amount of the loan advancement contemplated under the Supplemental Agreement to Huaneng Finance Framework Agreement is exempt from all the reporting, announcement and Independent Shareholders' approval requirements. However, according to the SSE Listing Rules, the transaction has to be submitted to the general meeting of the Company for consideration and approval. Accordingly, the Company will submit the resolution regarding the adjustment by increasing the cap amount of the loan advancement contemplated under the Supplemental Agreement to Huaneng Finance Framework Agreement (being resolution no.4 of the Notice of EGM) for approval by Independent Shareholders at the EGM.

Provision of renewable entrusted loans by the Company to its connected subsidiaries contemplated under the Framework Agreements

Under the Hong Kong Listing Rules and the SSE Listing Rules, the provision of renewable entrusted loans by the Company to its connected subsidiaries contemplated under the Framework Agreements requires approval by Independent Shareholders at general meeting. Accordingly, the Company will submit the resolution regarding the provision of renewable entrusted loans by the Company to its connected subsidiaries contemplated under the Framework Agreements (being resolution no.6 of the Notice of EGM) for approval by Independent Shareholders at the EGM.

Requirements under the Hong Kong Listing Rules

To comply with the requirements of the Hong Kong Listing Rules, the Independent Board Committee will advise the Independent Shareholders in connection with the continuing connected transaction regarding the purchase of fuel and transportation services and accepting the technical services, engineering contracting services and other services (including the respective caps) contemplated under the Huaneng Group Framework Agreement; the transactions contemplated under the Tiancheng Leasing Framework Agreement and the provision of renewable entrusted loans by the Company to its connected subsidiaries contemplated under the Framework Agreements. The letter from the Independent Board Committee to the Independent Shareholders is included in this circular. Gram Capital has been appointed as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders on the fairness and reasonableness of the purchase of fuel and transportation services and accepting the technical services, engineering contracting services and other services (including the respective caps) contemplated under the Huaneng Group Framework Agreement; the transactions contemplated under the Tiancheng Leasing Framework Agreement and the provision of renewable entrusted loans by the Company to its connected subsidiaries contemplated under the Framework Agreements, and whether such transactions under the above framework agreement are in the interests of the Company and its Shareholders as a whole. The letter of advice regarding the purchase of fuel and transportation services and accepting the technical services, engineering contracting services and other services (including the respective caps) contemplated under the Huaneng Group Framework Agreement; the transactions contemplated under the Tiancheng Leasing Framework Agreement and the provision of renewable entrusted loans

LETTER FROM THE BOARD

by the Company to its connected subsidiaries contemplated under the Framework Agreements from Gram Capital to the Independent Board Committee and the Independent Shareholders is also included in this circular.

Under the Hong Kong Listing Rules, Gram Capital is only required to opine on the transactions relating to the purchase of fuel and transportation services and accepting the technical services, engineering contracting services and other services (including the respective caps) contemplated under the Huaneng Group Framework Agreement; the transactions contemplated under the Tiancheng Leasing Framework Agreement and the provision of renewable entrusted loans by the Company to its connected subsidiaries contemplated under the Framework Agreements. Gram Capital will not provide opinion on the Other Transactions nor the adjustment by increasing the cap amount of the continuing connected transactions on loan advancement contemplated under the Supplemental Agreement to Huaneng Finance Framework Agreement. Notwithstanding such arrangement, the Company still include details of the Other Transactions and the adjustment by increasing the cap amount of the continuing connected transactions on loan advancement contemplated under the Supplemental Agreement to Huaneng Finance Framework Agreement in this circular so that H Shareholders can have a full picture of the background regarding the resolutions to be proposed at the EGM. The Company believes that on such basis, the Independent Shareholders have been provided with sufficient information so as to make an informed decision in the voting of the relevant proposed resolutions at the EGM.

Purpose of this circular

The purpose of this circular is:

- (i) to provide you with further information in relation to (i) the continuing connected transactions (including the respective caps) for 2023 contemplated under the Huaneng Group Framework Agreement; (ii) the discloseable and continuing connected transactions contemplated under the Tiancheng Leasing Framework Agreement; (iii) the adjustment by increasing the cap amount of the continuing connected transactions on loan advancement contemplated under the Supplemental Agreement to Huaneng Finance Framework Agreement; and (iv) the provision of renewable entrusted loans by the Company to its connected subsidiaries contemplated under the Framework Agreements;
- (ii) to set out the letter of advice relating to the conduct of the purchase of fuel and transportation services and accepting the technical services, engineering contracting services and other services (including the respective caps) contemplated under the Huaneng Group Framework Agreement; the transactions contemplated under the Tiancheng Leasing Framework Agreement and the provision of renewable entrusted loans by the Company to its connected subsidiaries contemplated under the Framework Agreements from Gram Capital to the Independent Board Committee and the Independent Shareholders and the recommendation of the Independent Board Committee as advised by Gram Capital; and

LETTER FROM THE BOARD

- (iii) to seek your approval of the ordinary resolutions in relation to (among others) the proposal regarding the continuing connected transactions (including the respective caps) for 2023 contemplated under the Huaneng Group Framework Agreement, the proposal regarding the discloseable and continuing connected transactions contemplated under the Tiancheng Leasing Framework Agreement, the proposal regarding the adjustment by increasing the cap amount of the continuing connected transactions on loan advancement contemplated under the Supplemental Agreement to Huaneng Finance Framework Agreement and the proposal regarding the provision of renewable entrusted loans by the Company to its connected subsidiaries contemplated under the Framework Agreements, which have been respectively set out in the Notice of the EGM.

Whilst the resolutions set out in the Notice of EGM are not inter-conditional upon each other, Independent Shareholders should note that with respect to the ordinary resolution (being resolution no.2 of the Notice of EGM) regarding the continuing connected transactions for 2023 under Huaneng Group Framework Agreement proposed at the EGM, if they vote in favour of such resolution, they would approve all the continuing connected transactions for 2023 contemplated under the Huaneng Group Framework Agreement (including the purchase fuel and transportation services and accepting the technical services, engineering contracting services and other services). In the event that the resolution proposed at the EGM as regards the continuing connected transactions for 2023 under the Huaneng Group Framework Agreement is not approved by the Independent Shareholders, all continuing connected transactions for 2023 contemplated under the Huaneng Group Framework Agreement would not be carried out by the Company.

II. RELATIONSHIP BETWEEN THE COMPANY, HUANENG GROUP, HUANENG FINANCE, TIANCHEN LEASING, SHANDONG POWER AND CHAOHU POWER

The Company and its subsidiaries mainly develop, construct, operate and manage large-scale power plants in China nationwide. It is one of the largest listed power producers in China, with a controlled generation capacity of 122,573MW.

Huaneng Group is principally engaged in the operation and management of enterprise investments; development, investment, construction, operation and management of power plants; organising the generation and sale of power (and heat); and the development, investment, construction, production and sale of products in relation to energy, transportation, new energy and environmental protection industries.

Huaneng Finance is a company incorporated in the PRC, of which the principal business includes absorbing deposits of the member units, handling loans and financial leasing for the member units, assisting the member units in realizing the receipt and payment of transaction monies, providing guarantee to the member units, handling entrusted loans among the member units, handling bill acceptance and discounting for the member units, engaging in inter-bank borrowings, negotiable securities investment, etc. Huaneng Group holds 52% equity interest in Huaneng Finance. The Company holds 20% equity interest in Huaneng Finance, which in turn holds 0.19% equity interest in the Company. The other equity interests in Huaneng Finance are held by Northern United Power Co., Ltd. (10%), HIPDC (5.58%), Huaneng Capital Services Co., Ltd. (4.42%), Huaneng Lancang Hydropower Co., Ltd. (3.33%), Huaneng Energy Transportation Industry Holdings Co., Ltd. (2%), Xi'an Thermal Research Institute Co., Ltd. (1.67%) and Huaneng New Energy Co., Ltd. (1%). Those entities are ultimately owned/controlled by Huaneng Group.

LETTER FROM THE BOARD

Tiancheng Leasing is a company incorporated in the PRC, of which the principal business is finance lease. Currently, Tiancheng Leasing has six shareholders. Apart from the 20% equity interest which is held by the Company, the remaining 80% equity interests of Tiancheng Leasing is held by the five controlling subsidiaries of Huaneng Group (of which Huaneng Renewables Corporation Limited holds 5.56% interest, Huaneng Renewables (Hong Kong) Company Limited holds 4.44% interest, Huaneng Capital Services Company Limited holds 39% interest, China Huaneng Group Hong Kong Limited holds 21% interest, Huaneng Lancang River Hydropower Co., Ltd. holds 10% interest).

Shandong Company is a controlled subsidiary of the Company, in which the Company holds 80% equity interest, and the remaining 20% equity interest is held by Huaneng Group. Shandong Company is mainly engaged in the development, investment, construction and management of electric power (heat) projects; investment in coal, transportation and related industries; electricity purchase and sale; thermal power technical consulting services.

Chaohu Power is a controlled subsidiary of the Company, in which the Company holds 60% equity interest, Hua Ning HK holds 10% of the equity interest, and Huaihe Energy holds the remaining 30% equity interest. Huaihe Energy is owned by Huainan Mining (Group) Co., Ltd. (89.30%) and China Development Fund Co., Ltd. (10.50%). The de facto controller of Huaihe Energy is the State-owned Assets Supervision and Administration Commission of Anhui Province. Huaihe Energy and its ultimate beneficial owners are persons independent of the Company and its connected persons. Chaohu Power is mainly engaged in the production and supply of electricity; the construction, operation and management of power projects; the development and utilization of clean energy; electricity sales; contract energy management; recycling, processing and sales of waste resources (excluding hazardous waste); construction, operation and management of industrial heating pipe network; purchase and sale of steam, heat and cold; construction, operation and maintenance of power distribution network; production and supply of heat (projects are subject to approval according to law, business activities can only be carried out after approval by relevant departments).

As at the Latest Practicable Date, Huaneng Group holds a 75% direct interest and a 25% indirect interest in HIPDC, while HIPDC, being the direct controlling shareholder of the Company, holds a 32.28% interest in the Company. Huaneng Group is a stated-owned central enterprise with power generation as its main business, which is under the supervision of the State-owned Assets Supervision and Administration Commission of the State Council. Huaneng Group also holds a 9.91% direct interest in the Company and holds a 3.01% indirect interest in the Company through its wholly-owned subsidiary Huaneng HK, a 0.84% indirect interest in the Company through Huaneng Treasury, its indirect wholly-owned subsidiary, and a 0.19% indirect interest in the Company through its controlling subsidiary Huaneng Finance. Huaneng Group is the ultimate controlling shareholder of the Company.

Under Chapter 14A of the Hong Kong Listing Rules, Huaneng Group is a connected person of the Company while the transactions between the Company and Huaneng Group (including its subsidiaries and associates, Huaneng Finance, Tiancheng Leasing, and Shandong Company and Chaohu Power as connected subsidiaries of the Company) constitute connected transactions of the Company, and are subject to the relevant disclosure and/or Independent Shareholders' approval requirements as stipulated in the Hong Kong Listing Rules.

LETTER FROM THE BOARD

III. HUANENG GROUP FRAMEWORK AGREEMENT

The Company entered into the 2022 Huaneng Group Framework Agreement on 3 November 2021 and the Supplemental Agreement to 2022 Huaneng Group Framework Agreement on 18 October 2022 for the purpose of governing the conduct of certain continuing connected transactions between the Company and its subsidiaries and Huaneng Group (and its subsidiaries and associates) in 2022. The relevant agreements will expire on 31 December 2022. In order to continue the relevant transactions, the Company entered into the Huaneng Group Framework Agreement with Huaneng Group on 25 October 2022 for a term commencing on 1 January 2023 and expiring on 31 December 2023.

Pursuant to the Huaneng Group Framework Agreement, the Company and its subsidiaries will conduct the following transactions with Huaneng Group and its subsidiaries and associates on an on-going basis:

(1) Purchase of ancillary equipment and parts

Due to operational needs, the Company and its subsidiaries have to purchase ancillary equipment and parts which include mainly the raw materials and ancillary equipment and other installation and products relevant to the production operation for the infrastructure construction works for power plants. Pursuant to the provisions of the 2022 Huaneng Group Framework Agreement with respect to the purchase of ancillary equipment and parts in 2022 by the Company and its subsidiaries from Huaneng Group and its subsidiaries and associates, the annual cap of such transactions for 2022 was set at RMB2.1 billion. During the period from 1 January 2022 to 30 September 2022, the aggregate transaction amount (unaudited) in respect of the purchase of ancillary equipment and parts by the Company and its subsidiaries from Huaneng Group and its subsidiaries and associates was approximately RMB431 million. It is estimated that by the end of 2022, the actual aggregate transaction amount will not exceed the anticipated transaction amount of 2022. The substantial difference between the estimated transaction amount and the actual transaction amount was primarily due to the fact that adjustments were made to the projected transactions based on the Company's actual business scale and operation as a whole and the changes in market conditions.

For 2023, the aggregate transaction amount with respect to the purchase of ancillary equipment and parts by the Company and its subsidiaries from Huaneng Group and its subsidiaries and associates under the Huaneng Group Framework Agreement is estimated not to exceed RMB2.1 billion. The estimate of such cap is based on the following factors: (i) approximately RMB1.5 billion for procurement of ancillary equipment and plants for use in environmental protection technology transformation projects; and (ii) approximately RMB0.6 billion for procurement of ancillary equipment and plants for use in sludge-coupled power generation projects. The estimate also takes into consideration the overall business scale and operation of the power plants of the Company and its subsidiaries, a reasonable expectation of the Company and its subsidiaries as to the development of the relevant power plants, and also taking into account at the same time the benefit of offering favourable prices on bulk purchases by Huaneng Group and its subsidiaries and associates.

The competitive advantage of Huaneng Group and its subsidiaries and associates in the supply of ancillary equipment and parts is that they are able to offer more favourable prices for bulk purchase of ancillary equipment and parts. Taking into consideration the ability of Huaneng Group

LETTER FROM THE BOARD

and its subsidiaries and associates to offer more favourable prices for ancillary equipment and parts, and owing to their close relationships with the Company and its subsidiaries, Huaneng Group and its subsidiaries and associates are able to provide the Company with the ancillary equipment and parts in a timely and reliable manner, thereby minimising the management and operational costs of the Company.

Pursuant to the Huaneng Group Framework Agreement, the terms and the prices with respect to the purchase of ancillary equipment and parts by the Company and its subsidiaries from Huaneng Group and its subsidiaries and associates are negotiated at arm's length terms, taking into account the types and quantity of ancillary equipment and parts to be purchased according to the Company's procurement policy, details of which are set out in paragraph headed "VIII. MEASURES TO SAFEGUARD THE INTEREST OF THE INDEPENDENT SHAREHOLDERS" to this Circular. In any event at the terms and prices no less favourable than those offered to the Company and its subsidiaries by independent third parties for the same or similar type of ancillary equipment and parts. In addition, the payment of such purchases will be settled in cash in arrears, or in accordance with the payment terms agreed by the relevant parties in the contracts to be entered into pursuant to such framework agreement.

As none of the applicable percentage ratios relating to the scale of the transactions in question calculated in accordance with Rule 14.07 of the Hong Kong Listing Rules exceeds 5%, such transactions are only subject to the reporting and announcement requirements under Rules 14A.71 and 14A.35 of the Hong Kong Listing Rules but are exempt from the Independent Shareholders' approval requirements. In addition, the Company will, with respect to the transactions in question, comply with the requirements under Rules 14A.55 to 14A.59 of the Hong Kong Listing Rules in respect of the annual review of these continuing connected transactions. If the actual aggregate amount of such transactions during the year ending 31 December 2023 exceeds the above cap (i.e. RMB2.1 billion), the Company will further comply with the requirements under Rule 14A.54 of the Hong Kong Listing Rules.

(2) Purchase of fuel and transportation services

The Company's main fuel for power generation is coal. Pursuant to the Huaneng Group Framework Agreement, the Company and its subsidiaries will purchase fuel and coal transportation services from Huaneng Group and its subsidiaries and associates at prices and charges calculated by reference to RMB/ton and the actual weight of carriage, with arm's length terms taking into account the then market conditions, and in any event the terms of the purchases of fuel and the transportation services shall be no less favourable than those offered by independent third parties to the Company and its subsidiaries for the same or similar type of fuel supply or transportation services.

Pursuant to the provisions of the 2022 Huaneng Group Framework Agreement with respect to the purchase of fuel and transportation services in 2022 by the Company and its subsidiaries from Huaneng Group and its subsidiaries and associates, the cap of the aggregate transaction amount for 2022 was RMB120 billion. During the period from 1 January 2022 to 30 September 2022, the aggregate transaction amount (unaudited) for purchase of fuel and transportation services by the Company and its subsidiaries from Huaneng Group and its subsidiaries and associates was approximately RMB65.856 billion. It is estimated that by the end of 2022, the actual aggregate

LETTER FROM THE BOARD

transaction amount will not exceed the anticipated transaction amount of 2022. The substantial difference between the estimated transaction amount and the actual transaction amount was mainly attributable to the fact that the Company's actual operating conditions and market changes have made predictions and adjustments to the transaction; the coal market conditions and transportation market conditions have changed significantly compared with the estimates, resulting in a substantial difference between the estimated amount and the actual amount.

The cap of the transaction amount for purchase of fuel and transportation services by the Company and its subsidiaries from Huaneng Group and its subsidiaries and associates pursuant to the Huaneng Group Framework Agreement in 2023 is estimated to be RMB120.9 billion. The payment of the consideration will be settled in cash in arrears, or in accordance with the payment terms agreed by the relevant parties in the contracts to be entered into pursuant to the framework agreement. The annual cap for 2023 is similar to the existing annual cap for the year ending 31 December 2022. The annual cap for 2023 is set based on the estimated quantity of raw coal to be purchased from Huaneng Group and its subsidiaries and associates and the estimated purchase price of raw coal for 2023, the current overall business scale and operation of the Company and the power plants of its subsidiaries, and the reasonable expectation of those power plants by the Company and its subsidiaries and market trend, and at the same time the capability in offering relatively competitive prices on bulk purchase by scale purchase of fuel and transportation by Huaneng Group and its subsidiaries and associates.

The competitive advantage of Huaneng Group and its subsidiaries and associates in the supply of fuel and transportation services is that they can offer more favourable prices for bulk purchase of fuel and transportation services. Taking into consideration the ability of Huaneng Group and its subsidiaries and associates to offer more favourable prices for purchases of fuel and transportation services, and owing to their close relationships with the Company and its subsidiaries, Huaneng Group and its subsidiaries and associates are able to provide the Company and its subsidiaries with fuel and transportation services in a timely and reliable manner, thereby minimising the management and operational costs of the Company and its subsidiaries.

As the applicable percentage ratios relating to the transaction scale for the purchase of fuel and transportation services by the Company and its subsidiaries from Huaneng Group and its subsidiaries and associates calculated in accordance with Rule 14.07 of the Hong Kong Listing Rules exceed 5%, such transactions shall be subject to the reporting and announcement requirements under Rules 14A.71 and 14A.35 of the Hong Kong Listing Rules and the requirement to obtain approval from the Independent Shareholders. The Company has conducted a detailed survey in respect of its short-term and long-term operational demand for coal and coal transportation services. The Company is of the view that before the convening of the extraordinary general meeting, such transactions will not (and the Company will through its internal control system ensure that such transactions will not) exceed the relevant thresholds that require Independent Shareholders' approval under the Hong Kong Listing Rules.

(3) Leasing of facilities, land and office spaces

For operational needs, the Company and its subsidiaries have to lease facilities, land and office spaces (mainly including power transmission and transformation assets, vessels, land and office spaces for power plants, etc.) from Huaneng Group and its subsidiaries and associates. Pursuant to the

LETTER FROM THE BOARD

provisions of the 2022 Huaneng Group Framework Agreement with respect to the leasing of facilities, land and office spaces in 2022 by the Company and its subsidiaries from Huaneng Group and its subsidiaries and associates, the cap of the relevant transaction amount for 2022 was set at RMB300 million. During the period from 1 January 2022 to 30 September 2022, the aggregate transaction amount (unaudited) which has already been paid by the Company and its subsidiaries to Huaneng Group and its subsidiaries and associates for leasing of facilities, land and office spaces was approximately RMB143 million. It is estimated that by the end of 2022, the actual aggregate transaction amount will not exceed the anticipated transaction amount of 2022.

Pursuant to the Huaneng Group Framework Agreement, the transaction amount with respect to the leasing of facilities, land and office spaces by the Company and its subsidiaries from Huaneng Group and its subsidiaries and associates in 2023 is estimated not to exceed RMB300 million. The estimate of such cap amount is based on the existing overall business scale and operation of the power plants of the Company and its subsidiaries, the anticipated development and growth of such power plants as deemed reasonable by the Company and its subsidiaries, taking into account at the same time the benefit of favourable prices offered by Huaneng Group and its subsidiaries and associates for leasing of facilities, land and office spaces.

In respect of leasing of facilities, land and office spaces, the competitive advantage of Huaneng Group and its subsidiaries and its associates is their ability to offer more favourable prices for leasing of facilities, land and office spaces. Taking into consideration the ability of Huaneng Group and its subsidiaries and associate in offering more favourable prices for leasing of facilities, land and office spaces, and owing to their close relationships with the Company and its subsidiaries, Huaneng Group and its subsidiaries and associates are able to provide the Company with the leased facilities, land and office spaces in a timely and reliable manner, thereby minimising the management and operational costs of the Company and its subsidiaries.

Pursuant to the Huaneng Group Framework Agreement, the terms and the prices with respect to the leasing of facilities, land and office spaces to the Company and its subsidiaries by Huaneng Group and its subsidiaries and associates are negotiated at arm's length terms, taking into account the rent for similar types of properties in the nearby locations (which is publicly available information), and/or consult reputable local real estate agents for benchmarks of assessment; but in any event at the leasing terms and prices no less favourable than those offered to the Company and its subsidiaries by independent third parties for the same or similar types of leased facilities, land and office spaces. In addition, the payment will be settled in cash, or in accordance with the payment terms agreed by the relevant parties in the contracts to be entered into in future pursuant to the framework agreement.

As the term relating to the leasing of facilities, land and office spaces contemplated under Huaneng Group Framework Agreement is 12 months or less, the Company will not recognise right-of-use assets and lease liabilities for such short term lease under IFRS 16 (Leases).

As none of the applicable percentage ratios relating to the scale of the transactions in question calculated in accordance with Rule 14.07 of the Hong Kong Listing Rules exceeds 5%, such transactions are only subject to the reporting and announcement requirements under Rules 14A.71 and 14A.35 of the Hong Kong Listing Rules but are exempt from the Independent Shareholders' approval requirements. In addition, the Company will, with respect to the transactions in question, comply with

LETTER FROM THE BOARD

the requirements under Rule 14A.55 to 14A.59 of the Hong Kong Listing Rules in respect of conducting annual reviews of these continuing connected transactions. If the actual aggregate amount of such transactions during the year ending 31 December 2023 exceeds the above cap (i.e. RMB300 million), the Company will further comply with the requirements under Rule 14A.54 of the Hong Kong Listing Rules.

(4) Accepting the technical services, engineering contracting services and other services

Accepting the technical services, engineering contracting services and other services between the Company and its subsidiaries and Huaneng Group and its subsidiaries and associates mainly includes the provision of fuel management service relevant to power plants, maintenance services for power plants' monitoring systems, real-time consolidation of project data, trial run of generating units, supervision of manufacture of facilities, contracting of construction works in progress and insurance services by Huaneng Group and its subsidiaries and associates to the Company and its subsidiaries. Pursuant to the 2022 Huaneng Group Framework Agreement, the cap for the aggregate transaction amount with respect to the purchase of technical services, engineering contracting services and other services by the Company and its subsidiaries from Huaneng Group and its subsidiaries and associates for 2022 was set at RMB4.2 billion. During the period from 1 January 2022 to 30 September 2022, the aggregate transaction amount (unaudited) between the Company and its subsidiaries and Huaneng Group and its subsidiaries and associates was approximately RMB1.480 billion. It is estimated that by the end of 2022, the actual aggregate transaction amount will not exceed the anticipated transaction amount of 2022. The substantial difference between the estimated transaction amount and the actual transaction amount was primarily due to the fact that adjustments were made to the projected transactions based on the Company's actual business scale and operation as a whole and the changes in market conditions. In addition, the majority amounts of the transaction would normally be recorded in the fourth quarter of the year. Therefore, the Company expects that the difference between the estimated transaction amount and the actual transaction amount will be narrowed toward the end of the year.

Pursuant to the Huaneng Group Framework Agreement and the adjustments made based on the Company's actual overall business scale and operations, the market changes and the expected volume of transactions, the transaction amount with respect to accepting the technical services, engineering contracting services and other services between the Company and its subsidiaries and Huaneng Group and its subsidiaries and associates in 2023 is estimated not to exceed RMB9.5 billion. The estimate of such cap is based on (i) the existing annual cap for 2022 (i.e. RMB4.2 billion) which is largely derived from the estimation of the existing overall business scale and operation of the power plants of the Company and its subsidiaries as well as the anticipated development and growth of such power plants as deemed reasonable by the Company and its subsidiaries, having taken into account the benefit of favourable prices for the purchase of technical services and engineering contracting services and other services offered by Huaneng Group and its subsidiaries and associates; and (ii) expected demand of new energy engineering construction brought about by the green transformation of the Company in 2023.

As mentioned in item (ii) of the preceding paragraph, the Company proposes to continuously carry out green transformation in 2023. The Company actively responds to the dual carbon target and intends to accelerates the green transformation. The Company proposes to significantly increase its

LETTER FROM THE BOARD

investment in new energy project construction. The Company expects to increase by 11GW of new energy installed capacity in 2023. Based on the Company's estimation and the service ability of the related party, the related parties of the Company participating in the bidding of the Company's new energy projects through public bidding and procurement is limited to approximately 10% of the project. Therefore, assuming that Huaneng Group and its subsidiaries and associates are awarded with those projects (i.e. about 10% of the 11GW new energy projects), the corresponding transaction amount of relevant technical services, engineering contracting services and other services is estimated to be RMB4.8 billion.

The competitive advantage of Huaneng Group and its subsidiaries and associates in terms of providing technical services, engineering contracting services and other services is that they can offer more favourable prices to the Company and its subsidiaries. Taking into consideration the ability of Huaneng Group and its subsidiaries and associates to offer more favourable prices for technical services, engineering contracting services and other services, and owing to their close relationships with the Company and its subsidiaries, Huaneng Group and its subsidiaries and associates are able to provide the Company and its subsidiaries with the technical services, engineering contracting services and other services in a timely and reliable manner, thereby minimising the management and operational costs of the Company and its subsidiaries. In addition, some of the subsidiaries and associates of Huaneng Group focus on researching information technology and national new energy power generation technology, as well as equipment of thermal energy in power plants, therefore can provide reliable and efficient services of information technology and project contracting, and can also provide advanced and comprehensive power station-specific technical services and project contracting services, which can lower the operational costs of the Company and its subsidiaries.

Pursuant to the Huaneng Group Framework Agreement, the terms and the prices of transactions with respect to technical services, engineering contracting services and other services between the Company and its subsidiaries from Huaneng Group and its subsidiaries and associates are negotiated at arm's length terms, taking into account the types of energy transactions, technical indicators and engineering related raw materials required for each of the contracts according to the Company's procurement rules, details of which are set out in paragraph headed "VIII. MEASURES TO SAFEGUARD THE INTEREST OF THE INDEPENDENT SHAREHOLDERS" to this Circular. In any event at the terms and prices no less favourable than those offered to the Company and its subsidiaries by independent third parties for the same or similar types of technical services, engineering contracting services and other services. In addition, the payment of consideration will be settled in cash in arrears, or in accordance with the payment terms agreed by the relevant parties in the contracts to be entered into pursuant to the framework agreement.

As the applicable percentage ratios relating to the transaction scale for accepting the technical services, engineering contracting services and other services by the Company and its subsidiaries from Huaneng Group and its subsidiaries and associates calculated in accordance with Rule 14.07 of the Hong Kong Listing Rules exceed 5%, such transactions shall be subject to the reporting and announcement requirements under Rules 14A.71 and 14A.35 of the Hong Kong Listing Rules and the requirement to obtain approval from the Independent Shareholders. The Company has conducted a detailed survey in respect of its short-term and long-term operational demand for the technical services, engineering contracting services and other services. The Company is of the view that before

LETTER FROM THE BOARD

the convening of the extraordinary general meeting, such transactions will not (and the Company will through its internal control system ensure that such transactions will not) exceed the relevant thresholds that require Independent Shareholders' approval under the Hong Kong Listing Rules.

(5) Provision of entrusted sale and related services to Huaneng Group and its subsidiaries and associates

The provision of entrusted sale of electricity and related services by the Company and its subsidiaries to Huaneng Group and its subsidiaries and associates involves mainly the use of power generation quota of the Company and its subsidiaries for substituted power generation by Huaneng Group and its subsidiaries and associates which will pay to the Company and its subsidiaries the fees for use of the power generation quota. The transaction prices of substituted power generation are to be settled in two ways: (1) after using the power generation quota of the Company and its subsidiaries to generate electricity by Huaneng Group and its subsidiaries and associates, Huaneng Group and its subsidiaries and associates will settle the transaction prices with the power grid company(ies) first, and then pay the fees for the use of the quota to the Company and its subsidiaries; (2) after using the power generation quota of the Company and its subsidiaries by Huaneng Group and its subsidiaries and associates to generate electricity, the Company and its subsidiaries will settle the transaction prices with the power grid company(ies) first and then pay to Huaneng Group and its subsidiaries and associates the amount of the power revenue after deducting the fees for the use of the quota. In addition, the Company and its subsidiaries sell electricity to Huaneng Group and its subsidiaries and associates, and entrust Huaneng Group and its subsidiaries and associates to sell electricity to users in the market, the Company and its subsidiaries shall pay the corresponding service fees. During the period from 1 January 2022 to 30 September 2022, the aggregate transaction amount for the provision of entrusted sale and related services from Huaneng Group and its subsidiaries and associates to the Company and its subsidiaries was RMB0.

Pursuant to the Huaneng Group Framework Agreement, the transaction amount with respect to such entrusted sale and related services between the Company and its subsidiaries and Huaneng Group and its subsidiaries and associates for 2023 is estimated to be RMB400 million. Such cap is set based on the factors such as overall business scale of the transaction parties in 2023, the quota for transfer of power generation, transaction rules, transaction volume, transaction prices, service fees, etc. and the reasonable expectation of the transactions by the Company and its subsidiaries.

In order to resolutely implement the State's power system reform, energy conservation and emission reduction strategy, and to save cost and improve efficiency, the Company and its subsidiaries will carry out substituted power generation transactions, power transactions, paid services and other businesses in areas where the Company and its subsidiaries are located. The counterparty(ies) of the transaction include connected or non-connected party(ies). On aspect of substituted power generation, power transactions, paid services, etc., the advantage of Huaneng Group and its subsidiaries and associates is that they have a relatively better co-operation relationship with the Company and its subsidiaries.

Pursuant to the Huaneng Group Framework Agreement, the terms and prices with respect to the provision of aforesaid entrusted sale and related services from Huaneng Group and its subsidiaries and associates to the Company and its subsidiaries are to be negotiated at arm's length terms based on

LETTER FROM THE BOARD

market-based principles or the market listed prices, but in any event at the terms and prices no less favourable than those offered to the Company and its subsidiaries by an independent third party for the same or similar type of services. In addition, the relevant price shall be paid in cash after the performance of the contract, or according to the terms agreed in the contract signed by the relevant parties in accordance with the framework agreement in the future.

As none of the applicable percentage ratios relating to the scale of the transactions in question calculated in accordance with Rule 14.07 of the Hong Kong Listing Rules exceeds 5%, such transactions are only subject to the reporting and announcement requirements under Rules 14A.71 and 14A.35 of the Hong Kong Listing Rules but are exempt from the Independent Shareholders' approval requirements. In addition, the Company will, with respect to the transactions in question, comply with the requirements under Rule 14A.55 to 14A.59 of the Hong Kong Listing Rules in respect of the annual review of these continuing connected transactions. If the actual aggregate amount of such transactions during the year ending 31 December 2023 exceeds the above cap (i.e. RMB400 million), the Company will further comply with the requirements under Rule 14A.54 of the Hong Kong Listing Rules.

(6) Accept the provision of entrusted sale and related services from Huaneng Group and its subsidiaries and associates

The acceptance of the provision of entrusted sale and related services from Huaneng Group and its subsidiaries and associates by the Company and its subsidiaries involves mainly the use of power generation quota of Huaneng Group and its subsidiaries and associates for substituted power generation, and to pay to Huaneng Group and its subsidiaries and associates the fees for use of the power generation quota. The transaction prices of substituted power generation are to be settled in two ways: (1) after using the power generation quota of Huaneng Group and its subsidiaries and associates to generate electricity, the Company and its subsidiaries will settle the transaction prices with the power grid company(ies) first, and then pay the difference in the use of the quota to Huaneng Group and its subsidiaries and associates; (2) after using the power generation quota of Huaneng Group and its subsidiaries and associates by the Company and its subsidiaries to generate electricity, Huaneng Group and its subsidiaries and associates will settle the transaction prices with the power grid company(ies) first and then to pay to the Company and its subsidiaries the amount of the power revenue after deducting the fee for the quota of Huaneng Group and its subsidiaries and associates. In addition, the Company and its subsidiaries purchase electricity from Huaneng Group and its subsidiaries and associates, and accept the entrustment of Huaneng Group and its subsidiaries and associates to sell electricity to users in the market, the Company and its subsidiaries shall charge the corresponding service fees. Pursuant to the 2022 Huaneng Group Framework Agreement with respect to the acceptance of the provision of entrusted sale and related services from Huaneng Group and its subsidiaries and associates by the Company and its subsidiaries, the cap of the aggregate transaction amount for 2022 was set at RMB400 million. During the period from 1 January 2022 to 30 September 2022, the aggregate transaction amount for the provision of entrusted sale and related services from Huaneng Group and its subsidiaries and associates to the Company and its subsidiaries was RMB0. It is estimated that by end of 2022, the aggregate of the actual transaction amount will not exceed the anticipated transaction amount in 2022.

LETTER FROM THE BOARD

Pursuant to the Huaneng Group Framework Agreement, the transaction amount with respect to the acceptance of the entrustment of the sale and related services between the Company and its subsidiaries and Huaneng Group and its subsidiaries and associates for 2023 is estimated to be RMB300 million. Such cap is set based on the factors such as overall business scale of the transaction parties in 2023, the quota for transfer of power generation, transaction rules, transaction volume, transaction prices, service fees, etc. and the reasonable expectation of the transactions by the Company and its subsidiaries.

In order to resolutely implement the State's power system reform, energy conservation and emission reduction strategy, and to save cost and improve efficiency, the Company and its subsidiaries will carry out substituted power generation transactions, power transactions, paid services and other businesses in areas where the Company and its subsidiaries are located. The counterparty(ies) of the transaction include connected or non-connected party(ies). On aspect of substituted power generation, power transactions, paid services, etc., the advantage of Huaneng Group and its subsidiaries and associates is that they have a relatively better co-operation relationship with the Company and its subsidiaries.

Pursuant to the Huaneng Group Framework Agreement, the terms and prices with respect to the provision of aforesaid entrusted sale and related services from Huaneng Group and its subsidiaries and associates to the Company and its subsidiaries are to be negotiated at arm's length terms based on market-based principles or the market listed prices, but in any event at the terms and prices no less favourable than those offered to the Company and its subsidiaries by independent third parties for the same or similar type of services. In addition, the relevant price shall be paid in cash after the performance of the contract, or according to the terms agreed in the contract signed by the relevant parties in accordance with the framework agreement in the future.

As none of the applicable percentage ratios relating to the scale of the transactions in question calculated in accordance with Rule 14.07 of the Hong Kong Listing Rules exceeds 5%, such transactions are only subject to the reporting and announcement requirements under Rules 14A.71 and 14A.35 of the Hong Kong Listing Rules but are exempt from the Independent Shareholders' approval requirements. In addition, the Company will, with respect to the transactions in question, comply with the requirements under Rule 14A.55 to 14A.59 of the Hong Kong Listing Rules in respect of the annual review of these continuing connected transactions. If the actual aggregate amount of such transactions during the year ending 31 December 2023 exceeds the above cap (i.e. RMB300 million), the Company will further comply with the requirements under Rule 14A.54 of the Hong Kong Listing Rules.

(7) Sale of products and related services

To be more cost-efficient in management, the Company's subsidiary(ies) will sell products and related services (mainly coal, transportation and port services) to Huaneng Group and its subsidiaries and associates. The prices and charges of coal will be calculated by reference to RMB/ton and the actual weight of carriage, with arm's length terms taking into account the then market conditions, and in any event the terms of the purchases of coal and other related products shall be no less favourable than those offered by independent third parties to the Company for the same or similar type of coal supply and other related products. Pursuant to the 2022 Huaneng Group Framework Agreement, the

LETTER FROM THE BOARD

cap of the aggregate transaction amount with respect to the sale of products and related services by the Company and its subsidiaries to Huaneng Group and its subsidiaries and associates for 2022 was set at RMB500 million. During the period from 1 January 2022 to 30 September 2022, the aggregate transaction amount (unaudited) for the sale of products and related services by the Company and its subsidiaries and related services to Huaneng Group and its subsidiaries and associates was RMB8 million (unaudited). It is estimated that by end of 2022, the aggregate of the actual transaction amount will not exceed the anticipated transaction amount in 2022.

Pursuant to the Huaneng Group Framework Agreement, the transaction amount with respect to the sale of products and related between the Company and Huaneng Group and its subsidiaries and associates for 2023 is estimated to be RMB800 million. The payment of the consideration will be settled in cash in arrears, or in accordance with the payment terms to be agreed by the relevant parties pursuant to the Huaneng Group Framework Agreement. The estimate of cap amount is based on the following factors: (i) in the past two years, the supply and demand of coal market has been tight. To ensure the safe and stable supply of coal and for internal coordination and support, a budget of RMB500 million has been allocated for sale of approximately 600,000 tons of coal in 2023; and (ii) the year-on-year increase in the transaction amount of RMB300 million due to the addition of three new ports of the Company to provide capacity and port services to Huaneng Group and its subsidiaries and associates. The estimate also takes into account the demand of coal and transportation and relevant products of the power plants of Huaneng Group and its subsidiaries and associates in 2023 and more favorable pricing by way of bulk purchase. In order to leverage the advantage of scale procurement, the Company may increase the purchase volume of coal and will not rule out the possibility of re-selling the excess portion to the power plants of Huaneng Group and its subsidiaries and associates.

As none of the applicable percentage ratios relating to the scale of the transactions in question calculated in accordance with Rule 14.07 of the Hong Kong Listing Rules exceeds 5%, such transactions are only subject to the reporting and announcement requirements under Rules 14A.71 and 14A.35 of the Hong Kong Listing Rules but are exempt from the Independent Shareholders' approval requirements. In addition, the Company will, with respect to the transactions in question, comply with the requirements under Rule 14A.55 to 14A.59 of the Hong Kong Listing Rules in respect of the annual review of these continuing connected transactions. If the actual aggregate amount of such transactions during the year ending 31 December 2023 exceeds the above cap (i.e. RMB800 million), the Company will further comply with the requirements under Rule 14A.54 of the Hong Kong Listing Rules.

(8) Purchase of heat products and related services

The purchase of heat products and related services by the Company and its subsidiaries from Huaneng Group and its subsidiaries and associates includes the purchase of industrial steam, hot water and other thermal products produced by power plants and heating enterprises, and the entrustment to Huaneng Group and its subsidiaries and associates to sell industrial steam, hot water and other thermal products, and pay the corresponding service fees to counterparties. During the period from 1 January 2022 to 30 September 2022, the transaction amount in respect of this category by the Company and its subsidiaries to Huaneng Group and its subsidiaries and associates was RMB0.

LETTER FROM THE BOARD

Pursuant to the Huaneng Group Framework Agreement, the transaction amount with respect to the purchase of heat and related services by the Company and its subsidiaries from Huaneng Group and its subsidiaries and associates in 2023 is estimated to be RMB200 million. The 2022 Huaneng Group Framework Agreement did not provide for such transaction for 2022. The cap of the transaction amount is based on the expected need for heat products and related services by the Company and its subsidiaries for 2023, the overall business scale and operation of the Company and its subsidiaries in 2023, as well as the reasonable expectations of the Company and its subsidiaries for the development of the transaction, and considering at the same time that Huaneng Group and its subsidiaries and associates can reduce the management and operating costs of the Company and its subsidiaries, thereby improving the Company's operating results.

As none of the applicable percentage ratios relating to the scale of the transactions in question calculated in accordance with Rule 14.07 of the Hong Kong Listing Rules exceed 5%, such transactions are only subject to the reporting and announcement requirements under Rules 14A.71 and 14A.35 of the Hong Kong Listing Rules but are exempt from the Independent Shareholders' approval requirements. In addition, the Company will, with respect to the transactions in question, comply with the requirements under Rule 14A.55 to 14A.59 of the Hong Kong Listing Rules in respect of the annual review of these continuing connected transactions. If the actual aggregate amount of such transactions during the year ending 31 December 2023 exceeds the above cap (i.e. RMB200 million), the Company will further comply with the requirements under Rule 14A.54 of the Hong Kong Listing Rules.

(9) Sale of heat products and related services

The Company and its subsidiaries sell heat products and related services to Huaneng Group and its subsidiaries and associates, mainly includes the sales of industrial steam, hot water and other thermal products by the Company's power plants and heating enterprise, and the acceptance of the entrustment by Huaneng Group and its subsidiaries and associates to sell industrial steam, hot water and other thermal products on their behalf, and charge counterparties for the service fees.

Pursuant to the provisions of the 2022 Huaneng Group Framework Agreement with respect to the sale of heat products and related services by the Company and its subsidiaries to Huaneng Group and its subsidiaries and associates, the cap of the aggregate transaction amount for 2022 was set at RMB300 million. During the period from 1 January 2022 to 30 September 2022, the transaction amount (unaudited) in respect of this category by the Company and its subsidiaries to Huaneng Group and its subsidiaries and associates was RMB6 million. In response to the national supply guarantee policy, the Company and its subsidiaries only sold a small amount of heat products and related services to Huaneng Group and its subsidiaries and associates in 2022. It is estimated that by the end of 2022, the actual aggregate transaction amount will not exceed the anticipated transaction amount for 2022.

According to the Huaneng Group Framework Agreement, the transaction amount with respect to the sale of heat and related services by the Company and its subsidiaries to Huaneng Group and its subsidiaries and associates in 2023 is estimated to be RMB400 million. The cap of the transaction amount is primarily based on the following factors: (i) Huaneng Group and its subsidiaries and associates have established regional energy sales companies in some provinces and regions to provide

LETTER FROM THE BOARD

heat products and related services to retail users. The estimate is based on the expected volume of purchase of such products and services by Huaneng Group and its subsidiaries and associates from the Company and its subsidiaries; and (ii) the expected year-on-year increase of the sale of heat products and related services by approximately 30% based on the estimated cap of 2022. The cap also takes into consideration the overall business scale and operation of the Company and its subsidiaries in 2023, as well as the reasonable expectations of the Company and its subsidiaries for the development of the transaction, and considering at the same time that the long term close cooperation between the Company and Huaneng Group and its subsidiaries and associates can secure the sale business of the Company.

As none of the applicable percentage ratios relating to the scale of the transactions in question calculated in accordance with Rule 14.07 of the Hong Kong Listing Rules exceed 5%, such transactions are only subject to the reporting and announcement requirements under Rules 14A.71 and 14A.35 of the Hong Kong Listing Rules but are exempt from the Independent Shareholders' approval requirements. In addition, the Company will, with respect to the transactions in question, comply with the requirements under Rule 14A.55 to 14A.59 of the Hong Kong Listing Rules in respect of the annual review of these continuing connected transactions. If the actual aggregate amount of such transactions during the year ending 31 December 2023 exceeds the above cap (i.e. RMB400 million), the Company will further comply with the requirements under Rule 14A.54 of the Hong Kong Listing Rules.

(10) Purchase of carbon emission reduction resources and related services

The purchase of carbon emission reduction resources and related services by the Company and its subsidiaries includes carbon allowances, State-Certified Voluntary Emission Reduction (CCER), green certificates and carbon emission reduction related services from Huaneng Group and its subsidiaries and associates.

Pursuant to the 2022 Huaneng Group Framework Agreement and the Supplemental Agreement to the 2022 Huaneng Group Framework Agreement regarding the purchase of carbon emission reduction resources and related services by the Company and its subsidiaries from Huaneng Group and its subsidiaries and associates in 2022, the annual cap of the relevant transaction amount in 2022 is RMB500 million. During the period from 1 January 2022 to 30 September 2022, the aggregate transaction amount for the purchase of carbon emission reduction resources and related services from Huaneng Group and its subsidiaries and associates by the Company and its subsidiaries was RMB0. It is estimated that by end of 2022, the aggregate of the actual transaction amount will not exceed the anticipated transaction amount in 2022.

Considering that Huaneng Group and its subsidiaries and related parties can reduce the management and operating costs of the Company and its subsidiaries, thereby improving the Company's operating results, the Company and its subsidiaries is estimated to purchase carbon emission reduction resources and related services from Huaneng Group and its subsidiaries and associates in 2023. Shortage or sufficiency of carbon emission reduction resources will depend on the needs of the Company's subsidiaries and the areas in which the subsidiaries have operation. Based on the shortage of carbon emission reduction resources of the Company's subsidiaries and the trend of

LETTER FROM THE BOARD

the publicly listed prices for carbon emission allowances in the national market in 2023, the cap of the transaction amount is estimated to be RMB900 million in 2023 on principles of maximizing the interest of the Company.

The Company has taken into consideration the following in determining the transaction amount for 2023: (i) in November 2022, the Ministry of Ecology and Environment of the PRC issued the “Setting and Allocation of the National Carbon Emissions Trading Allowance Implementation Plan (Power Generation Industry) for 2021 and 2022”, which, when compared with the plan for the previous compliance period (for the years 2019 and 2020), the number of carbon allowances issued has been significantly tightened, and the demand for purchasing carbon allowances is expected to increase. According to the requirements of the said plan, the Company will need to complete the 2021 and 2022 carbon emission compliance by the end of 2023; and (ii) the Company’s subordinate regional companies and power plants will according to the demand for carbon allowances and the publicly listed price trend of carbon emission allowances in the national carbon market purchase the carbon emission reduction resources and related services from Huaneng Group and its subsidiaries and associates.

As none of the applicable percentage ratios relating to the scale of the transactions in question calculated in accordance with Rule 14.07 of the Hong Kong Listing Rules exceed 5%, such transactions are only subject to the reporting and announcement requirements under Rules 14A.71 and 14A.35 of the Hong Kong Listing Rules but are exempt from the Independent Shareholders’ approval requirements. In addition, the Company will, with respect to the transactions in question, comply with the requirements under Rule 14A.55 to 14A.59 of the Hong Kong Listing Rules in respect of the annual review of these continuing connected transactions. If the actual aggregate amount of such transactions during the year ending 31 December 2023 exceeds the above cap (i.e. RMB900 million), the Company will further comply with the requirements under Rule 14A.54 of the Hong Kong Listing Rules.

(11) Sale of carbon emission reduction resources and related services

The sale of carbon emission reduction resources and related services by the Company and its subsidiaries includes the sale of carbon allowances, State-Certified Voluntary Emission Reduction (CCER), green certificates and carbon emission reduction related services to Huaneng Group and its subsidiaries and associates.

Pursuant to the 2022 Huaneng Group Framework Agreement and the Supplemental Agreement to the 2022 Huaneng Group Framework Agreement regarding the sale of carbon emission reduction resources and related services by the Company and its subsidiaries to Huaneng Group and its subsidiaries and associates in 2022, the annual cap of the relevant transaction amount in 2022 is RMB500 million. During the period from 1 January 2022 to 30 September 2022, the aggregate transaction amount for the sale of carbon emission reduction resources and related services to Huaneng Group and its subsidiaries and associates by the Company and its subsidiaries was RMB0. It is estimated that by end of 2022, the aggregate of the actual transaction amount will not exceed the anticipated transaction amount in 2022.

LETTER FROM THE BOARD

Considering that the long term close cooperation between the Company and Huaneng Group and its subsidiaries can secure the sale business of the Company, the Company and its subsidiaries intend to sell carbon emission reduction resources and related services to Huaneng Group and its subsidiaries and associates in 2023. The shortage or sufficiency of carbon emission reduction resources will depend on the needs of the Company's subsidiaries and the areas in which the subsidiaries operate. Based on the sufficiency of carbon emission reduction resources of the Company's subsidiaries and the trend of the publicly listed prices for carbon emission allowances in the national market in 2023, the cap of the transaction amount is estimated to be RMB500 million in 2023 on principles of maximizing the interest of the Company.

As none of the applicable percentage ratios relating to the scale of the transactions in question calculated in accordance with Rule 14.07 of the Hong Kong Listing Rules exceed 5%, such transactions are only subject to the reporting and announcement requirements under Rules 14A.71 and 14A.35 of the Hong Kong Listing Rules but are exempt from the Independent Shareholders' approval requirements. In addition, the Company will, with respect to the transactions in question, comply with the requirements under Rule 14A.55 to 14A.59 of the Hong Kong Listing Rules in respect of the annual review of these continuing connected transactions. If the actual aggregate amount of such transactions during the year ending 31 December 2023 exceeds the above cap (i.e. RMB500 million), the Company will further comply with the requirements under Rule 14A.54 of the Hong Kong Listing Rules.

(12) Borrowing trust loans and accepting loans

Borrowing trust loans is direct borrowing of trust loans by the Company and its subsidiaries from Huaneng Group and its subsidiaries and associates without the involvement of any agent bank as an intermediary, whereas accepting loans is primarily organized between Company and its subsidiaries and Huaneng Group and its subsidiaries and associates with a trustee or agent bank acting as an intermediary (entrusted loan), or through the mode of direct transaction. The Huaneng Group Framework Agreement has also included (i) borrowing of trust loans by the Company and its subsidiaries from Huaneng Group and its subsidiaries and associates; and (ii) the provision of loans from Huaneng Group and its subsidiaries and associates to the Company and its subsidiaries. For reasons as set out in the paragraph below, the trust loans and the loans under the Huaneng Group Framework Agreement are exempted the reporting, announcement and Independent Shareholders' requirements under the Hong Kong Listing Rules. The setting of the cap of the transaction amount (i.e. interest arising from borrowing of the relevant trust loans) of the trust loans to be borrowed and the transaction amount (i.e. the amount of the loans accepted) of the loans received is to comply with the disclosure requirements under the SSE Listing Rules. The cap of the amount of interest arising from the transactions (i.e. interest arising from borrowing of the relevant trust loans) of the trust loans borrowed for 2023 is expected to be RMB800 million and the transaction amount (i.e. the amount of the loans accepted) of the loans received for 2023 is expected to be RMB20 billion or its equivalent in foreign currency (maximum daily balance of the loan).

Given that the trust loans and loans are obtained by the Company and its subsidiaries from or through Huaneng Group and its subsidiaries and associates on normal commercial terms which are comparable to or more favourable than those available from independent third parties for similar services in the PRC and that no security is granted over the assets of the Company and its subsidiaries

LETTER FROM THE BOARD

in respect of such services, the trust loans and loans contemplated under the Huaneng Group Framework Agreement are exempted from all the reporting, announcement and Independent Shareholders' approval requirements pursuant to Rule 14A.90 (which relates to financial assistance) of the Hong Kong Listing Rules. The Company therefore only makes disclosure in light of the Company's announcement disclosed on the Shanghai Stock Exchange.

IV. SUPPLEMENTAL AGREEMENT TO HUANENG FINANCE FRAMEWORK AGREEMENT

The Company entered into a framework agreement with Huaneng Finance on 26 October 2021 for the purpose of governing the conduct of the continuing connected transactions between the Company and Huaneng Finance from 2022 to 2024 (the “**2022-2024 Huaneng Finance Framework Agreement**”). Pursuant to the 2022-2024 Huaneng Finance Framework Agreement, the maximum loan outstanding balance (on daily basis) for each of 2022, 2023 and 2024 will be RMB\$23 billion (or its equivalent in foreign currency). According to the information currently available, the loan outstanding balance (on daily basis) is close to reach the maximum limit. As Huaneng Finance can provide preferential loan support in terms of energy supply and clean energy project construction, and taking into account the Company's business development needs, the Company proposes to adjust by increasing the loan advancement cap with Huaneng Finance. On 25 October 2022, the Company entered into the Supplemental Agreement to Huaneng Finance Framework Agreement with Huaneng Finance. During the period from 1 January 2023 to 31 December 2024, the maximum loan outstanding balance (on daily basis) of the Company and its subsidiaries from Huaneng Finance shall be increased from RMB23 billion (or its equivalent in foreign currency) to RMB33 billion (or its equivalent in foreign currency). For the years ended 31 December 2020 and 31 December 2021 and for the period from 1 January 2022 to 30 September 2022, the maximum loan outstanding balance (on daily basis) was RMB15.459 billion, RMB15.920 billion and RMB22.990 billion, respectively. The revised maximum loan outstanding balance (on daily basis) from 1 January 2023 to 31 December 2024 was determined based on the historical amount and the projected need for future project development of the Company and its subsidiaries. Except for the newly agreed matters in the Supplemental Agreement to Huaneng Finance Framework Agreement, other terms under the Huaneng Finance Framework Agreement shall remain unchanged.

Under the Huaneng Finance Framework Agreement and the Supplemental Agreement to Huaneng Finance Framework Agreement, when the Company and its subsidiaries conduct loan advancement with Huaneng Finance, the conditions provided by Huaneng Finance to the Company and its subsidiaries shall be on normal commercial terms and shall not be less favourable than those obtained by the Company and its subsidiaries from independent third parties, and Huaneng Finance shall provide loans to the Company and its subsidiaries in accordance with such conditions. Huaneng Finance shall provide relevant loans to the Company and its subsidiaries in a timely manner in accordance with the pricing principles stipulated in the Huaneng Finance Framework Agreement and the Supplemental Agreement to Huaneng Finance Framework Agreement, necessary written agreements shall be signed by both parties regarding the loan business and provisions of applicable laws.

The Company and its subsidiaries will enter into necessary written agreement(s) with Huaneng Finance for specific transactions within the scope determined by the Huaneng Finance Framework Agreement and the Supplemental Agreement to Huaneng Finance Framework Agreement according to the actual situation, and will follow the specific agreement(s) stipulated in the agreement(s) to make payment and/or receive relevant price/fee/interest (the “**Implementation Agreement(s)**”). Each Implementation

LETTER FROM THE BOARD

Agreement will specify the specifics of the transaction. The Implementation Agreement is stipulated in accordance with the services to be provided under the Huaneng Finance Framework Agreement and the Supplemental Agreement to Huaneng Finance Framework Agreement and therefore does not constitute a new category of connected transactions. Any such Implementation Agreement(s) will not exceed the scope of the Huaneng Finance Framework Agreement and the Supplemental Agreement to Huaneng Finance Framework Agreement and the relevant caps.

The arrangements under the Supplemental Agreement to Huaneng Finance Framework Agreement are non-exclusive, and both parties to the agreement have the right to independently choose the counterparty for the relevant transaction(s).

With respect to loan advancement, given that the loan advancement services provided by Huaneng Finance are for the benefit of the Company and on normal commercial terms that are comparable to or more favourable than those offered by independent third parties for similar services in the PRC and that no security is granted over the assets of the Company in respect of such services, the transactions for loan advancement services contemplated under the Supplemental Agreement to Huaneng Finance Framework Agreement are exempt from all the reporting, announcement and Independent Shareholders' approval requirements pursuant to Rule 14A.90 of the Hong Kong Listing Rules.

V. TIANCHENG LEASING FRAMEWORK AGREEMENT

On 1 November 2019, the Company entered into the leasing framework agreement ("**2020-2022 Tiancheng Leasing Framework Agreement**"), effective for a term commencing on 1 January 2020 and expiring on 31 December 2022.

On 25 October 2022, the Company entered into the Tiancheng Leasing Framework Agreement with Tiancheng Leasing for the purpose of governing the conduct of continuing connected transactions between the Company and Tiancheng Leasing from 2023 to 2025. Tiancheng Leasing Framework Agreement shall be effective from 1 January 2023 to 31 December 2025.

Under the 2020-2022 Tiancheng Leasing Framework Agreement, the estimated Lease Principal (the maximum daily balances of the Lease Principal each year) of the Company and its subsidiaries and Tiancheng Leasing from 2020 to 2022 is RMB10 billion, and the annual amount of the Lease Interest is RMB490 million.

For the period from 1 January 2022 to 30 September 2022, the maximum daily balances of the Lease Principal between the Company and its subsidiaries and Tiancheng Leasing was RMB2.126 billion (unaudited), and the Lease Interest was RMB117 million (unaudited).

Under the Tiancheng Leasing Framework Agreement, Tiancheng Leasing mainly provides financial leasing services to the Company and its subsidiaries. The estimated amount of connected transactions between the Company and its subsidiaries and Tiancheng Leasing from 2023 to 2025 (the maximum daily balances of the Lease Principal) is RMB10 billion per year, and the annual amount of the Lease Interest (including interest expenses and handling fees) is RMB490 million. The annual transaction amount is

LETTER FROM THE BOARD

estimated based on the investment needs of the Company in the power sector represented by new energy in the coming years, as well as the investment and financing needs in the fields of technological transformation such as ultra-low emission technical transformation of coal-fired power units.

Direct Lease(s) and Sales and Leaseback

The finance lease services provided by Tiancheng Leasing include the direct lease (the “**Direct Lease(s)**”) and sale-and-leaseback (the “**Sales and Leaseback**”). They are all classified as finance leases and normally possess similar attributes as follows:

- (i) In relation to Direct Lease, the lessor (being Tiancheng Lease), based on the choice of the lessee (being the Company or its subsidiaries), acquires the leased property for the direct purpose of leasing it out to the lessee. The lessor owns the title to the leased property. The lessee, pursuant to the relevant agreement(s), shall pay the rent (inclusive of interest) to the lessor during the lease term. At the expiry of the lease term, the lessee is given an option to purchase, or to renew or terminate the lease of, the leased property. In relation to Sales and Leaseback, the lessor (being Tiancheng Leasing), based on the choice of the lessee (being the Company or its subsidiaries), acquires from the lessee the leased property and then leases it back to the lessee. The lessee, pursuant to the relevant agreement(s), shall pay the rent and interests to the lessor during the lease term. At the expiry of the lease term, the lessee is given an option to purchase, or to renew or terminate the lease of, the leased property;
- (ii) The amount of the lease rent will be determined by reference to the total purchase price of the relevant equipment and the interest agreed by the parties. The interest rate shall be based upon the term loan benchmark rate published by the PBOC from time to time and negotiated and agreed by the parties on arm’s length basis taking into account the market conditions, and shall be no less favourable than those offered to the Company by domestic independent third parties for the provision of similar services. Handling fee (if any) may be charged by Tiancheng Leasing from the Company and its subsidiaries at the time of conclusion of the finance leases under the Tiancheng Leasing Framework Agreement on terms no less favourable than those offered to the Company and its subsidiaries by independent third parties and at such rate as fixed by reference to the charge rates of other major financial institutions in the PRC for finance leases of assets of the same or similar type or the applicable rate (if any) published by the PBOC from time to time in relation to such services and as set forth in the relevant written agreements. The lease interest rate will be decided at the commencement of each finance lease executed pursuant to the Tiancheng Leasing Framework Agreement. In the event the PBOC adjusts the annual benchmark rate for RMB-denominated term loans during the term of relevant finance lease, the lease interest rate will be adjusted accordingly. The transaction amounts shall be paid at the end of each quarter or year or at such other intervals as agreed by the parties;
- (iii) As to each financial leasing transaction, the Company and Tiancheng Leasing shall enter into separate financial lease(s) pursuant to the terms of the Tiancheng Leasing Framework Agreement so as to give effect to the same;

LETTER FROM THE BOARD

- (iv) During the lease term, the title of the leased equipment shall remain vested in Tiancheng Leasing whilst the Company enjoys the usage right of such equipment. Upon the expiry of the lease term, subject to the Company's fulfilment of its obligations under the relevant finance lease(s) and at the Company's option, the title of such leased equipment will be transferred to the Company at a nominal consideration; and
- (v) The lease term will be determined by, amongst others, the useful life of the relevant leased equipment, the financial needs of the Company and the funding availability of Tiancheng Leasing, which in general should not exceed the useful life of such leased equipment. The lease term of relevant financial lease(s) may exceed three years.

Reasons for and benefits of entering into the Tiancheng Leasing Framework Agreement

Launching routine connected transactions of finance lease will help the Company to broaden its financing channels, raise low-cost funds and control financing risks and financing costs, thus facilitating the business development and smooth operations of the Company. Under the current circumstances, finance leases, in particular Direct Lease(s), will help reduce the cash costs of purchasing necessary equipment for the Company and its subsidiaries, thereby increasing financial resources for other business development activities.

The processing time for approval of one-off connected transactions is relatively long and it is difficult to meet the needs of commencing direct lease business. After replacing the business tax with value-added tax, the financial leasing form of Tiancheng Leasing is changed from sale and leaseback to direct lease. The direct lease business will be launched at the time of procurement of new equipment for the main businesses, so payments should be made at a pace matching with the relevant provisions of the main business equipment procurement contracts, so that services will be more flexible and convenient. On the other hand, flexible and convenient services have relatively high requirements on business examination and approval effectiveness. Tiancheng Leasing is required to maintain a smooth channel for connected transactions with the Company, such that its launch of the relevant products could be tuned with the exact timing for financing as required by the Company and its subsidiaries.

Tiancheng Leasing relies on the strong industry background of Huaneng Group, and is a professional leasing company specialising in renewables and environmental protection. The terms offered to the Company and its subsidiaries by Tiancheng Leasing are offered on normal commercial terms and are not less favourable than those which the Company and its subsidiaries may obtain from independent third parties. As a member within Huaneng Group, Tiancheng Leasing can design a better financial leasing plan according to the requirements of the project units of the Company and adopt a more flexible repayment method, thus achieving a better match between rental payments and the operating cash flows of the project. The Company is a shareholder of Tiancheng Leasing, and the income generated by the sound operations of Tiancheng Leasing will bring substantial dividends to the shareholders.

LETTER FROM THE BOARD

Entering into the Tiancheng Leasing Framework Agreement will help the Company to broaden its financing channels and raise relatively low-cost funds. It enables the Company to control financing risks and financing costs at times when the size of bank loans is still tightened up, and will facilitate the smooth development and operation of the Company's business.

Implication of IFRS 16 (Leases) on the finance leasing arrangement between the Company and Tiancheng Leasing

Pursuant to the IFRS 16 (Leases), the Company recognises right-of-use assets at the commencement date of the lease (i.e., the date the underlying asset is available for use). Right of use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any re-measurement of lease liabilities. At the commencement date of the lease, the Company recognises lease liabilities measured at the present value of lease payments to be made over the lease term. In calculating the present value of lease payments, the Company uses the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable.

Accordingly, under IFRS 16 (Leases), the Company will recognise the underlying leased assets of relevant Direct Lease(s) representing its right to use the leased assets which the Company is reasonably certain to obtain ownership of the leased assets at the end of the leased term, subject to the specific lease terms and conditions to be set out in each of the lease agreement. In relation to the Sales and Leaseback, the relevant transactions will be accounted for as a finance leasing arrangement between the Company and Tiancheng Leasing.

Under the Tiancheng Leasing Framework Agreement, with respect to the transaction amount between the Company and its subsidiaries and Tiancheng Leasing for the period from 2023 to 2025, it is estimated that the Lease Principal (the maximum daily balances of the Lease Principal each year) will be RMB10 billion and the Lease Interest will be capped at RMB490 million. However, for purposes of the Hong Kong Listing Rules, the Direct Lease(s) involve(s) "acquisition" while the Sales and Leaseback constitute(s) "disposal". The Company therefore proposes to set (i) the transaction cap on the total value of right-of-use assets contemplated under the Direct Leases category of the Tiancheng Leasing Framework Agreement between the Company and its subsidiaries and Tiancheng Leasing for the period from 2023 to 2025 at RMB8 billion each year; and (ii) the transaction cap on the total value of the leased assets contemplated under the Sales and Leaseback category of the Tiancheng Leasing Framework Agreement between the Company and its subsidiaries and Tiancheng Leasing for the period from 2023 to 2025 at RMB2 billion each year.

Implications under Hong Kong Listing Rules

As the applicable percentage ratios relating to the transaction scale of the Direct Leases(s) with Tiancheng Leasing contemplated under the Tiancheng Leasing Framework Agreement calculated in accordance with Rule 14.07 of the Hong Kong Listing Rules exceed 5%, such transaction constitutes a discloseable transaction to the Company under Chapter 14 of the Hong Kong Listing Rules and also a continuing connected transaction of the Company under Chapter 14A of the Hong Kong Listing

LETTER FROM THE BOARD

Rules, subject to the annual reporting and announcement requirements under Rules 14A.71 and 14A.35 of the Hong Kong Listing Rules and Independent Shareholders' approval under the Hong Kong Listing Rules.

As none of the applicable percentage ratios relating to the transaction scale of the Sales and Leaseback with Tiancheng Leasing contemplated under the Tiancheng Leasing Framework Agreement calculated in accordance with Rule 14.07 of the Hong Kong Listing Rules exceed 5%, such transaction constitutes a notifiable transaction to the Company under Chapter 14 of the Hong Kong Listing Rules and also a continuing connected transaction of the Company under Chapter 14A of the Hong Kong Listing Rules, subject to the annual reporting and announcement requirements under Rules 14A.71 and 14A.35 of the Hong Kong Listing Rules but is exempt from the Independent Shareholders' approval under the Hong Kong Listing Rules.

VI. THE FRAMEWORK AGREEMENTS

(I) Background of the Transaction

According to the proposal of the Standing Committee of the State Council, the "issuance of RMB200 billion special bonds for guaranteeing energy supply in the inter-bank bond market, mainly in the medium and long term, will be used to inject capital into the state-owned power generation companies, promote power generation companies to optimize their capital and liability structures, restore financing capabilities, and ensure energy and power supply safety". Funds need to be allocated to subordinated power generation companies, and the funds are recorded as equity, so as to optimize the asset-liability ratio of power generation companies and ensure the safety of power supply.

The Company proposes to issue special bonds for guaranteeing energy supply in the inter-bank market in the first quarter of 2023. The bond is a renewable medium-term note and will be included in the equity account. Some of the raised funds will be used to provide renewable entrusted loans to Shandong Company and Chaohu Power, thereby optimizing the asset-liability ratio of subordinated power generation companies. At present, Huaneng Group, Datang Group, Datang Power Generation, and State Power Investment Corporation have issued special bonds for guaranteeing energy supply in the inter-bank market. Reference can be made to 22 Huaneng Group MTN004 (Energy Guaranteed Special Bonds), 22 Huaneng Group MTN005 (Energy Guaranteed Special Bonds), 22 Huaneng Group MTN006 (Energy Guaranteed Special Bonds), 22 Datangji MTN006 (Energy Guaranteed Special Bonds), 22 Datangji MTN008 (Energy Guaranteed Special Bonds), 22 Datang Power Generation MTN010 (Energy Guaranteed Special Bonds), 22 China Power Investment MTN029 (Energy Guaranteed Special Bonds), 22 China Power Investment MTN030 (Energy Guaranteed Special Bonds).

In terms of the term, the initial term of the issuance of the special bonds for guaranteeing energy supply of the Company is expected to be no more than 10 years, and the specific initial term will be determined according to the issuance window. When the initial term expires, the Company will consider whether to execute the redemption right. The term of renewable entrusted loans provided by the Company to Shandong Company and Chaohu Power will be consistent with the special bonds for guaranteeing energy supply.

LETTER FROM THE BOARD

In terms of interest rates, since the special bonds for guaranteeing energy supply are publicly issued in the inter-bank market, the issuance cost will be determined through book-building. The interest rate of renewable entrusted loans to be provided by the Company to Shandong Company and Chaohu Power will be determined after considering the relevant taxes on the cost of issuing bonds. Interest rates on renewable entrusted loans are fair and equitable.

In terms of accounting treatment, the Company shall make reference to the accounting standard: “Accounting Standards for Business Enterprises No. 37 – Presentation of Financial Instruments” (Cai Kuai [2017] No. 14), “Accounting Standards for Business Enterprises No. 37 – Presentation of Financial Instruments” Application Guide (2018) and the Provisions on the Accounting Treatment of Perpetual Bonds (Cai Kuai [2019] No. 2). The Company’s issuance of the special bonds for guaranteeing energy supply will be accounted as “other equity instrument investments”. The Company shall provide renewable entrusted loans to Shandong Company and Chaohu Power, and will record the same as the “long-term equity investments”. Shandong Company and Chaohu Power will record the same in the equity account as “other equity instrument investments”.

(II) Description of the Transaction

In order to implement the requirements of the Executive Meeting of the State Council and to achieve the goals of reducing losses of thermal power units, ensuring energy supply and security, and reducing the overall asset-liability ratio, the Company proposes to advance renewable entrusted loans to Shandong Company and Chaohu Power. On 2 November 2022, the Company signed a framework agreement with Shandong Company and Chaohu Power respectively, stipulating that the Company will provide a renewable entrusted loan of not more than RMB12 billion to Shandong Company, and a renewable entrusted loan of not more than RMB1.2 billion to Chaohu Power. The aforesaid loans have no fixed term, the concrete terms of which are subject to the renewable entrusted loan agreements to be actually signed. When a specific loan is issued, the Company will sign specific renewable entrusted loan agreement(s) with Shandong Company and Chaohu Power respectively within the scope determined by the Framework Agreements.

The renewable entrusted loans have the following features:

- (i) The purpose of the renewable entrusted loans is to implement the requirements of the Executive Meeting of the State Council and to achieve the goals of reducing losses of thermal power units, ensuring energy supply and security, and reducing the overall asset-liability ratio.
- (ii) The source of fund for the renewable entrusted loans will be the issuance of the special bonds for energy supply, the duration of which is unspecified. Therefore, the duration of renewable entrusted loans under the implementation agreements will be in line with the duration of the special bonds for energy supply and the interest rates will be the Company's cost of fund (i.e. the upstream fund raising costs and related taxes arising out of issuance of bonds). The cost of special bonds for energy supply will be determined through the process of book-building. During the process of book-building,

LETTER FROM THE BOARD

various eligible investors will submit their bidding price through the book-building system, and the final interest rate of the special bonds for energy supply will be determined according to the aforesaid submission.

- (iii) As the duration of the renewable entrusted loans is unspecified, such loans will be recorded as other equity instruments under total equity of the financial statements of Shandong Company and Chaohu Power.
- (iv) Shandong Company and Chaohu Power will use the renewable entrusted loans under the implementation agreements for cash flow and loan replacement. Without the written consent of the Company, Shandong Company and Chaohu Power shall not change the purpose of the loans, and shall not use the loans in the areas and purposes prohibited by the State.
- (v) When Shandong Company and/or Chaohu Power execute(s) the relevant implementation agreement(s) and receive the renewable entrusted loans, the relevant renewable entrusted loans will be set with an initial term of repayment. When the initial term expires, the recipient of the renewable entrusted loans (i.e. Shandong Company and Chaohu Power) can decide whether to extend the use of the relevant renewable entrusted loans. If the use of the relevant renewable entrusted loans is extended, then the interest payable shall be increased by 300bp/year on top of the initial interest rate (i.e. the interest rate applicable at the time of execution of the relevant implementation agreement). The decision to extend the use of the relevant renewable entrusted loans can be made once a year (the interest rate will only be increased once, and the subsequent years will only be judged whether to extend and the interest rate will remain unchanged).
- (vi) The renewable entrusted loans from the Company to each of Shandong Company and Chaohu Power are expected to be provided in tranches and is expected to be completed by end of March 2023.

The Transaction will not affect the Company's normal business development and use of funds, and does not fall under the circumstances that financial assistance is not allowed under the Shanghai Listing Rules.

Shandong Company and Chaohu Power are the controlled subsidiaries of the Company, and the Company can implement effective risk control in terms of business, finance and capital management. Therefore, the provision of renewable entrusted loans for the controlled subsidiaries under the Transaction is within the risk control range, and will not have a significant impact on the Company's daily operations, nor will it harm the interests of the Company and all shareholders, especially small and medium shareholders.

LETTER FROM THE BOARD

(III) Basic Information of Shandong Company and Chaohu Power

(1) *Basic information of Shandong Company*

Shandong Company was established in May 2008 and is currently a controlled subsidiary of the Company. The Company holds 80% equity interest in Shandong Company and 20% equity interest in Shandong Company is held by Huaneng Group.

According to the audit report issued by Ernst & Young Hua Ming LLP (special general partnership) on 17 May 2022, as of 31 December 2021, Shandong Company's total assets were RMB70.879 billion, total liabilities were RMB65.268 billion, net assets were RMB 5.610 billion, asset-liability ratio was 92.08%, operating income was RMB31.722 billion, total profit was RMB-3.306 billion, and net profit was RMB-2.850 billion.

As of 30 September 2022, Shandong Company's unaudited total assets were RMB70.563 billion, total liabilities were RMB66.419 billion, net assets were RMB4.144 billion, and the asset-liability ratio was 94.13%. From January to September 2022, the operating income was RMB28.332 billion, the total profit was RMB-1.050 billion, and the net profit was RMB-997 million.

Shandong Company is not included in the list of dishonest entities subject to execution.

In order to implement the requirements of the Executive Meeting of the State Council, the Company proposes to advance renewable entrusted loans to Shandong Company so as to achieve the goals of reducing losses of thermal power units, ensuring energy supply and security, and reducing the overall asset-liability ratio. The counterparty of the renewable entrusted loan is Shandong Company, a subsidiary of which 80% of the equity interest is directly held by the Company. The Company can implement effective risk control in its business, finance, fund management and other aspects. Other shareholder will not provide financial assistance in the same proportion under the same conditions.

(2) *Basic Information of Chaohu Power*

Chaohu Power was established in November 2007 and is currently a controlled subsidiary of the Company. The Company holds 60% equity interest in Chaohu Power, 10% equity interest in Chaohu Power is held by Hua Neng HK, a wholly-owned subsidiary of Huaneng Group, and 30% equity interest in Chaohu Power is held by Huaihe Energy.

According to the audit report issued by Ernst & Young Hua Ming LLP (special general partnership) on 22 March 2022, as of 31 December 2021, Chaohu Power's total assets were RMB2.597 billion, total liabilities were RMB2.320 billion, net assets were RMB277 million, asset-liability ratio was 89.34%, operating income was RMB1.902 billion, total profit was RMB-732 million, and net profit was RMB-588 million.

LETTER FROM THE BOARD

As of 30 September 2022, Chaohu Power's total assets were RMB2.298 billion, total liabilities were RMB2.365 billion, net assets were RMB-67 million, asset-liability ratio was 102.90%. From January to September 2022, the operating income was RMB1.943 billion, the total profit was RMB-344 million, and the net profit was RMB-344 million.

Chaohu Power is not included in the list of dishonest entities subject to execution.

In order to implement the requirements of the Executive Meeting of the State Council, the Company proposes to advance renewable entrusted loans to Chaohu Power so as to achieve the goals of reducing losses of thermal power units, ensuring energy supply and security, and reducing the overall asset-liability ratio. The counterparty of the renewable entrusted loan is Chaohu Power, a subsidiary of which 60% of the equity interest is directly held by the Company. The Company can implement effective risk control in its business, finance, fund management and other aspects. Other shareholders will not provide financial assistance in the same proportion under the same conditions.

(IV) Main Contents of the Agreements on Renewable Entrusted Loans

Major terms of the Framework Agreements signed by the Company with Shandong Company and Chaohu Power are as follows:

(1) *The framework agreement on Renewable Entrusted Loans with Shandong Company*

Parties to the agreement: Huaneng International

Shandong Company

Date: 2 November 2022

Amount: Huaneng International will advance to and recover from Shandong Company the capital of 12 billion in RMB in accordance with the entrusted loan procedure. The abovementioned capital principal amount is the maximum amount, the concrete amount of the renewable entrusted loan will depend on the actual agreement signed.

Term: There is no fixed term, the concrete terms of which are subject to the renewable entrusted loan agreements to be actually signed. The extended loan term is one year as a cycle, and the initial loan term shall start from the date of advancement.

LETTER FROM THE BOARD

Interest rate:	The loan interest rate under the agreement is determined by Huaneng International, and the fixed interest rate is adopted. The annual interest rate is the total amount of upstream fund raising costs and related taxes, etc., and the actual signed renewable entrusted loan interest rate shall prevail.
Purpose:	Huaneng International agrees that Shandong Company will use the principal borrowed under the agreement for cash flow and loan replacement. Without the written consent of Huaneng International, Shandong Company shall not change the purpose of the loan, including but not limited to Shandong Company shall not use it in the areas and purposes prohibited by the State.
Guarantee method:	Credit guarantee.
Liability for breach of agreement:	After the contract takes effect, both parties shall perform the obligations stipulated in the agreement. If either party fails to perform or does not fully perform the obligations stipulated in the agreement, the defaulting party shall bear the corresponding liability for breach of contract in accordance with the contract or legal provisions, and shall compensate the other party with the losses incurred thereby. If Shandong Company defaults, Huaneng International shall have the right to increase the execution interest rate of the loan under the agreement. The interest rate increase formula is: the basis of execution interest rate applicable in the agreement at that time + 300bp/year, and the interest rate will be implemented until the events constituting the default of Shandong Company under the agreement have ended, or the agreement has been terminated.

(2) *The framework agreement on Renewable Entrusted Loans with Chaohu Power*

Parties to the agreement:	Huaneng International
	Chaohu Power

LETTER FROM THE BOARD

Date:	2 November 2022
Amount:	Huaneng International will advance to and recover from Chaohu Power the capital of 1.2 billion in RMB in accordance with the entrusted loan procedure. The abovementioned capital principal amount is the maximum amount, the concrete amount of the renewable entrusted loan will depend on the actual agreement signed.
Term:	There is no fixed term, the concrete terms of which are subject to the renewable entrusted loan agreements to be actually signed. The extended loan term is one year as a cycle, and the initial loan term shall start from the date of advancement.
Interest rate:	The loan interest rate under the agreement is determined by Huaneng International, and the fixed interest rate is adopted. The annual interest rate is the total amount of upstream fund raising costs and related taxes, etc., and the actual signed renewable entrusted loan interest rate shall prevail.
Purpose:	Huaneng International agrees that Chaohu Power will use the principal borrowed under the agreement for cash flow and loan replacement. Without the written consent of Huaneng International, Chaohu Power shall not change the purpose of the loan, including but not limited to Chaohu Power shall not use it in the areas and purposes prohibited by the State.
Guarantee method:	Credit guarantee.

LETTER FROM THE BOARD

Liability for breach of agreement: After the contract takes effect, both parties shall perform the obligations stipulated in the agreement. If either party fails to perform or does not fully perform the obligations stipulated in the agreement, the defaulting party shall bear the corresponding liability for breach of contract in accordance with the contract or legal provisions, and shall compensate the other party with the losses incurred thereby. If Chaohu Power defaults, Huaneng International shall have the right to increase the execution interest rate of the loan under the agreement. The interest rate increase formula is: the basis of execution interest rate applicable in the agreement at that time + 300bp/year, and the interest rate will be implemented until the events constituting the default of Chaohu Power under the agreement have ended, or the agreement has been terminated.

(V) Basic Analysis and Risk Control Measures of the Transaction

The risk of the Company providing renewable entrusted loans to Shandong Company and Chaohu Power is within the controllable range of the Company, and the Company can effectively ensure the safety of funds. The Transaction will not have a significant impact on the Company's daily operations, or not damage the Company and its shareholders as a whole, in particular the interest of minority shareholders.

(VI) Cumulative Amount of Financial Assistance Provided and Overdue Amount

After provision of the financial assistance, the proportion of the total balance of financial assistance provided by the listed company to the latest audited net assets of the listed company is 12.54%; and the proportion of the total balance of financial assistance provided by the listed company and its controlled subsidiaries to units outside the consolidated statements to the listed company's latest audited net assets is 0.07%. There does not exist any situation where the financial assistance provided by the Company is overdue and not recovered.

(VII) Implications under Hong Kong Listing Rules

The Transaction constitutes the provision of financial assistance by the Company to its connected subsidiaries. As the applicable percentage ratios relating to the transaction scale (on an aggregated basis) of the Transaction calculated in accordance with Rule 14.07 of the Hong Kong Listing Rules exceed 5%, the Transaction constitutes a discloseable transaction to the Company under Chapter 14 of the Hong Kong Listing Rules and also a connected transaction of the Company under

LETTER FROM THE BOARD

Chapter 14A of the Hong Kong Listing Rules, subject to the annual reporting and announcement requirements under Rules 14A.71 and 14A.35 of the Hong Kong Listing Rules and Independent Shareholders' approval under the Hong Kong Listing Rules.

According to the SSE Listing Rules, since the asset-liability ratios of Shandong Company and Chaohu Power both exceed 70%, the Transaction needs to be approved at the shareholders' meeting of the Company.

VII. FAIRNESS OF THE CONTINUING CONNECTED TRANSACTIONS AND THEIR IMPACTS ON INDEPENDENCY OF THE COMPANY

The Huaneng Group Framework Agreement, the Supplemental Agreement to Huaneng Finance Framework Agreement and the Tiancheng Leasing Framework Agreement are signed on normal commercial terms which are fair and reasonable, with the prices/fees/interests agreed and confirmed by both parties by negotiating and concluding with arm's length terms, taking into account the then prevailing market conditions, and the terms of the relevant agreement and the transactions under such agreements offered to the Company and its subsidiaries by Huaneng Group and its subsidiaries and associates, Huaneng Finance, Tiancheng Leasing are no less favourable than those available from independent third parties. The Company and its subsidiaries will sign necessary written agreements on specific transactions with Huaneng Group and its subsidiaries and associates, Huaneng Finance, Tiancheng Leasing within the range set by the above-stated framework agreement according to actual conditions, and pay and/or charge the relevant prices/fees/interests based on the agreed method set forth in the relevant agreements.

The Company will, through the Huaneng Group Framework Agreement, the Supplemental Agreement to Huaneng Finance Framework Agreement and the Tiancheng Leasing Framework Agreement and a series of management arrangements in accordance with the regulatory requirements, maintain its independency in decision-making, the fairness of the prices of the transactions as well as the flexibility of the Company in connected transactions so as to alleviate the independence on its controlling shareholder. Such arrangements shall include without limitation the Company's right to make independent decisions as to the price and quantity of purchase and to access and obtain market information through various means so that the terms obtained by the Company from Huaneng Group and its subsidiaries and associates, Huaneng Finance, Tiancheng Leasing will be no less favorable than those available from independent third parties.

Based on the above, the Company is of the opinion that the Huaneng Group Framework Agreement, the Supplemental Agreement to Huaneng Finance Framework Agreement and the Tiancheng Leasing Framework Agreement and the continuing connected transactions thereunder are in the interests of the Company and the shareholders as a whole. Meanwhile, the Company has a complete business system and the ability to operate independently facing the market, therefore the above-stated framework agreements and the continuing connected transactions contemplated thereunder do not affect the independency of the Company.

VIII. MEASURES TO SAFEGUARD THE INTEREST OF THE INDEPENDENT SHAREHOLDERS

Directors and senior management of the Company will monitor closely and review regularly each continuing connected transaction of the Company, and will adopt a series of risk management arrangements, and endeavour to maintain, in relation to each continuing connected transaction, the independence of the

LETTER FROM THE BOARD

Company; the fairness of the price of the transaction; the fairness of the terms of the transaction; and the right of choice of the Company to conduct transactions with independent third parties other than Huaneng Group and its subsidiaries and associates. The relevant arrangements include:

(1) The Continuing Connected Transactions under the Huaneng Group Framework Agreement

- the continuing connected transactions contemplated under the Huaneng Group Framework Agreement are conducted on a non-exclusive basis;
- for transactions relating to the purchase of ancillary equipment and parts, the Company will proceed in accordance with the Company's procurement policy, which mainly stipulates that the Company will, from time to time, obtain quotations from at least two large scale suppliers (excluding Huaneng Group and its subsidiaries and associates) and/or invite tenders from multiple suppliers and/or in certain circumstances make price enquiries. According to the Company's procurement policy, in addition to the offer of same or more favourable terms by the counterparty in a transaction, the Company will also consider other factors, including the corporate background of the counterparty; its reputation and reliability; its ability to conduct the transaction in accordance with the terms of the contract; and its understanding of the Company's needs, in order to maximise the Company's interest in the transaction and at the same time reduce the Company's time and costs of transaction;
- for transactions in relation to the purchase of fuel and coal transportation services,
 - (i) the Company has established a dedicated mechanism for information exchange and weekly and monthly information analysis, which mainly consists of: (i) collection of price information, such as pithead prices, listed prices at major coal production localities, inland coal transaction price indices, port price indices, domestic futures indices, global coal prices, and price indices of imported coal; and in addition, information relating to the storage at harbours, the production, transportation and sale of coal, and price indices of freights is also collected as an aid in analysing the trend of the market price. The major information collection channels of the Company include: China Coal Market website 中國煤炭市場網 (<http://www.cctd.com.cn>), China Coal Resources website 中國煤炭資源網 (<http://www.sxcoal.com>), Qinhuangdao Coal website 秦皇島煤炭網 (<http://www.cqcoal.com>) and Qinhuangdao Shipping Network 秦皇島海運網 (<http://www.osc.org.cn>), etc.; (ii) the Company has also established the Qinhuangdao distribution centre, which is charged with the monitoring of the daily, weekly and monthly prices of coal based on port and water transportation and related developments; (iii) the Company's branch companies and power plants are charged with collecting information on the market and pithead prices of their own location. In terms of pricing, the Company will issue weekly the guidance procurement price of coal for coastal power plants (based on the market information collected and generally lower than the then prevailing market price), the Company will invite at least three suppliers (including Huaneng Group and

LETTER FROM THE BOARD

its subsidiaries and associates) to provide coal quotations within the range of the guidance procurement price as well as the price for transportation services. The Company shall invite at least three suppliers including Huaneng Group and its subsidiaries and associates to jointly provide quotation on coal within the range of the procurement guidance price. The Company will independently choose and purchase from the best offer according to the market conditions relied upon in developing the Company's procurement strategies. The Company believes that such purchaser-oriented pricing process will lead to an open and transparent market mechanism for competition of coal based on market prices;

- (ii) the "market conditions" relied upon in developing the Company's procurement strategies can principally be summarised in the following manner: (i) changes in the prices of coal; (ii) aspects on coal transportation, including status on ship transportation at port (e.g. in circumstances where the northern ports such as Qinhuangdao are stranded seriously, the Company will arrange certain coal to be imported), the status on railway transportation (e.g. substantial overhaul of Datong Qinhuangdao railway), the status on road transportation (e.g. where the northern regions are affected by seasonal rain/snow); (iii) production condition (e.g. where major cooperation partners for coal supply or regional coal enterprises experience any safety incidents which may lead to a suspension in coal production or safety checks and hence the coal mine safety inspections may affect domestic coal production or supply of coal regionally, or where the import of coal from coal production areas like Indonesia, Australia, Colombia, South Africa, etc. are affected by incidents of natural disasters, storm, typhoon, etc.); (iv) status on level of inventory (including changes in the inventory at major ports and where power enterprises and coal companies run low in stock; and (v) status on changes in policy. The State has promulgated a number of environmental protection policies and coal industry policies which may have an impact on the volume of coal consumption, the types and quality of coal required by power enterprises. The Company will timely follow and collect latest information on market condition for assessing and formulating the Company's procurement strategies;

- for transactions in relation to leasing of power transmission and transformation assets, the lease by the Company and its subsidiaries of such facilities from Huaneng Group and its subsidiaries and associates is based on arm's length terms. The leasing fee payable is principally to offset the outlay of the supplier's costs, interest payment, operational expenses in maintenance, etc. For transactions in relation to the leasing of land and office spaces, the Company will have regard to the then prevailing market rent for similar types of properties in the nearby locations (which is publicly available information), and/or consult reputable local real estate agents for benchmarks of assessment. Such transactions will be reviewed by the Company's legal department in the legal aspects and approved by the contract management department;

LETTER FROM THE BOARD

- for transactions in relation to accepting the technical services, engineering contracting services and other services, the Company, at times when there are needs for purchasing transactions, will conduct such transactions according to the relevant procurement management rules with reference to the types of energy transactions, technical indicators and engineering related raw materials required for each of the contracts, and will from time to time obtain at least two quotations from suppliers of scale (excluding Huaneng Group and its subsidiaries and associates), and/or invite tenders from multiple suppliers and/or in certain circumstances make price enquiries in conducting such procurements. According to the Company's procurement policy, in addition to the offer of same or more favourable terms by the counterparty in a transaction, the Company will also consider other factors, including the Company's specific requirements in a transaction, the comparable advantages of the technological expertise of counterparties and the ability of counterparties to perform the contract and to provide follow-up services consequential to completion of a transaction, in order to maximise the Company's interest. As regards the provision of operation/production and related port supportive services, the prices are basically market-driven according to the prevailing market conditions. Nonetheless, the Company will conduct enquiry process by making reference to at least three other contemporaneous transactions with unrelated third parties for similar services to determine if the prices and terms offered by Huaneng Group and its subsidiaries and associates are fair and reasonable and comparable to those offered by independent third parties;
- for transactions in relation to the provision of entrusted sale services to Huaneng Group and its subsidiaries and associates, and the acceptance of provision of entrusted sale services from Huaneng Group and its subsidiaries and associates, it is formulated in tandem with the State's electricity system reform policies, substituted power transactions rules, clean energy adoption measures, etc. The transaction cap for each of the above transactions is determined independently according to the operating conditions of the generation units, operating costs, market changes, etc. of the subsidiaries of the Company in areas where they have operations. Through mutual negotiation or trading platforms, the Company will carry out purchase/sale of electricity transactions, substituted electricity transactions and the transaction services in the electricity market in accordance with the principles of fairness and impartiality, so as to realise the maximum benefit for the Company;
- for transactions in relation to sale of products, in principle, the fuel company (which is 100% owned by the Company) will only sell coal to the Company's power plants. The Company will strictly control the conduct of coal sale transactions between the fuel company and related power plants. In circumstances where there is a severe shortage in the level of inventory in the power plants, the Company will, on condition that the Company's own power plants are preserved with sufficient coal supply for operation, sell the excess coal, as a temporary measure, to related power plants at prices according to the changes in market conditions. The Company will, through the information collection channels mentioned in transaction regarding purchase of fuel and coal transportation services above, with reference to the then market conditions and in

LETTER FROM THE BOARD

conjunction with the costs for coal purchase by the fuel company, determine the then selling prices, so as to recoup the costs and, on principles of mutual benefit, to have a small profit;

- for the purchase of heat and related services and the sale of heat and related services, the transactions on sale and purchase of heat will be conducted in strict compliance with the management regulations of the Company and the internal control requirements. Meanwhile, the Company will closely monitor the changes in demand and supply in the heat market, collect and analyse the latest market information, and guide the Company to make timely adjustments to volume and price according to the operating scale of the Company and actual situation, so as to maximize the interests of the Company;
- for the purchase of carbon emission reduction resources and related services and the sale of carbon emission reduction resources and related services, the transaction cap for each of the above transactions is determined independently according to the carbon allowance surplus and carbon allowance demand of the subsidiaries of the Company in areas where they have operations, as well as the overall demand for carbon emission reduction resources in the national market. The prices will be determined according to the trend of the publicly listed prices for carbon emission allowances in the national market, and the Company shall strictly follow the relevant requirements of the State's "dual carbon targets", and to conduct the relevant business according to the rules of carbon trading, CCER trading, green certificate trading, etc., so as to realise the reduction of the Company's carbon quota compliance cost, increase the income of emission reduction resources, and realise the maximum benefit of the Company;
- for borrowing trust loans and accepting loans transactions with Huaneng Group and its subsidiaries and associates will be conducted largely depend on the Company's overall fund size, the actual business needs of the Company, the changes in the capital market and the availability of fund that the Company can obtain through financial institutions. All application for loans by operating units of the Company shall be submitted to the finance department in accordance with the Contract Management Rules of the Company. Through centralized co-ordination by the finance department of the Company, offers for the loans will be obtained from at least two financial institutions and non-financial institutions excluding Huaneng Group and its subsidiaries and associates for review and comparison by the finance department of the Company and approval by the chief accountant of the fund coordination committee (資金協調會); and
- the contract management department will strictly review contracts, the contract enforcement department will timely monitor the amount of connected transactions, and the relevant functional departments will supervise the compliance monitoring in production and operation. In addition to the annual review of the performance of specific contracts by the independent non-executive Directors and the Company's auditors, the Company's supervisors will also monitor the working arrangements involved in the Company's continuing connected transactions, and review whether the Company's transactions are fair and conducted at reasonable transaction prices.

LETTER FROM THE BOARD

(2) The Continuing Connected Transactions under the Huaneng Finance Framework Agreement

- the transactions under the Huaneng Finance Framework Agreement and its supplemental agreement are conducted on a non-exclusive basis;
- the Finance Department of the Company will obtain the terms of the deposit transactions and interest rate trends from major domestic commercial banks every week, and compare them according to the interest rate information released by The People's Bank of China, in order to ensure that the Company obtains the most favourable deposit terms, and to maximize the Company's overall interests in the transaction and minimize the transaction costs and time of the Company;
- the Company will conduct quarterly checking and clearing with related parties (including Huaneng Finance) in relation to the operational fund transfers in order to ensure the safety of funds; and
- the Company will strictly review contracts and timely monitor the amount and interest rate of the loan advancement services transactions, and the independent non-executive Directors and the Company's auditors will review annually the performance of agreements, in order to review the Company's deposit transactions with Huaneng Finance on their fairness and the amount and interest rate of the deposit transactions on their reasonableness.

(3) The Continuing Connected Transactions under the Tiancheng Leasing Framework Agreement

- each financial leasing transaction under the Tiancheng Leasing Framework Agreement is conducted on a non-exclusive basis;
- before considering conducting finance leasing transactions, the Company will obtain terms and rate(s) of interests etc. relating to financial leasing transactions from major financial leasing companies (who are independent of the Company and the connected persons of the Company) within the PRC, and compare the same with the benchmark lending rate(s) for term loans promulgated by PBOC from time to time in order to allow the Company to obtain the most favourable terms relating to financial leasing transactions, to maximise the Company's overall interests in the transactions, and to reduce the transaction costs and time of the Company;
- in respect of the financial lease(s) involving equipment newly acquired by Tiancheng Leasing, the transaction amount will be determined based on the total purchase cost of the relevant equipment as approved by the Company. The approval procedures usually include the Company obtaining quotations from more than two suppliers who are independent of the Company and the connected persons of the Company for providing similar equipment on comparable terms; and

LETTER FROM THE BOARD

- the contract management department will strictly review contracts, the contract enforcement department will timely monitor the amount of connected transactions, and the relevant functional departments will supervise the compliance monitoring during the performance of the financial leasing transactions. In addition to the annual review of the performance of agreements by the independent non-executive Directors and the Company's auditors, the independent non-executive Directors will also review and confirm whether the Company's financial leasing transactions with Tiancheng Leasing are fair, whether the amount and interest rate are reasonable and whether they are in the interests of the Shareholders as a whole. The Company's supervisors will also monitor the working arrangements involved in the Company's continuing connected transactions, and review whether the Company's transactions are fair and conducted at reasonable transaction prices.

IX. BOARD'S CONFIRMATION

The Board has considered and approved the Huaneng Group Framework Agreement, the Supplemental Agreement to Huaneng Finance Framework Agreement, the Tiancheng Leasing Framework Agreement and the Framework Agreements and the transactions and the estimates of relevant caps of the transactions under such agreements. Pursuant to the SSE Listing Rules and Rule 14A.68(8) of the Hong Kong Listing Rules, Messrs. Zhao Keyu, Huang Jian, Wang Kui, Lu Fei and Teng Yu, all being Directors of the Board being regarded as having a material interest in the transactions given their management positions in Huaneng Group or its associates, abstained from voting on the relevant Board resolutions. The resolutions were voted by Directors who are not connected to the transactions.

The Directors (including the independent non-executive Directors) are of the view that those agreements were entered into: (i) in the ordinary and usual course of business of the Company; (ii) on normal commercial terms (on arm's length basis or on terms no less favourable to the Company than terms available from independent third parties); and (iii) on terms that are fair and reasonable and in the interests of the Company and its Shareholders as a whole.

X. THE EGM

The Company will convene an extraordinary general meeting on 30 December 2022 (originally 20 December 2022) to seek approval from Shareholders on resolutions as set out in the Notice of EGM.

The resolutions set out in the Notice of EGM are not inter-conditional upon each other. All resolutions proposed at the EGM will be passed by way of ordinary resolutions and voting will be taken by way of poll in accordance with the requirements of the Hong Kong Listing Rules. Huaneng Group and its associates (holding an aggregate of 7,255,376,866 ordinary shares in the Company, representing approximately 46.22% of the total issued shares of the Company as at the Latest Practicable Date) will abstain from voting on the resolutions regarding (i) the continuing connected transactions (including the relevant proposed respective caps) for 2023 contemplated under the Huaneng Group Framework Agreement (being resolution no.2 of the Notice of EGM); (ii) the discloseable and continuing connected transactions contemplated under the Tiancheng Leasing Framework Agreement (being resolution no.3 of the Notice of EGM); (iii) the adjustment by increasing the cap amount of the continuing connected transactions on loan advancement contemplated under the Supplemental Agreement to Huaneng Finance Framework Agreement

LETTER FROM THE BOARD

(being resolution no.4 of the Notice of EGM); and (iv) the provision of renewable entrusted loans by the Company to its connected subsidiaries contemplated under the Framework Agreements (being resolution no.6 of the Notice of EGM) at the EGM. Save as disclosed, no shareholders are required to abstain from voting in connection with the matters to be resolved at the EGM.

Notice of the EGM, together with the relevant reply slip and proxy form, have been issued to H Shareholders separately. As mentioned in the announcement published by the Company on 5 December 2022, in view of the postponement of the EGM to be originally held on 20 December 2022, H Shareholders who intend to change the voting intention or have not yet returned the Proxy Forms are requested to complete in accordance with the instructions printed thereon, and return to the H Shares Registrar of the Company, Hong Kong Registrars Limited, at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, not less than 24 hours before the time appointed for the holding of the EGM or any adjournment thereof which have been postponed to 30 December 2022.

For the avoidance of doubt, any Proxy Form duly completed and delivered by the H Shareholder in accordance with the instructions printed thereon remains valid for the EGM which have been postponed to 30 December 2022, and the H Shareholder is not required to submit the same again. If any H Shareholder chooses to re-submit the Proxy Form, the last Proxy Form received will revoke and supersede the Proxy Form previously submitted by such H Shareholder.

With respect to the reply slip which has been dispatched to H Shareholders along with the Notice of EGM, H Shareholders who are eligible and intend to attend the EGM shall complete and return the reply slip in accordance with the instructions printed thereon on or before 10 December 2022.

For the avoidance of doubt, any reply slip duly completed and returned in accordance with the instructions printed thereon by the H Shareholders remains valid for the EGM which have been postponed to 30 December 2022, and the H Shareholders are not required to submit the reply slips again.

XI. RECOMMENDATIONS

Your attention is also drawn to the letter from the Independent Board Committee to the Independent Shareholders of the Company, which is set out on pages 48 to 49 of this circular, and which contains their recommendation in respect of the transaction relating to the purchase of fuel and transportation services and accepting the technical services, engineering contracting services and other services (including the respective caps) contemplated under the Huaneng Group Framework Agreement; the transactions contemplated under the Tiancheng Leasing Framework Agreement and the provision of renewable entrusted loans by the Company to its connected subsidiaries contemplated under the Framework Agreements.

The letter of advice from Gram Capital to the Independent Board Committee and the Independent Shareholders on the fairness and reasonableness of the transactions relating to the purchase of fuel and transportation services and accepting the technical services, engineering contracting services and other services (including the respective caps) contemplated under the Huaneng Group Framework Agreement; the transactions contemplated under the Tiancheng Leasing Framework Agreement and the provision of renewable entrusted loans by the Company to its connected subsidiaries contemplated under the Framework Agreements, and whether such transactions are in the interests of the Company and its Shareholders as a whole is set out on pages 50 to 78 of this circular.

LETTER FROM THE BOARD

The Independent Board Committee, having taken into account the advice of Gram Capital, considers that the transactions relating to the purchase of fuel and transportation services and accepting the technical services, engineering contracting services and other services (including the respective caps) contemplated under the Huaneng Group Framework Agreement; the transactions contemplated under the Tiancheng Leasing Framework Agreement and the provision of renewable entrusted loans by the Company to its connected subsidiaries contemplated under the Framework Agreements are fair and reasonable so far as the Independent Shareholders are concerned and that such transactions are in the interests of the Company and its Shareholders as a whole. Accordingly, it recommends that the Independent Shareholders vote in favour of the resolutions regarding (i) the continuing connected transactions (including the relevant caps) for 2023 contemplated under the Huaneng Group Framework Agreement; (ii) the discloseable and continuing connected transactions contemplated under the Tiancheng Leasing Framework Agreement; (iii) the adjustment by increasing the cap amount of the continuing connected transactions on loan advancement contemplated under the Supplemental Agreement to Huaneng Finance Framework Agreement; and (iv) the provision of renewable entrusted loans by the Company to its connected subsidiaries contemplated under the Framework Agreements at the EGM.

The Directors consider that the ordinary resolutions set out in the Notice of EGM are in the interests of the Company and its Shareholders as a whole. Accordingly, the Directors recommend the Shareholders vote in favour of all resolutions to be proposed at the EGM as set out in the Notice of the EGM.

XII. OTHER INFORMATION

Your attention is drawn to the other information set out in the appendix to this circular.

Yours faithfully
By order of the Board
Huaneng Power International, Inc.
Huang Chaoquan
Company Secretary

LETTER FROM THE INDEPENDENT BOARD COMMITTEE



華能國際電力股份有限公司

HUANENG POWER INTERNATIONAL, INC.

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

(Stock Code: 902)

Registered office:

Huaneng Building
6 Fuxingmennei Street
Xicheng District
Beijing 100031
The People's Republic of China

16 December 2022

To the Independent Shareholders

Dear Sir or Madam,

**DISCLOSEABLE AND CONNECTED TRANSACTIONS/CONTINUING
CONNECTED TRANSACTIONS UNDER THE HUANENG GROUP
FRAMEWORK AGREEMENT,
THE TIANCHENG LEASING FRAMEWORK AGREEMENT AND
THE FRAMEWORK AGREEMENTS**

We, the Independent Board Committee of Huaneng Power International, Inc. (the “**Company**”), are advising the Independent Shareholders in connection with the transaction relating to the purchase of fuel and transportation services and accepting the technical services, engineering contracting services and other services (including the respective proposed caps) contemplated under the Huaneng Group Framework Agreement, the transactions contemplated under the Tiancheng Leasing Framework Agreement and the provision of renewable entrusted loans by the Company to its connected subsidiaries contemplated under the Framework Agreements, details of which are set out in the letter from the Board contained in the circular (“**Circular**”) of the Company to the Shareholders dated 16 December 2022, of which this letter forms a part. Terms defined in the Circular shall have the same meanings when used herein unless the context otherwise requires.

Under the Hong Kong Listing Rules, the transactions relating to the purchase of fuel and transportation services and accepting the technical services, engineering contracting services and other services (including the respective proposed caps) contemplated under the Huaneng Group Framework Agreement, the transactions contemplated under the Tiancheng Leasing Framework Agreement and the provision of renewable entrusted loans by the Company to its connected subsidiaries contemplated under the Framework Agreements constitute connected transactions to the Company. Accordingly, the conduct of the transaction relating to the purchase of fuel and transportation services and accepting the technical services, engineering contracting services and other services (including the respective proposed caps) contemplated

LETTER FROM THE INDEPENDENT BOARD COMMITTEE

under the Huaneng Group Framework Agreement, the transactions contemplated under the Tiancheng Leasing Framework Agreement and the provision of renewable entrusted loans by the Company to its connected subsidiaries contemplated under the Framework Agreements will require the approval of the Independent Shareholders at the EGM.

We wish to draw your attention to the letter of advice from Gram Capital set out on pages 50 to 78 of the Circular. We have discussed the letter and the opinion contained therein with Gram Capital.

Having considered, inter alia, the factors and reasons considered by, and the opinion of, Gram Capital, as stated in its aforementioned letter, we consider the transactions relating to the purchase of fuel and transportation services and accepting the technical services, engineering contracting services and other services (including the respective proposed caps) contemplated under the Huaneng Group Framework Agreement, the transactions contemplated under the Tiancheng Leasing Framework Agreement and the provision of renewable entrusted loans by the Company to its connected subsidiaries contemplated under the Framework Agreements are:

- (1) in the ordinary and usual course of business of the Company;
- (2) on normal commercial terms (on arm's length basis or on terms no less favourable than those offered to the Company by independent third parties); and
- (3) on terms that are fair and reasonable and in the interests of the Company and its Shareholders as a whole.

Accordingly, we recommend that the Independent Shareholders vote in favour of the relevant ordinary resolutions regarding (i) the continuing connected transactions (including the relevant proposed respective caps) for 2023 contemplated under the Huaneng Group Framework Agreement (being resolution no.2 of the Notice of EGM), (ii) the discloseable and continuing connected transactions contemplated under the Tiancheng Leasing Framework Agreement (being resolution no.3 of the Notice of EGM), (iii) the adjustment by increasing the cap amount of the continuing connected transactions on loan advancement contemplated under the Supplemental Agreement to Huaneng Finance Framework Agreement (being resolution no.4 of the Notice of EGM) and (iv) the provision of renewable entrusted loans by the Company to its connected subsidiaries contemplated under the Framework Agreements (being resolution no.6 of the Notice of EGM) set out in the Notice of the EGM to be proposed at the EGM to be held on 30 December 2022 (originally 20 December 2020).

Yours faithfully,

Xu Mengzhou, Liu Jizhen, Xu Haifeng, Zhang Xianzhi and Xia Qing
Independent Non-Executive Directors

LETTER FROM GRAM CAPITAL

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



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

16 December 2022

*To: The independent board committee and the independent shareholders
of Huaneng Power International, Inc.*

Dear Sirs,

**DISCLOSEABLE AND CONNECTED TRANSACTIONS/
CONTINUING CONNECTED TRANSACTIONS UNDER
THE HUANENG GROUP FRAMEWORK AGREEMENT,
THE TIANCHENG LEASING FRAMEWORK AGREEMENT AND
THE FRAMEWORK AGREEMENTS**

INTRODUCTION

We refer to our appointment as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in respect of (i) the transactions regarding the purchase of fuel and transportation services contemplated under the Huaneng Group Framework Agreement (including the annual cap) (the “**Purchase of Fuel and Transportation Transactions**”); (ii) the transactions regarding accepting the technical services, engineering contracting services and other services contemplated under the Huaneng Group Framework Agreement (including the annual cap) (the “**Purchase of Technical and Engineering Contracting Transactions**”); (iii) the transactions contemplated under the Tiancheng Leasing Framework Agreement (the “**Finance Lease Transactions**”); and (iv) the provision of renewable entrusted loans by the Company to its connected subsidiaries contemplated under the Framework Agreements (the “**Entrusted Loans Transactions**”, together with the Purchase of Fuel and Transportation Transactions, the Purchase of Technical and Engineering Contracting Transactions and the Finance Lease Transactions, the “**Transactions**”), details of which are set out in the letter from the Board (the “**Board Letter**”) contained in the circular dated 16 December 2022 issued by the Company to the Shareholders (the “**Circular**”), of which this letter forms part. Terms used in this letter shall have the same meanings as defined in the Circular unless the context requires otherwise.

LETTER FROM GRAM CAPITAL

Purchase of Fuel and Transportation Transactions

On 25 October 2022, the Company entered into the Huaneng Group Framework Agreement with Huaneng Group, its ultimate controlling shareholder, for a term commencing on 1 January 2023 and expiring on 31 December 2023. Pursuant to the Huaneng Group Framework Agreement, the Company and its subsidiaries will purchase fuel and coal transportation services from Huaneng Group and its subsidiaries and associates.

With reference to the Board Letter, the Purchase of Fuel and Transportation Transactions constitute continuing connected transactions of the Company and are subject to annual reporting, announcement and Independent Shareholders' approval requirements under Chapter 14A of the Hong Kong Listing Rules.

Purchase of Technical and Engineering Contracting Transactions

On 25 October 2022, the Company entered into the Huaneng Group Framework Agreement with Huaneng Group, its ultimate controlling shareholder, for a term commencing on 1 January 2023 and expiring on 31 December 2023. Pursuant to the Huaneng Group Framework Agreement, the Purchase of Technical and Engineering Contracting Transactions mainly include the provision of fuel management service relevant to power plants, maintenance services for power plants' monitoring systems, real-time consolidation of project data, trial run of generating units, supervision of manufacture of facilities, contracting of construction works in progress and insurance services by Huaneng Group and its subsidiaries and associates to the Company and its subsidiaries.

With reference to the Board Letter, the Purchase of Technical and Engineering Contracting Transactions constitute continuing connected transactions of the Company and are subject to annual reporting, announcement and Independent Shareholders' approval requirements under Chapter 14A of the Hong Kong Listing Rules.

Finance Lease Transactions

On 25 October 2022, the Company entered into the Tiancheng Leasing Framework Agreement with Tiancheng Leasing for the purpose of governing the conduct of continuing connected transactions between the Company and Tiancheng Leasing from 2023 to 2025. Tiancheng Leasing Framework Agreement shall be effective from 1 January 2023 to 31 December 2025. Pursuant to the Tiancheng Leasing Framework Agreement, Tiancheng Leasing mainly provides financial leasing services to the Company and its subsidiaries.

With reference to the Board Letter, the Finance Lease Transactions constitute discloseable and continuing connected transactions of the Company and are subject to annual reporting, announcement and Independent Shareholders' approval requirements under Chapters 14 and 14A of the Hong Kong Listing Rules.

LETTER FROM GRAM CAPITAL

Entrusted Loans Transactions

On 2 November 2022, the Company signed framework agreements with Shandong Company and Chaohu Power respectively, stipulating that the Company will provide a renewable entrusted loan of not more than RMB12 billion to Shandong Company, and a renewable entrusted loan of not more than RMB1.2 billion to Chaohu Power. The aforesaid loans have no fixed term, the concrete terms of which are subject to the renewable entrusted loan agreements to be actually signed.

With reference to the Board Letter, the Entrusted Loans Transactions constitute discloseable and connected transactions of the Company and are subject to announcement and Independent Shareholders' approval requirements under the Chapters 14 and 14A of the Hong Kong Listing Rules.

The Independent Board Committee comprising Mr. Xu Mengzhou, Mr. Liu Jizhen, Mr. Xu Haifeng, Mr. Zhang Xianzhi and Mr. Xia Qing (all being independent non-executive Directors) has been established to advise the Independent Shareholders on (i) whether the terms of the Transactions are fair and reasonable and on normal commercial terms; and (ii) whether the Transactions are conducted in the ordinary and usual course of business of the Group and in the interests of the Company and its Shareholders as a whole; and (iii) how the Independent Shareholders should vote in respect of the resolutions to approve the Transactions at the EGM. We, Gram Capital Limited, have been appointed as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in this respect.

INDEPENDENCE

During the past two years immediately preceding the Latest Practicable Date, Gram Capital was engaged as the independent financial adviser to the Company's independent board committee and independent shareholders in respect of (i) continuing connected transactions (details of which were set out in the Company's circular dated 1 November 2021); and (ii) discloseable transaction and continuing connected transactions (details of which were set out in the Company's circular dated 6 December 2021). Save for the aforesaid engagements, there was no other service provided by Gram Capital to the Company during the past two years immediately preceding the Latest Practicable Date.

Notwithstanding the aforesaid engagements, as at the Latest Practicable Date, we were not aware of any relationships or interests between Gram Capital and the Company, or any other parties that could be reasonably regarded as hindrance to Gram Capital's independence to act as the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders.

Having considered the above, in particular (i) none of the circumstances as set out under the Rule 13.84 of the Hong Kong Listing Rules existed as at the Latest Practicable Date; and (ii) the aforesaid past engagements were only independent financial adviser engagements and will not affect our independence to act as the Independent Financial Advisers, we are of the view that we are independent to act as the Independent Financial Adviser.

LETTER FROM GRAM CAPITAL

BASIS OF OUR OPINION

In formulating our opinion to the Independent Board Committee and the Independent Shareholders, we have relied on the statements, information, opinions and representations contained or referred to in the Circular and the information and representations as provided to us by the Directors. We have assumed that all information and representations that have been provided by the Directors, for which they are solely and wholly responsible, are true and accurate at the time when they were made and continue to be so as at the Latest Practicable Date. We have also assumed that all statements of belief, opinion, expectation and intention made by the Directors in the Circular were reasonably made after due enquiry and careful consideration. We have no reason to suspect that any material facts or information have been withheld or to doubt the truth, accuracy and completeness of the information and facts contained in the Circular, or the reasonableness of the opinions expressed by the Company, its advisers and/or the Directors, which have been provided to us. Our opinion is based on the Directors' representation and confirmation that there is no undisclosed private agreement/arrangement or implied understanding with anyone concerning the Transactions. We consider that we have taken sufficient and necessary steps (such as obtaining the Huaneng Group Framework Agreement, the Tiancheng Leasing Framework Agreement and the Framework Agreements, review the terms of the Purchase of Fuel and Transportation Transactions, the Purchase of Technical and Engineering Contracting Transactions, the Finance Lease Transactions and the Entrusted Loans Transactions; and analysis on the Company's estimated figures in relation to the annual caps of Purchase of Fuel and Transportation Transactions and the Purchase of Technical and Engineering Contracting Transactions) on which to form a reasonable basis and an informed view for our opinion in compliance with Rule 13.80 of the Hong Kong Listing Rules.

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

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

LETTER FROM GRAM CAPITAL

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

PRINCIPAL FACTORS AND REASONS CONSIDERED

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

1. Background of and reasons for the Transactions

Business overview of the Group

With reference to the Board Letter, the Company and its subsidiaries mainly develop, construct, operate and manage large-scale power plants in China nationwide. It is one of the largest listed power producers in China, with a controlled generation capacity of 122,573MW.

A. PURCHASE OF FUEL AND TRANSPORTATION TRANSACTIONS

Information on Huaneng Group

With reference to the Board Letter, Huaneng Group is principally engaged in the operation and management of enterprise investments; development, investment, construction, operation and management of power plants; organising the generation and sale of power (and heat); and the development, investment, construction, production and sale of products in relation to energy, transportation, new energy and environmental protection industries.

Reasons for and benefits of the Purchase of Fuel and Transportation Transactions

As advised by the Directors, the Company's main fuel for power generation is coal. The competitive advantage of Huaneng Group and its subsidiaries and associates in the supply of fuel and transportation services is that they can offer more favourable prices for bulk purchase of fuel and transportation services. Upon our further enquiry, the Directors advised us that Huaneng Group has provided fuel and transportation services to the Group for over five years. Taking into consideration the ability of Huaneng Group and its subsidiaries and associates to offer more favourable prices for purchases of fuel and transportation services, and owing to their close relationships with the Company and its subsidiaries, Huaneng Group and its subsidiaries and associates are able to provide the Company and its subsidiaries with fuel and transportation services in a timely and reliable manner, thereby minimising the management and operational costs of the Company and its subsidiaries.

Fuel cost represents the major component of operating expenses of the Group and coal is the major raw material of the Group for power generation. According to the Company's interim report for the six months ended 30 June 2022 ("1H2022") (the "2022 Interim Report") and annual report for the year ended 31 December 2021 ("FY2021") (the "2021 Annual Report"), fuel cost of the Group amounted to approximately RMB80.74 billion for 1H2022 and approximately RMB146.54 billion for

LETTER FROM GRAM CAPITAL

FY2021, accounting for approximately 69.26% and 69.68% of the total operating expenses of the Group for 1H2022 and FY2021 respectively. Thus, it is important for the Group to ensure stable coal supply and control fuel cost and quality at a reasonable level.

As also confirmed by the Directors, as the Purchase of Fuel and Transportation Transactions are entered into in the ordinary and usual course of business of the Group and on a frequent basis, it would be costly and impracticable to make regular disclosure of each of the relevant transactions and obtain the prior approval from the Independent Shareholders, as required by the Hong Kong Listing Rules, if necessary. Accordingly, the Directors are of the view that the Purchase of Fuel and Transportation Transactions will be beneficial to the Company and the Shareholders as a whole.

Having considered the reasons and benefits of the Purchase of Fuel and Transportation Transactions as mentioned above, we are of the view that the Purchase of Fuel and Transportation Transactions are conducted in the ordinary and usual course of business of the Group and in the interest of the Company and the Shareholders as a whole.

Principal terms of the Purchase of Fuel and Transportation Transactions

Set out below are the principal terms of the Purchase of Fuel and Transportation Transactions, details of which are set out under the section headed “Purchase of fuel and transportation services” of the Board Letter.

Date of agreement

25 October 2022

Term

From 1 January 2023 to 31 December 2023

Subject matter and pricing policy

Pursuant to the Huaneng Group Framework Agreement, the Company and its subsidiaries will purchase fuel and coal transportation services from Huaneng Group and its subsidiaries and associates at prices and charges calculated by reference to RMB/ton and the actual weight of carriage, with arm's length terms taking into account the then market conditions, and in any event the terms of the purchases of fuel and the transportation services shall be no less favourable than those offered by independent third parties to the Company and its subsidiaries for the same or similar type of fuel supply or transportation services.

With reference to the Board Letter, Directors and senior management of the Company will monitor closely and review regularly each continuing connected transaction of the Company, and will adopt a series of risk management arrangements, and endeavour to maintain, in relation to each continuing connected transaction, the independence of the Company; the fairness of the price of the transaction; the fairness of the terms of the transaction; and the right of choice of the Company to conduct transactions with independent third parties other than Huaneng Group and its subsidiaries and

LETTER FROM GRAM CAPITAL

associates. Details of the internal control measures are set out under the section headed “VIII. MEASURES TO SAFEGUARD THE INTEREST OF THE INDEPENDENT SHAREHOLDERS” of the Board Letter. Having considered that (i) the Company has established a dedicated mechanism for information exchange and weekly and monthly information analysis; (ii) the Company shall assess the quotations based on factors such as quality, locality and market conditions, in order to determine the appropriate price for the purchase of fuel and the price for coal transportation, we are of the view that the effective implementation of the internal control procedures can help to ensure fair pricing of the Purchase of fuel and transportation services.

For our due diligence purpose, we obtained eight copies of contracts in total for the purchase of coal between (i) the Group and independent third parties; and (ii) the Group and members of Huaneng Group in 2022. We noted from the aforesaid documents that for a similar period, the prices of coal (RMB per calorific value per tonne) offered by members of Huaneng Group were not higher than those offered by the independent third party.

Proposed annual caps

Set out below are (i) historical amounts of the Purchase of Fuel and Transportation Transactions for the nine months ended 30 September 2022 with existing annual cap for the year ending 31 December 2022; and (ii) the proposed annual cap for the year ending 31 December 2023 (the “**Purchase of Fuel and Transportation Cap**”):

	For the year ending 31 December 2022 (“FY2022”) RMB’billion
Existing annual cap	120.0
Historical amounts	65.856 (Note)
	For the year ending 31 December 2023 (“FY2023”) RMB’billion
Purchase of Fuel and Transportation Cap	120.9

Note: the figure was for the nine months ended 30 September 2022.

Detailed bases for the determination of Purchase of Fuel and Transportation Cap were set out under the section headed “Purchase of fuel and transportation services” of the Board Letter. The Purchase of Fuel and Transportation Cap for FY2023 is close to the existing annual cap for FY2022.

LETTER FROM GRAM CAPITAL

Upon our request, we obtained the calculation for the Purchase of Fuel and Transportation Cap. The total estimated demand of Purchase of Fuel and Transportation Transactions for FY2023 was approximately the same as the Purchase of Fuel and Transportation Cap.

Pursuant to the calculation, (i) the total estimated demand of coal; and (ii) the total estimated demand of fuel transportation services for the year ending 31 December 2023 accounted for approximately 98% and approximately 2% to the total estimated demand of Purchase of Fuel and Transportation Transactions for the year ending 31 December 2023 respectively.

To assess the fairness and reasonableness of the estimated demand of coal for FY2023, we performed the following analyses:

Upon our request, the Directors advised us that the estimated coal price of raw coal, and the estimated quantity of raw coal to be purchased by the Group from Huaneng Group and its subsidiaries and associates for FY2023.

Coal price

According to the 2022 Interim Report, the average raw coal price of the Group was RMB840.27 per ton for 1H2022. As the estimated raw coal price for FY2023 was close to (with the difference of less than 5%) the average raw coal price of the Group for 1H2022, we consider the estimated raw coal price for FY2023 to be reasonable.

Coal quantity

Based on the historical raw coal purchased quantity as provided by the Company, we noted that (i) quantity of coal purchased by the Group from Huaneng Group and its subsidiaries and associates accounted for approximately 61.7% and 61.0% to the quantity of coal purchased by the Group from all suppliers for FY2021 and 1H2022; and (ii) the Group recorded an increase of approximately 19% in quantity of coal purchased by the Group from all suppliers for FY2021 as compared to that for FY2020.

Based on the Group's purchase of coal of approximately 203 million tonnes for FY2021 as provided by the Company, the estimated increase of coal purchased quantity of approximately 19% (assuming from FY2021 to FY2023) and the average percentage ratio of approximately 61.3% of the Group's coal purchased amount from Huaneng Group and its subsidiaries and associates to all suppliers, the implied quantity of coal purchased by the Group from Huaneng Group and its subsidiaries and associates was approximately 148 million tonnes. As the estimated quantity of coal to be purchased by the Group from Huaneng Group and its subsidiaries and associates for FY2023 was in line with (with difference of less than 5%) the aforesaid implied quantity of coal purchase amount (i.e. 148 million tonnes), we consider that the estimated quantity of raw coal to be purchased by the Group from Huaneng Group and its subsidiaries and associates for FY2023 to be justifiable.

Having considered that (i) the estimated purchase price of raw coal for FY2023 to be reasonable; (ii) the estimated quantity of raw coal to be purchased by the Group from Huaneng Group and its subsidiaries and associates for FY2023 to be justifiable; and (iii) the total estimated demand of

LETTER FROM GRAM CAPITAL

coal accounted for approximately 98% to the total estimated demand of Purchase of Fuel and Transportation Transactions for FY2023, we are of the view that the total estimated demand of coal and fuel transportation services for FY2023 to be justifiable. Accordingly, we are of the view that the Purchase of Fuel and Transportation Cap for FY2023 to be fair and reasonable.

Shareholders should note that as the Purchase of Fuel and Transportation Cap is relating to future events and were estimated based on assumptions which may or may not remain valid for the entire period up to 31 December 2023, and they do not represent forecasts of cost to be incurred from the Purchase of Fuel and Transportation Cap. Consequently, we express no opinion as to how closely the actual amount to be incurred from the Purchase of Fuel and Transportation Transactions will correspond with the Purchase of Fuel and Transportation Cap.

In light of the above, we consider that the terms of the Purchase of Fuel and Transportation Transactions (including the Purchase of Fuel and Transportation Cap) are on normal commercial terms and are fair and reasonable.

Hong Kong Listing Rules implication on Purchase of Fuel and Transportation Transactions

The Directors confirmed that the Company shall comply with the requirements of Rules 14A.53 to 14A.59 of the Hong Kong Listing Rules pursuant to which (i) the accumulative values of the Purchase of Fuel and Transportation Transactions must be restricted by the Purchase of Fuel and Transportation Cap; (ii) the terms of the Purchase of Fuel and Transportation Transactions must be reviewed by the independent non-executive Directors annually; (iii) details of independent non-executive Directors' annual review on the terms of the Purchase of Fuel and Transportation Transactions must be included in the Company's subsequent published annual reports.

Furthermore, it is also required by the Hong Kong Listing Rules that the auditors of the Company must provide a letter to the Board confirming, among other things, whether anything has come to their attention that causes them to believe that the Purchase of Fuel and Transportation Transactions (i) have not been approved by the Board; (ii) were not entered into, in all material respects, in accordance with the relevant agreement governing the transactions; and (iii) have exceeded the annual cap.

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

With the stipulation of the above requirements for continuing connected transactions pursuant to the Hong Kong Listing Rules, we are of the view that there are adequate measures in place to monitor the Purchase of Fuel and Transportation Transactions and hence the interest of the Independent Shareholders would be safeguarded.

LETTER FROM GRAM CAPITAL

Recommendation on Purchase of Fuel and Transportation Transactions

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

B. PURCHASE OF TECHNICAL AND ENGINEERING CONTRACTING TRANSACTIONS

Reasons for and benefits of the Purchase of Technical and Engineering Contracting Transactions

With reference to the Board Letter, the competitive advantage of Huaneng Group and its subsidiaries and associates in terms of providing technical services, engineering contracting services and other services is that they can offer more favourable prices to the Company and its subsidiaries. Taking into consideration the ability of Huaneng Group and its subsidiaries and associates to offer more favourable prices for technical services, engineering contracting services and other services, and owing to their close relationships with the Company and its subsidiaries, Huaneng Group and its subsidiaries and associates are able to provide the Company and its subsidiaries with the technical services, engineering contracting services and other services in a timely and reliable manner, thereby minimising the management and operational costs of the Company and its subsidiaries. In addition, some of the subsidiaries and associates of Huaneng Group focus on researching information technology and national new energy power generation technology, as well as equipment of thermal energy in power plants, therefore can provide reliable and efficient services of information technology and project contracting, and can also provide advanced and comprehensive power station-specific technical services and project contracting services, which can lower the operational costs of the Company and its subsidiaries.

As also confirmed by the Directors, as the Purchase of Technical and Engineering Contracting Transactions are entered into in the ordinary and usual course of business of the Group and on a frequent basis, it would be costly and impracticable to make regular disclosure of each of the relevant transactions and obtain the prior approval from the Independent Shareholders, as required by the Hong Kong Listing Rules, if necessary. Accordingly, the Directors are of the view that the Purchase of Technical and Engineering Contracting Transactions will be beneficial to the Company and the Shareholders as a whole.

Having considered the reasons and benefits of the Purchase of Technical and Engineering Contracting Transactions as mentioned above, we are of the view that the Purchase of Technical and Engineering Contracting Transactions are conducted in the ordinary and usual course of business of the Group and in the interest of the Company and the Shareholders as a whole.

LETTER FROM GRAM CAPITAL

Principal terms of the Purchase of Technical and Engineering Contracting Transactions

Set out below are the principal terms of the Purchase of Technical and Engineering Contracting Transactions, details of which are set out under the section headed “Accepting the technical services, engineering contracting services and other services” of the Board Letter.

Date of agreement

25 October 2022

Term

From 1 January 2023 to 31 December 2023

Subject matter

Accepting the technical services, engineering contracting services and other services between the Company and its subsidiaries and Huaneng Group and its subsidiaries and associates mainly includes the provision of fuel management service relevant to power plants, maintenance services for power plants’ monitoring systems, real-time consolidation of project data, trial run of generating units, supervision of manufacture of facilities, contracting of construction works in progress and insurance services by Huaneng Group and its subsidiaries and associates to the Company and its subsidiaries.

Pricing policy

Pursuant to the Huaneng Group Framework Agreement and with reference of the Board Letter, the terms and the prices of transactions with respect to technical services, engineering contracting services and other services between the Company and its subsidiaries from Huaneng Group and its subsidiaries and associates are negotiated at arm’s length terms, taking into account the types of energy transactions, technical indicators and engineering related raw materials required for each of the contracts according to the Company’s procurement rules, in any event at the terms and prices no less favourable than those offered to the Company and its subsidiaries by independent third parties for the same or similar types of technical services, engineering contracting services and other services. In addition, the payment of consideration will be settled in cash in arrears, or in accordance with the payment terms agreed by the relevant parties in the contracts to be entered into pursuant to the framework agreement.

With reference to the Board Letter, Directors and senior management of the Company will monitor closely and review regularly each continuing connected transaction of the Company, and will adopt a series of internal control measures, and endeavour to maintain, in relation to each continuing connected transaction, the independence of the Company; the fairness of the price of the transaction; the fairness of the terms of the transaction; and the right of choice of the Company to conduct transactions with independent third parties other than Huaneng Group and its subsidiaries and associates. Details of the internal control measures are set out under the section headed “VIII. MEASURES TO SAFEGUARD THE INTEREST OF THE INDEPENDENT SHAREHOLDERS” of

LETTER FROM GRAM CAPITAL

the Board Letter. Having considered that (i) there will be quotation procedures and/or invite tender; and (ii) comprehensive consideration will be made by the Company in addition to the offer of same or more favourable terms by the counterparty in a transaction, we are of the view that the effective implementation of the internal control procedures can help to ensure fair pricing of the Purchase of Technical and Engineering Contracting Transactions.

Proposed annual caps

Set out below are (i) historical amounts of the Purchase of Technical and Engineering Contracting Transactions for the nine months ended 30 September 2022 with existing annual cap for FY2022; and (iii) the proposed annual cap for FY2023 (the “**Purchase of Technical and Engineering Contracting Cap**”):

**For the year ending
31 December 2022**

RMB’billion

Existing annual cap 4.2

Historical amounts 1.480

(Note)

**For the year ending
31 December 2023**

RMB’billion

The Purchase of Technical and Engineering Contracting Cap 9.5

Note: the figure was for the nine months ended 30 September 2022.

Detailed bases for the determination of proposed annual cap were set out under the section headed “Accepting the technical services, engineering contracting services and other services” of the Board Letter. The Purchase of Technical and Engineering Contracting Cap represents a significant increase of approximately 126% to the existing annual cap for FY2022.

As advised by the Directors, when determining the proposed annual cap, they mainly took into account (i) the existing annual cap for FY2022 (i.e. RMB4.2 billion) which is largely derived from the estimation of the existing overall business scale and operation of the power plants of the Company and its subsidiaries as well as the anticipated development and growth of such power plants as deemed reasonable by the Company and its subsidiaries; and (ii) the estimated demand of new energy project construction services under the Purchase of Technical and Engineering Contracting Transactions for FY2023 (i.e. RMB4.8 billion)(the “**Estimated Demand of New Energy Project Construction Services**”).

LETTER FROM GRAM CAPITAL

Upon our further request, we understood that due to the nature of the Purchase of Technical and Engineering Contracting Transactions, the majority amounts of the transactions were normally recorded in the fourth quarter of such year. Therefore, when determined the proposed annual cap, the Directors took into account the existing annual cap for FY2022 instead of the historical transaction amounts for nine months ended 30 September 2022. To examine this point, we summarised the historical amounts of the Purchase of Technical and Engineering Contracting Transactions for nine months ended 30 September 2020 and 2021; and for the year ended 31 December 2020 and 2021 as follows:

	FY2020		FY2021	
	<i>RMB' billion</i>	<i>Proportion</i>	<i>RMB' billion</i>	<i>Proportion</i>
Historical amounts for the first nine months	0.927	52%	1.516	59%
Historical amounts for the last three months	0.844	48%	1.048	41%
Historical amounts for the year	1.771	100%	2.564	100%
Annual caps	1.8		2.9	
Utilisation rates	98%		88%	

Based on the above table, for FY2020 and FY2021, the majority of historical amounts of the Purchase of Technical and Engineering Contracting Transactions were recorded in the fourth quarter of such year. Having also considered the high utilisation rates of the annual caps for the two years ended 31 December 2021, we are of the view that it is justifiable to determine the Purchase of Technical and Engineering Contracting Cap with reference to the existing annual cap for FY2022 instead of the historical transaction amounts for the nine months ended 30 September 2022.

The estimated amounts of the Purchase of Technical and Engineering Contracting Transactions (excluding the Estimated Demand of New Energy Project Construction Services) of RMB4.7 billion for FY2023 represented an increase of approximately 12% as compared to the existing annual cap for FY2022. Having considered that the Group recorded an increase of approximately 45% in historical transaction amounts for FY2021 as compared to FY2020, we consider the aforesaid increase of approximately 12% to be justifiable.

Accordingly, we consider the estimated amounts of the Purchase of Technical and Engineering Contracting Transactions (excluding the Estimated Demand of New Energy Project Construction Services) of RMB4.7 billion for FY2023 to be justifiable.

As mentioned above and as further advised by the Directors, the significant increase in the Purchase of Technical and Engineering Contracting Cap was mainly due to the Company's actively response to the dual carbon target and the intention to accelerate the green transformation. Pursuant to which, the Company proposed to significantly increase its investment in new energy project construction.

LETTER FROM GRAM CAPITAL

Based on our further enquiry, we understood that the Company expected to increase by 11GW of new energy installed capacity in 2023. The estimated demand of new energy project construction services under the Purchase of Technical and Engineering Contracting Transactions for FY2023 (i.e. RMB4.8 billion) was determined by the Company's subsidiaries after considering the capacity of members of Huaneng Group (as service supplier) and preliminary discussion between the subsidiaries and members of Huaneng Group. The Company's subsidiaries assumed that the members of Huaneng Group were able to undertake 10% of the new energy project construction works. We also obtained cost of different type of new energy project and noted that the implied estimation amount was approximately RMB4.8 billion. Accordingly, we are of the view that the estimated demands of new energy project construction services under the Purchase of Technical and Engineering Contracting Transactions for FY2023 (i.e. RMB4.8 billion) for FY2023 to be justifiable.

Based on the above factors, we are of the view that the Purchase of Technical and Engineering Contracting Cap is fair and reasonable.

Shareholders should note that as the Purchase of Technical and Engineering Contracting Cap is relating to future events and were estimated based on assumptions which may or may not remain valid for the entire period up to 31 December 2023, and they do not represent forecasts of cost to be incurred from the Purchase of Technical and Engineering Contracting Transactions. Consequently, we express no opinion as to how closely the actual amount to be incurred from the Purchase of Technical and Engineering Contracting Transactions will correspond with the Purchase of Technical and Engineering Contracting Cap.

In light of the above, we consider that the terms of the Purchase of Technical and Engineering Contracting Transactions (including the Purchase of Technical and Engineering Contracting Cap) are on normal commercial terms and are fair and reasonable.

Hong Kong Listing Rules implication on Purchase of Technical and Engineering Contracting Transactions

The Directors confirmed that the Company shall comply with the requirements of Rules 14A.53 to 14A.59 of the Hong Kong Listing Rules pursuant to which (i) the accumulative values of the Purchase of Technical and Engineering Contracting Transactions must be restricted by the Purchase of Technical and Engineering Contracting Cap; (ii) the terms of the Purchase of Technical and Engineering Contracting Transactions must be reviewed by the independent non-executive Directors annually; (iii) details of independent non-executive Directors' annual review on the terms of the Purchase of Technical and Engineering Contracting Transactions must be included in the Company's subsequent published annual reports.

Furthermore, it is also required by the Hong Kong Listing Rules that the auditors of the Company must provide a letter to the Board confirming, among other things, whether anything has come to their attention that causes them to believe that the Purchase of Technical and Engineering Contracting Transactions (i) have not been approved by the Board; (ii) were not entered into, in all material respects, in accordance with the relevant agreement governing the transactions; and (iii) have exceeded the annual cap.

LETTER FROM GRAM CAPITAL

In the event that the accumulative amounts of the Purchase of Technical and Engineering Contracting Transactions are anticipated to exceed the Purchase of Technical and Engineering Contracting Cap, or that there is any proposed material amendment to the terms of the Purchase of Technical and Engineering Contracting Transactions, as confirmed by the Directors, the Company shall comply with the applicable provisions of the Hong Kong Listing Rules governing continuing connected transactions.

With the stipulation of the above requirements for continuing connected transactions pursuant to the Hong Kong Listing Rules, we are of the view that there are adequate measures in place to monitor the Purchase of Technical and Engineering Contracting Transactions and hence the interest of the Independent Shareholders would be safeguarded.

Recommendation on Purchase of Technical and Engineering Contracting Transactions

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

C. FINANCE LEASE TRANSACTIONS

Information on Tiancheng Leasing

With reference to the Board Letter, Tiancheng Leasing is a company incorporated in the PRC, of which the principal business is finance lease. Currently, Tiancheng Leasing has six shareholders. Apart from the 20% equity interest which is held by the Company, the remaining 80% equity interests of Tiancheng Leasing is held by the five controlling subsidiaries of Huaneng Group (of which Huaneng Renewables Corporation Limited holds 5.56% interest, Huaneng Renewables (Hong Kong) Company Limited holds 4.44% interest, Huaneng Capital Services Company Limited holds 39% interest, China Huaneng Group Hong Kong Limited holds 21% interest, Huaneng Lancang River Hydropower Co., Ltd. holds 10% interest).

Reasons for and benefits of the Finance Lease Transactions

Certain reasons for and benefits of the Finance Lease Transactions are set out in the section headed “Reasons for and benefits of entering into the Tiancheng Leasing Framework Agreement” of the Board Letter.

With reference to the Tiancheng Leasing Framework Agreement and the Board Letter, the amount of the lease rent will be determined by reference to the total purchase price of the relevant equipment and the interest agreed by the parties. The interest rate shall be based upon the term loan

LETTER FROM GRAM CAPITAL

benchmark rate published by the PBOC from time to time and negotiated and agreed by the parties on arm's length basis taking into account the market conditions, and shall be no less favourable than those offered to the Company by domestic independent third parties for the provision of similar services. Handling fee (if any) may be charged by Tiancheng Leasing from the Company and its subsidiaries at the time of conclusion of the finance leases under the Tiancheng Leasing Framework Agreement on terms no less favourable than those offered to the Company and its subsidiaries by independent third parties and at such rate as fixed by reference to the charge rates of other major financial institutions in the PRC for finance leases of assets of the same or similar type or the applicable rate (if any) published by the PBOC from time to time in relation to such services and as set forth in the relevant written agreements.

Having considered the reasons and benefits of the Finance Lease Transactions as mentioned above, in particular, the pricing policy of the Tiancheng Leasing Framework Agreement, we are of the view that the Finance Lease Transactions are conducted in the ordinary and usual course of business of the Group and in the interest of the Company and the Shareholders as a whole.

Principal terms of the Finance Lease Transactions

Set out below are the principal terms of the Finance Lease Transactions, details of which are set out under the section headed "V. TIANCHENG LEASING FRAMEWORK AGREEMENT" of the Board Letter.

Date of agreement

25 October 2022

Term

From 1 January 2023 to 31 December 2025

Subject matter

Under the Tiancheng Leasing Framework Agreement, Tiancheng Leasing mainly provides financial leasing services to the Company and its subsidiaries. The finance lease services provided by Tiancheng Leasing include the direct lease (the "**Direct Lease(s)**") and sale-and-leaseback (the "**Sales and Leaseback Lease(s)**"). Details of the Direct Lease and Sales and Leaseback Lease are set out under the section headed "Direct Lease(s) and Sales and Leaseback" of the Board Letter.

Pricing policy

With reference to the Board Letter, the amount of the lease rent will be determined by reference to the total purchase price of the relevant equipment and the interest agreed by the parties. The interest rate shall be based upon the term loan benchmark rate published by the PBOC from time to time and negotiated and agreed by the parties on arm's length basis taking into account the market conditions, and shall be no less favourable than those offered to the Company by domestic independent third parties for the provision of similar services. Handling fee (if any) may be charged

LETTER FROM GRAM CAPITAL

by Tiancheng Leasing to the Company and its subsidiaries at the time of conclusion of the finance leases under the Tiancheng Leasing Framework Agreement on terms no less favourable than those offered to the Company and its subsidiaries by independent third parties and at such rate as fixed by reference to the charge rates of other major financial institutions in the PRC for finance leases of assets of the same or similar type or the applicable rate (if any) published by the PBOC from time to time in relation to such services and as set forth in the relevant written agreements. The lease interest rate will be decided at the commencement of each finance lease executed pursuant to the Tiancheng Leasing Framework Agreement. In the event the PBOC adjusts the annual benchmark rate for RMB-denominated term loans during the term of relevant finance lease, the lease interest rate will be adjusted accordingly. The transaction amounts shall be paid at the end of each quarter or year or at such other intervals as agreed by the parties.

With reference to the Board Letter, Directors and senior management of the Company will monitor closely and review regularly each continuing connected transaction of the Company, and will adopt a series of internal control measures, and endeavour to maintain, in relation to each continuing connected transaction, the independence of the Company; the fairness of the price of the transaction; the fairness of the terms of the transaction; and the right of choice of the Company to conduct transactions with independent third parties other than Huaneng Group and its subsidiaries and associates (including Tiancheng Leasing). Details of the internal control measures are set out under the section headed “VIII. MEASURES TO SAFEGUARD THE INTEREST OF THE INDEPENDENT SHAREHOLDERS” of the Board Letter. Having considered that there will be quotation collection procedures and contract review procedures before considering conducting finance leasing transactions the Company, we are of the view that the effective implementation of the internal control measures can help to ensure fair pricing of the Finance Lease Transactions.

Duration of the Leasing

With reference to the Board Letter, the lease term will be determined by, amongst others, the useful life of the relevant leased equipment, the financial needs of the Company and the funding availability of Tiancheng Leasing, which in general should not exceed the useful life of such leased equipment. As advised by the Directors, the lease term of relevant financial lease(s) may exceed three years.

In assessing the reasons for the duration of the relevant finance lease being longer than three years, we have considered the following factors:

- (i) by entering into the finance lease(s) with a longer duration, the payment obligation of the costs of the equipment of the Group is allowed to be spread over a longer period, which would reduce the stress to the planning of working capital by the relevant members of the Group; and
- (ii) the lease period of each finance lease service shall be determined with reference to, among other things, the useful life of the relevant leasing equipment, which, as confirmed by the Directors, is ranged from 5 to 30 years, subject to the type of equipment and its utilisation rate.

LETTER FROM GRAM CAPITAL

In considering whether it is normal business practice for agreements of similar nature with the Finance Lease Transactions to have a term of such duration, we identified transactions entered into by companies listed on the Hong Kong Stock Exchange involving finance lease with duration of more than three years.

Taking into account of the above, we confirm that the duration of the Finance Lease Transactions which may be longer than three years is required and it is normal business practice for the Finance Lease Transactions to be of such duration.

Proposed annual caps

Set out below are (i) historical amounts of the Finance Lease Transactions for the two years ended 31 December 2021 and the nine months ended 30 September 2022 with existing annual caps; and (ii) the proposed annual caps for the three years ending 31 December 2025:

	For the year ended 31 December 2020 <i>RMB'million</i>	For the year ended 31 December 2021 <i>RMB'million</i>	For the year ending 31 December 2022 <i>RMB'million</i>
Lease principal (maximum daily amounts)	3,659	3,953	2,126 (Note)
Existing annual caps	10,000	10,000	10,000
Total utilisation rate (%)	36.6	39.5	N/A
Total lease interests	195	145	117
Annual cap for Lease Interest	490	490	490
Total utilisation rate (%)	39.8	29.6	N/A

Note: the figure was for the nine months ended 30 September 2022.

The proposed annual caps of the Finance Lease Transactions are set out as follows:

	For the year ending 31 December 2023 <i>RMB'million</i>	For the year ending 31 December 2024 <i>RMB'million</i>	For the year ending 31 December 2025 <i>RMB'million</i>
Lease principal	10,000	10,000	10,000
- Direct Lease	8,000	8,000	8,000
- Sales and Leaseback Lease	2,000	2,000	2,000
Lease interest	490	490	490

LETTER FROM GRAM CAPITAL

We noted that the proposed annual caps for the three years ending 31 December 2025 were determined with reference to the factors set out under the section headed “V. TIANCHENG LEASING FRAMEWORK AGREEMENT” of the Board Letter.

Upon our request, the Directors advised us that the lease principal amounts were determined based on (i) 10 identified solar power projects which may involve the finance lease arrangement with Tiancheng Leasing (i.e. RMB6,600 million); and (ii) proposed solar power projects (based on the expected newly-added installed capacity of solar power) which may involve the finance lease arrangement with Tiancheng Leasing (i.e. RMB3,400 million).

In respect of the 10 identified solar power projects, we further obtained their respective installed capacity and the anticipated per installed capacity finance lease amount. By multiplying the total installed capacity of the solar power projects and the anticipated per installed capacity finance lease amount, the implied finance lease amounts would be approximately RMB6,601 million. The estimated lease principal amounts of the 10 identified solar power projects (i.e. RMB6,600 million) was in line with (with difference of less than 5%) the aforesaid implied finance lease amounts of RMB6,601 million.

Upon our request, the Directors advised us the expected installed capacity of solar power of the Group as at the end of “the Fourteenth Five Year Period” (i.e. 31 December 2025). Based on the anticipated per installed capacity finance lease amount adopted above and the difference in estimated installed capacity of solar power as at 31 December 2025 and 30 June 2022, assuming the Group will meet the target and with the same annual increase, the implied lease principal amounts were over RMB20,000 million. The implied lease principal amounts, which is much larger than the estimated amounts of RMB3,400 million, indicates the Group’s possible demand of lease services to be provided by independent financial institution and Tiancheng Leasing or other means of financing.

Based on the above factors and the Directors expected the demand of lease services from Tiancheng Leasing would remain at similar level for the three years ending 31 December 2025, we are of the view that the estimated demand of the Finance Lease Transactions (lease principal) for the three years ending 31 December 2025 are fair and reasonable.

Upon our further request, the Company provided us a list, showing all direct lease arrangement and sale and lease arrangement entered into between the Group and Tiancheng Leasing for FY2022. According to the list, we noted that the principal amount of (i) direct lease arrangements and (ii) sale and lease arrangement represented approximately (i) 80%; and (ii) 20% respectively to the total principal amount of lease arrangements for FY2022. Accordingly, we consider that (i) the transaction amount contemplated under the Direct Leases category of the Tiancheng Leasing Framework Agreement between the Company and its subsidiaries and Tiancheng Leasing for the period from 2023 to 2025 at RMB8,000 million each year; and (ii) the transaction amount contemplated under the Sales and Leaseback category of the Tiancheng Leasing Framework Agreement between the Company and its subsidiaries and Tiancheng Leasing for the period from 2023 to 2025 at RMB2,000 million each year, are fair and reasonable.

Accordingly, we consider the proposed annual caps of principal amount for Finance Lease Transactions for the three years ending 31 December 2025 to be fair and reasonable.

LETTER FROM GRAM CAPITAL

In respect of the proposed annual caps of lease interests for the three years ending 31 December 2025, we noted that the Company considered (i) the recent interest rate offered by Tiancheng Leasing; (ii) the proposed annual caps for the lease principal for the three years ending 31 December 2025; and (iii) the historical interest expenses from the lease arrangement between the Group and Tiancheng Leasing.

Based on the above factors, we consider the proposed annual caps for lease interest for the three years ending 31 December 2025 to be fair and reasonable.

Shareholders should note that as the proposed annual caps are relating to future events and were estimated based on assumptions which may or may not remain valid for the entire period up to 31 December 2025, and they do not represent forecasts of finance lease amount/financing cost to be incurred from the Finance Lease Transactions. Consequently, we express no opinion as to how closely the actual finance lease amount/financing cost to be incurred from the Finance Lease Transactions will correspond with the proposed annual caps.

In light of the above, we consider that the terms of the Finance Lease Transactions (including the proposed annual caps) are on normal commercial terms and are fair and reasonable.

Hong Kong Listing Rules implication on Finance Lease Transactions

The Directors confirmed that the Company shall comply with the requirements of Rules 14A.53 to 14A.59 of the Hong Kong Listing Rules pursuant to which (i) the values of the Finance Lease Transactions must be restricted by the proposed annual cap for the period concerned under the Tiancheng Leasing Framework Agreement; (ii) the terms of the Finance Lease Transactions must be reviewed by the independent non-executive Directors annually; (iii) details of independent non-executive Directors' annual review on the terms of the Finance Lease Transactions must be included in the Company's subsequent published annual reports.

Furthermore, it is also required by the Hong Kong Listing Rules that the auditors of the Company must provide a letter to the Board confirming, among other things, whether anything has come to their attention that causes them to believe that the Finance Lease Transactions (i) have not been approved by the Board; (ii) were not entered into, in all material respects, in accordance with the relevant agreement governing the transactions; and (iii) have exceeded the annual cap.

In the event that the accumulative amounts of the Finance Lease Transactions are anticipated to exceed the proposed annual caps, or that there is any proposed material amendment to the terms of the Finance Lease Transactions, as confirmed by the Directors, the Company shall comply with the applicable provisions of the Hong Kong Listing Rules governing continuing connected transactions.

With the stipulation of the above requirements for continuing connected transactions pursuant to the Hong Kong Listing Rules, we are of the view that there are adequate measures in place to monitor the Finance Lease Transactions and hence the interest of the Independent Shareholders would be safeguarded.

LETTER FROM GRAM CAPITAL

Recommendation on Finance Lease Transactions

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

D. ENTRUSTED LOANS TRANSACTIONS

Set out below are the information on Shandong Company and Chaohu Power, both being the counterparties to the Framework Agreements.

Information on Shandong Company

With reference to the Board Letter, Shandong Company is a controlled subsidiary of the Company, in which the Company holds 80% equity interest, and the remaining 20% equity interest is held by Huaneng Group. Shandong Company is mainly engaged in the development, investment, construction and management of electric power (heat) projects; investment in coal, transportation and related industries; electricity purchase and sale; thermal power technical consulting services.

As at the Latest Practicable Date, Shandong Company is a connected subsidiary of the Company.

According to the audit report issued by Ernst & Young Hua Ming LLP (special general partnership) on 17 May 2022, (i) at of 31 December 2021, Shandong Company's total assets were approximately RMB70.879 billion, total liabilities were approximately RMB65.268 billion, net assets were approximately RMB 5.610 billion, asset-liability ratio was approximately 92.08%; and (ii) for the year ended 31 December 2021, operating income was approximately RMB31.722 billion, total profit was approximately RMB-3.306 billion, and net profit was approximately RMB-2.850 billion.

As at 30 September 2022, Shandong Company's unaudited total assets were approximately RMB70.563 billion, total liabilities were approximately RMB66.419 billion, net assets were approximately RMB4.144 billion, and the asset-liability ratio was approximately 94.13%. From January to September 2022, the operating income was approximately RMB28.332 billion, the total profit was approximately RMB-1.050 billion, and the net profit was approximately RMB-997 million.

Information on Chaohu Power

Chaohu Power is a controlled subsidiary of the Company, in which the Company holds 60% equity interest, Hua Ning HK holds 10% of the equity interest, and Huaihe Energy holds the remaining 30% equity interest. Huaihe Energy and its ultimate beneficial owners are persons independent of the Company and its connected persons. Chaohu Power is mainly engaged in the

LETTER FROM GRAM CAPITAL

production and supply of electricity; the construction, operation and management of power projects; the development and utilization of clean energy; electricity sales; contract energy management; recycling, processing and sales of waste resources (excluding hazardous waste); construction, operation and management of industrial heating pipe network; purchase and sale of steam, heat and cold; construction, operation and maintenance of power distribution network; production and supply of heat (projects are subject to approval according to law, business activities can only be carried out after approval by relevant departments).

As at the Latest Practicable Date, Chaohu Power is a connected subsidiary of the Company.

According to the audit report issued by Ernst & Young Hua Ming LLP (special general partnership) on 22 March 2022, (i) as at 31 December 2021, Chaohu Power's total assets were approximately RMB2.597 billion, total liabilities were approximately RMB2.320 billion, net assets were approximately RMB277 million, asset-liability ratio was approximately 89.34%; and (ii) for the year ended 31 December 2021, operating income was approximately RMB1.902 billion, total profit was approximately RMB-732 million, and net profit was approximately RMB-588 million.

As of 30 September 2022, Chaohu Power's total assets were approximately RMB2.298 billion, total liabilities were approximately RMB2.365 billion, net assets were approximately RMB-67 million, asset-liability ratio was approximately 102.90%. From January to September 2022, the operating income was approximately RMB1.943 billion, the total profit was approximately RMB-344 million, and the net profit was approximately RMB-344 million.

Reasons for and benefit of the Entrusted Loans Transactions

With reference to the Board Letter, in order to implement the requirements of the Executive Meeting of the State Council and to achieve the goals of reducing losses of thermal power units, ensuring energy supply and security, and reducing the overall asset-liability ratio, the Company proposes to advance renewable entrusted loans to Shandong Company and Chaohu Power. As advised by the Directors, the source of fund for the renewable entrusted loans will be the issuance of the special bonds for energy supply, the duration of which is unspecified.

According to the section headed "Background of the Transaction" of the Board Letter, the Company proposes to issue special bonds for guaranteeing energy supply in the inter-bank market in the first quarter of 2023. The bond is a renewable medium-term note and will be included in the equity account. Part of the raised funds will be used to provide renewable entrusted loans to Shandong Company and Chaohu Power.

Pursuant to the Framework Agreements, there is no fixed term, the concrete terms of which are subject to the renewable entrusted loan agreements to be actually signed. The extended loan term is one year as a cycle, and the initial loan term shall start from the date of advancement.

LETTER FROM GRAM CAPITAL

With reference to the Board Letter, both of Shandong Company and Chaohu Power will use the principal borrowed under the agreements for cash flow and loan replacement. Without the written consent of the Company, Shandong Company and Chaohu Power shall not change the purpose of the loans, including but not limited to both of Shandong Company and Chaohu Power shall not use it in the areas and purposes prohibited by the State.

We further conducted following works:

- (i) we searched over the website of the State Council and noted that measures will be taken to support electricity producers under central administration in issuing RMB200 billion of special bonds for energy supply;
- (ii) according to the website of National Association of Finance Market Institutional Investors, as at 31 October 2022, there were five enterprises issued special bonds for energy supply with total size of RMB102 billion, effectively solving the problems of high debt ratio and financing difficulties of power generation enterprises;
- (iii) we understood that based on the Directors' understanding, it is required that the fund from special bonds for energy supply shall be used in the 基層發電企業 (subordinate power generating enterprise*); and
- (iv) as advised by the Directors, there will be arrangement among the Company and other subsidiaries of the Company same as the Entrusted Loans Transactions.

As both the Shandong Company and Chaohu Power are non-wholly owned subsidiaries of the Company, the proposed provision of financial assistance will be essentially the provision of financial assistance by the Company to its subsidiaries. As advised by the Directors, the Company has been providing different types of financial assistance to its subsidiaries for years. Based on our research, we noted that it is not uncommon for PRC listed companies to provide financial assistance (including borrowing and guarantee) to their subsidiaries.

In addition, as further advised by the Directors, after taking into consideration of the Company's asset size, reputation, listing status, the Directors expected that the Company (as a bond issuer) would have a lower cost of borrowing on special bonds for energy supply as compared to the cost of borrowing on special bonds for energy supply of Shandong Company/Chaohu Power (as a bond issuer(s)). Therefore, on a consolidated basis, the Company will also be benefit from Shandong Company's and Chaohu Power's debt financing through the Company (as bond issuer) instead of the issuance of special bonds for energy supply by Shandong Company/Chaohu Power directly.

Based on the above factors, we are of the view that the Entrusted Loans Transactions are conducted in the ordinary and usual course of business of the Group and in the interests of the Company and Shareholders as a whole.

LETTER FROM GRAM CAPITAL

Principal terms of the Entrusted Loans Transactions

Set out below is the summary of the Entrusted Loans Transactions, details of which are set out under section headed “VI. THE FRAMEWORK AGREEMENTS” of the Board Letter.

Name of Framework Agreements	The framework agreement on Renewable Entrusted Loans with Shandong Company	The framework agreement on Renewable Entrusted Loans with Chaohu Power
Parties to the agreement	(i) the Company; and (ii) Shandong Company	(i) the Company; and (ii) Chaohu Power
Date	2 November 2022	2 November 2022
Purpose	Huaneng International agrees that Shandong Company will use the principal borrowed under the agreement for cash flow and loan replacement. Without the written consent of Huaneng International, Shandong Company shall not change the purpose of the loan, including but not limited to Shandong Company shall not use it in the areas and purposes prohibited by the State.	Huaneng International agrees that Chaohu Power will use the principal borrowed under the agreement for cash flow and loan replacement. Without the written consent of Huaneng International, Chaohu Power shall not change the purpose of the loan, including but not limited to Chaohu Power shall not use it in the areas and purposes prohibited by the State.
Guarantee method	Credit guarantee.	Credit guarantee.
Liability for breach of agreement	After the contract takes effect, both parties shall perform the obligations stipulated in the agreement. If either party fails to perform or does not fully perform the obligations stipulated in the agreement, the defaulting party shall bear the corresponding liability for breach of contract in accordance with the contract or legal provisions, and shall compensate the other party with the losses incurred thereby. If Shandong Company defaults, Huaneng International shall have the right to increase the execution interest rate of the loan under the agreement. The interest rate increase formula is: the basis of execution interest rate applicable in the agreement at that time + 300bp/year, and the interest rate will be implemented until the events constituting the default of Shandong Company under the agreement have ended, or the agreement has been terminated.	After the contract takes effect, both parties shall perform the obligations stipulated in the agreement. If either party fails to perform or does not fully perform the obligations stipulated in the agreement, the defaulting party shall bear the corresponding liability for breach of contract in accordance with the contract or legal provisions, and shall compensate the other party with the losses incurred thereby. If Chaohu Power defaults, Huaneng International shall have the right to increase the execution interest rate of the loan under the agreement. The interest rate increase formula is: the basis of execution interest rate applicable in the agreement at that time + 300bp/year, and the interest rate will be implemented until the events constituting the default of Chaohu Power under the agreement have ended, or the agreement has been terminated.

LETTER FROM GRAM CAPITAL

Term of the Framework Agreements

There is no fixed term, the concrete terms of which are subject to the renewable entrusted loan agreements to be actually signed. The extended loan term is one year as a cycle, and the initial loan term shall start from the date of advancement.

The term of the Framework Agreements is unspecified. We are of the view that the term of Framework Agreements is reasonable after considering the following factors:

- (i) as advised by the Directors, the source of fund for the renewable entrusted loans will be the issuance of the special bonds for energy supply, the duration of which is unspecified. Therefore, the duration of the Framework Agreements is in line with the duration of the special bonds for energy supply.

We further identified five enterprises (as issuer) issued special bonds for energy supply from 24 August 2022 (being the date of decision made at the State Council executive meeting chaired by Premier of the PRC) to the date of the Framework Agreements. The special bonds for energy supply issued by four out of the five issuers were with unspecified maturity date.

Details of the special bonds for energy supply with unspecified maturity date (the “Comparable Special Bonds”) are set out as follows:

Bond short name	Issuer	Date of prospectus	Initial coupon rate	Issue size	Duration
22 Datangji MTN006 (Energy Guaranteed Special Bonds)	中國大唐集團有限公司 (China Datang Corporation)	5 September 2022	The initial coupon rate was not determined as at the date of prospectus. The coupon rate will be determined by way of centralized book building (集中簿記建檔)	RMB2.0 billion	3+N (3) years, which shall remain outstanding before the issuer redeems in accordance with the terms of issue, and mature when the issuer redeems in accordance with the terms of issue
22 Datangji MTN008 (Energy Guaranteed Special Bonds)	中國大唐集團有限公司 (China Datang Corporation)	17 October 2022	The initial coupon rate was not determined as at the date of prospectus. The coupon rate will be determined by way of centralized book building (集中簿記建檔)	RMB2.0 billion	5+N (5) years, which shall remain outstanding before the issuer redeems in accordance with the terms of issue, and mature when the issuer redeems in accordance with the terms of issue

LETTER FROM GRAM CAPITAL

Bond short name	Issuer	Date of prospectus	Initial coupon rate	Issue size	Duration
22 China Power Investment MTN029 (Energy Guaranteed Special Bonds)	國家電力投資集團有限公司 (State Power Investment Corporation Limited)	22 September 2022	The initial coupon rate was not determined as at the date of prospectus. The coupon rate will be determined by way of centralized book building (集中簿記建檔) and centralized placing (集中配售)	RMB2.0 billion	3+N (3) years, which shall remain outstanding before the issuer redeems in accordance with the terms of issue, and mature when the issuer redeems in accordance with the terms of issue
22 China Power Investment MTN030 (Energy Guaranteed Special Bonds)	國家電力投資集團有限公司 (State Power Investment Corporation Limited)	22 September 2022	The initial coupon rate was not determined as at the date of prospectus. The coupon rate will be determined by way of centralized book building (集中簿記建檔) and centralized placing (集中配售)	RMB2.0 billion	3+N (3) years, which shall remain outstanding before the issuer redeems in accordance with the terms of issue, and mature when the issuer redeems in accordance with the terms of issue
22 Datang Power Generation MTN010 (Energy Guaranteed Special Bonds)	大唐国际发电股份有限公司 (Datang International Power Generation Co., Ltd. (991 & SH601991))	18 October 2022	The initial coupon rate was not determined as at the date of prospectus. The coupon rate will be determined by way of book building (簿記建檔) and centralized placing (集中配售)	RMB2.0 billion	5+N (5) years, which shall remain outstanding before the issuer redeems in accordance with the terms of issue, and mature when the issuer redeems in accordance with the terms of issue
22 Huaneng Group MTN004 (Energy Guaranteed Special Bonds)	中国华能集团有限公司 (China Huaneng Group Co., Ltd.)	12 October 2022	The initial coupon rate was not determined as at the date of prospectus. The coupon rate will be determined by way of centralized book building (集中簿記建檔) and centralized placing (集中配售)	RMB2.0 billion	3+N (3) years, which shall remain outstanding before the issuer redeems in accordance with the terms of issue, and mature when the issuer redeems in accordance with the terms of issue

LETTER FROM GRAM CAPITAL

- (ii) based on the Directors' understanding (after seeking confirmation with the Company's auditors), (a) if the duration of the renewable entrusted loan is specified, such loan will be recorded as long-term borrowings under total liabilities of Shandong Company's and Chaohu Power's financial statements; or (b) if the duration of the renewable entrusted loan is unspecified, such loan will be recorded as other equity instruments under total equity of Shandong Company's and Chaohu Power's financial statements. As the purpose of the Entrusted Loans Transactions is to reducing the overall asset-liability ratio, the renewable entrusted loan with specified duration could not meet the purpose of the Entrusted Loans Transactions.

Interest rate:

The loan interest rate under renewable entrusted loan agreements is determined by the Company and fixed interest rate is adopted. The annual interest rate is the total amount of upstream fund raising costs and related taxes, etc., and the actual signed renewable entrusted loan interest rate shall prevail.

With reference to the Board Letter, in terms of interest rates, since the special bonds for guaranteeing energy supply are publicly issued in the inter-bank market, the issuance cost will be determined through book-building. The interest rate of renewable entrusted loans to be provided by the Company to Shandong Company and Chaohu Power will be determined after considering the relevant taxes on the cost of issuing bonds.

We consider the interest rate of the Framework Agreements to be fair and reasonable after taking into account of following factors:

- despite that Shandong Company and Chaohu Power (as borrowers) are connected persons of the Company, Shandong Company and Chaohu Power are subsidiaries of the Company and the financial results of Shandong Company and Chaohu Power were consolidated into the financial statements of the Group as at the Latest Practicable Date. The purpose of the Entrusted Loans Transactions is to achieve the goals of reducing losses of thermal power units, ensuring energy supply and security, and reducing the overall asset-liability ratio of Shandong Company and Chaohu Power (being subsidiaries of the Company) but not to generate income from interest of the loans;
- the Company's cost of fund (i.e. upstream fund raising costs and related taxes, etc.) will be considered in determining the loan interest rate;
- cost of special bonds for energy supply will be determined through the process of book-building. During the process of book-building, various eligible investors will submit their bidding price through the book-building system, and the final interest rate of the special bonds for energy supply will be determined according to the aforesaid submission; and

LETTER FROM GRAM CAPITAL

- it is acceptable that the coupon rate of special bonds for energy supply was not determined/fixed as at the Latest Practicable Date as the coupon rate of the Comparable Special Bonds were not fixed as at date of their respective prospectus.

We also noted that when Shandong Company and/or Chaohu Power execute(s) the relevant implementation agreement(s) and receive the renewable entrusted loans, the relevant renewable entrusted loans will be set with an initial term of repayment. When the initial term expires, the recipient of the renewable entrusted loans (i.e. Shandong Company and Chaohu Power) can decide whether to extend the use of the relevant renewable entrusted loans. If the use of the relevant renewable entrusted loans is extended, then the interest payable shall be increased by 300bp/year on top of the initial interest rate (i.e. the interest rate applicable at the time of execution of the relevant implementation agreement). The decision to extend the use of the relevant renewable entrusted loans can be made once a year (the interest rate will only be increased once, and the subsequent years will only be judged whether to extend and the interest rate will remain unchanged). The adjusted shall be capped at 300bp on top of the initial interest rate.

Loan amounts:

Huaneng International will advance to and recover from Shandong Company the capital of 12 billion in RMB in accordance with the entrusted loan procedure. The abovementioned capital principal amount is the maximum amount, the concrete amount of the renewable entrusted loan will depend on the actual agreement signed.

Huaneng International will advance to and recover from Chaohu Power the capital of 1.2 billion in RMB in accordance with the entrusted loan procedure. The abovementioned capital principal amount is the maximum amount, the concrete amount of the renewable entrusted loan will depend on the actual agreement signed.

As at 30 September 2022, Shandong Company's asset-liability ratio was approximately 94.13%; and Chaohu Power's asset-liability ratio was approximately 102.90%. According to the Wind Financial Terminals, asset-liability ratio of companies listed on Shanghai Stock Exchange and Shenzhen Stock Exchange with principal business being coal-fired power (the "**Comparable Companies**") ranged from approximately 33.4% to 120.7% with average of approximately 66.6% as at 30 September 2022. The asset-liability ratios of both Shandong Company and Chaohu Power were at the upper limit of the range of asset-liability ratios of the Comparable Companies.

With the renewable entrusted loan amount of RMB12 billion to Shandong Company and RMB1.2 billion to Chaohu Power, the Company expected that Shandong Company's and Chaohu Power's asset-liability ratios would reduce to approximately 77.1% and 50.7% respectively, assuming the fund is for the purpose of loan replacement and based on the financial position of Shandong Company and Chaohu Power as at 30 September 2022.

In addition, as also advised by the Directors, the actual amount of the renewable entrusted loan will be subject to the actual issue size of the special bonds for energy supply.

LETTER FROM GRAM CAPITAL

Based on the above, we are of the view that the loan amounts to both Shandong Company and Chaohu Power are fair and reasonable.

Pursuant to the Framework Agreements, Shandong Company and Chaohu Power will use the renewable entrusted loans under the implementation agreements for cash flow and loan replacement. Without the written consent of the Company, Shandong Company and Chaohu Power shall not change the purpose of the loans, and shall not use the loans in the areas and purposes prohibited by the State.

Having reviewed and considered the terms of the Framework Agreements in particular the key terms as listed above (including the interest rate being fair and reasonable; the loan amounts to both Shandong Company and Chaohu Power being fair and reasonable; and no other abnormal term observed), we are of the view that the terms of the Entrusted Loans Transactions are on normal commercial terms and are fair and reasonable.

Recommendation on the Entrusted Loans Transactions

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

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

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

1. RESPONSIBILITY STATEMENT

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

2. DISCLOSURE OF INTEREST**(a) Directors and Supervisors of the Company**

As at the Latest Practicable Date, none of the Directors, chief executive or supervisors of the Company has interests or short positions in the shares and underlying shares of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which are 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 they are taken or deemed to have under such provisions of the SFO) or which are required, pursuant to section 352 of the SFO, to be entered in the register referred to therein, or which are required, pursuant to the “Model Code for Securities Transactions by Directors of Listed Issuers” to be notified to the Company and the Stock Exchange.

(b) Substantial Shareholders

As at the Latest Practicable Date, save as disclosed below, so far as is known to the Board, no persons (not being a Director, chief executive or supervisor of the Company) had an interest or short position in the shares or underlying shares and debentures of the Company which would fall to be disclosed under the provisions of Divisions 2 and 3 of Part XV of the SFO, or, who is, directly or indirectly, interested in 5% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at the general meeting of any other member of the Company:

Name of shareholder	Class of shares	Number of shares held (share)	Capacity	Approximate percentage of shareholding in the Company's total issued share capital	Approximate percentage of shareholding in the Company's total issued domestic shares	Approximate Percentage of shareholding in the Company's total issued H Shares
Huaneng International Power Development Corporation (Note 2)	Domestic shares	5,066,662,118(L)	Beneficial owner	32.28%(L)	46.07%(L)	-
China Huaneng Group Co., Ltd. (Note 3)	Domestic shares	1,585,118,748(L)	Beneficial owner	10.10%(L)	14.41%(L)	-
China Huaneng Group Co., Ltd. (Note 4)	H Shares	565,116,000(L)	Beneficial owner	3.59%(L)	-	12.02%(L)
上海睿郡資產管理有限公司	H Shares	282,652,000(L)	Investment manager	1.80%(L)	-	6.01%(L)

Note:

- (1) The letter “L” denotes a long position. The letter “S” denotes a short position. The letter “P” denotes interest in a lending pool.
- (2) As of the Latest Practicable Date, Huaneng Group holds 75% direct interests and 25% indirect interests in HIPDC.
- (3) Of the 1,585,118,748 domestic shares, Huaneng Group Co., Ltd. through its controlling subsidiary, Huaneng Finance held 29,994,199 domestic shares.
- (4) Huaneng Group held 472,000,000 H shares through its wholly owned subsidiary, Hua Neng Group HK, and 131,596,000 H shares through its indirect wholly-owned subsidiary, Huaneng Treasury.

Save as disclosed above, the Company is not aware of any other person (other than the Directors, supervisors and senior executives of the Company) having any interests or short positions in the shares and underlying shares of the Company as at the Latest Practicable Date as recorded in the register required to be kept by the Company pursuant to section 336 of the SFO.

As at the Latest Practicable Date, save as disclosed below, so far as is known to the Board, no Director or supervisor is a director or employee of a company which has an interest or short position in the shares and underlying shares of the Company which would fall to be disclosed under the provisions of Divisions 2 and 3 of Part XV of the SFO:

Directors

- (i) Mr. Wang Kui is the Deputy Chief Economist of Huaneng Group, the Director of the Planning and Development Department of Huaneng Group;
- (ii) Mr. Lu Fei is the Deputy Chief Economist of Huaneng Group;
- (iii) Mr. Teng Yu is the Deputy Chief Accountant of Huaneng Group;

Supervisors

- (iv) Mr. Li Shuqing is the chairman and secretary of Communist Party Committee of HIPDC, Chief Engineer of Huaneng Group; and
- (v) Mr. Xia Aidong is the director of Audit Department of Huaneng Group.

3. NO MATERIAL ADVERSE CHANGE

As at the Latest Practicable Date, the Directors were not aware of any material adverse change in the financial or business position of the Company and its subsidiaries since 31 December 2021, being the date to which the latest published audited accounts of the Company and its subsidiaries were made up to.

4. MATERIAL LITIGATION

As at the Latest Practicable Date, none of the Company and its subsidiaries was engaged in any material litigation or arbitration and there was no litigation or claim of material importance known to the Directors to be pending or threatened by or against the Company and its subsidiaries.

5. EXPERT'S QUALIFICATION AND CONSENTS

The following expert has given and has not withdrawn its written consent to the issue of this circular with the inclusion of its letter, reports or statements and references to its name and logo in the form and context in which they are included:

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

As at the Latest Practicable Date, Gram Capital has given its consent and has not withdrawn its consent to the publication of this circular, including the inclusion of its letter and references to its name in the form and context in which it appears.

To the best knowledge, information and belief of the Directors, as at the Latest Practicable Date, the above-mentioned expert was not beneficially interested in the share capital of the Company and its subsidiaries nor did it have any right, whether legally enforceable or not, to subscribe for or to nominate persons to subscribe for securities in the Company and its subsidiaries.

As at the Latest Practicable Date, each of the above mentioned experts did not have any direct or indirect interest in any assets which had since 31 December 2021 (being the date to which the latest published audited accounts of the Company were made up) been acquired or disposed of by or leased to the Company and its subsidiaries, or were proposed to be acquired or disposed of by or leased to the Company and its subsidiaries.

6. SERVICE CONTRACTS

As at the Latest Practicable Date, none of the Directors had entered into any service contract with the Company or its subsidiaries which does not expire or is not terminable by the Company or its subsidiaries within one year without payment of compensation, other than statutory compensation.

7. INTERESTS OF DIRECTORS OR SUPERVISORS IN THE ASSETS OR CONTRACTS OF THE COMPANY AND ITS SUBSIDIARIES

As at the Latest Practicable Date, none of the Directors or supervisors of the Company had any interest in any assets which had since 31 December 2021 (being the date to which the latest published audited accounts of the Company were made up) been acquired or disposed of by or leased to the Company and its subsidiaries, or were proposed to be acquired or disposed of by or leased to the Company and its subsidiaries.

As at the Latest Practicable Date, none of the Directors or supervisors was materially interested in any contract or arrangement subsisting at the Latest Practicable Date which was significant in relation to the business of the Company.

8. INTERESTS OF DIRECTORS IN COMPETING BUSINESS

As at the Latest Practicable Date, none of the Directors or their respective associates has interests in the businesses, other than being a Director, which compete or are likely to compete, either directly or indirectly, with the businesses of the Company (required to be disclosed under Rule 8.10 of the Hong Kong Listing Rules should they be controlling shareholders).

9. MISCELLANEOUS

- (a) Mr. Huang Chaoquan is the Company Secretary and Board Secretary of the Company.
- (b) The legal address of the Company is Huaneng Building, 6 Fuxingmennei Street, Xicheng District, Beijing, PRC. The H Share registrar of the Company in Hong Kong is Hong Kong Registrars Limited at Shops 1712-1716, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong.
- (c) In the case of any discrepancy, the English text of this circular and form of proxy shall prevail over the Chinese text.

10. DOCUMENTS ON DISPLAY

A copy of the following documents are published on the Hong Kong Stock Exchange's website and the Company's own website for a period of 14 days from the date of this circular:

- (a) 2022 Huaneng Group Framework Agreement;
- (b) Huaneng Group Framework Agreement;

- (c) Huaneng Finance Framework Agreement;
- (d) Supplemental Agreement to 2022 Huaneng Group Framework Agreement;
- (e) Supplemental Agreement to Huaneng Finance Framework Agreement;
- (f) Tiancheng Leasing Framework Agreement; and
- (g) Framework Agreements.