

HUANENG POWER INTERNATIONAL INC  
Form 6-K  
December 22, 2015

FORM 6-K

SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549

Report of Foreign Private Issuer  
Pursuant to Rule 13a-16 or 15d-16 of  
The Securities Exchange Act of 1934  
For the month of December 2015

(Indicate by check mark whether the registrant files or will file annual reports under cover of Form 20-F or Form 40-F.)  
Form 20-F  Form 40-F \_\_\_\_\_

(Indicate by check mark whether the registrant by furnishing the information contained in this form is also thereby furnishing the information to the Commission pursuant to Rule 12g3-2(b) under the Securities Exchange Act of 1934.)  
Yes \_\_\_\_\_ No

(If "Yes" is marked, indicate below the file number assigned to registrant in connection with Rule 12g3-2(b):  
82-\_\_\_\_\_. )  
N/A

Huaneng Power International, Inc.  
Huaneng Building,  
6 Fuxingmennei Street,  
Xicheng District,  
Beijing, 100031 PRC

This Form 6-K consists of:

A copy of the circular regarding continuing connected transactions of Huaneng Power International, Inc. (the Registrant’), made by the Registrant on December 21, 2015.

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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.

Hong Kong Exchanges and Clearing Limited and The Stock Exchange of Hong Kong Limited take no responsibility for the contents of this circular, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this circular.

(a Sino-foreign joint stock limited company incorporated in the People's Republic of China)  
(Stock Code: 902)

CONTINUING CONNECTED TRANSACTIONS  
CONNECTED TRANSACTIONS – FINANCE LEASE  
AND LEASEBACK TRANSACTIONS

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

Guotai Junan Capital Limited

A letter from the board of Directors of Huaneng Power International, Inc. is set out on pages 4 to 29 of this circular. A letter from the Independent Board Committee of Huaneng Power International, Inc. is set out on pages 30 to 31 of this circular. A letter from Guotai Junan Capital containing its advice to the Independent Board Committee and the Independent Shareholders of Huaneng Power International, Inc. is set out on pages 32 to 53 of this circular.

A notice convening the EGM to be held at 9:00 a.m. on 12 January 2016 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 have been issued to 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.

21 December 2015

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DEFINITIONS

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

“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;
“ADSs”	American Depositary Shares, each representing the ownership of 40 H Shares, which are listed on the New York Stock Exchange Inc.;
“associate(s)”	has the meaning ascribed to it in the Hong Kong Listing Rules;
“Board”	the board of Directors of the Company;
“Company”, “HPI”	Huaneng Power International, Inc., a sino-foreign joint stock limited company incorporated in the PRC and the H Shares, ADSs and A Shares of which are listed on the Hong Kong Stock Exchange, the New York Stock Exchange Inc. 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;
“Diandong Energy”	Huaneng Yunnan Diandong Energy Limited Company;
“Diandong Yuwang”	Yunnan Diandong Yuwang Energy Limited Company;
“Director(s)”	the director(s) (including independent non-executive directors) of the Company;
“EGM” or “Extraordinary General Meeting”	the 2016 first extraordinary general meeting of the Company to be held at 9:00 a.m. on 12 January 2016 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 Huaneng Group Framework Agreement (and the proposed caps) and the Finance Lease and Leaseback Transactions;
“Finance Lease and Leaseback Transactions”	collectively, the finance lease and leaseback transactions proposed to be conducted by each of Diandong Energy, Diandong Yuwang, Luoyuanwan Harbour and Pingliang Power Plant with Tiancheng Leasing Company in accordance with the terms of the relevant finance lease agreements;

DEFINITIONS

“Guotai Junan Capital”, “Independent Financial Adviser”	Guotai Junan 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 coal and transportation services (and the proposed cap) under the Huaneng Group Framework Agreement and the Finance Lease and Leaseback Transactions;
“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;
“HIPDC”	Huaneng International Power Development Corporation;
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC;
“Hong Kong Listing Rules”	the Rules Governing the Listing of Securities on the Hong Kong Stock Exchange;
“Hong Kong Stock Exchange”	The Stock Exchange of Hong Kong Limited; “Huaneng Group” China Huaneng Group;
“Huaneng Group Framework Agreement”	the “framework agreement on the continuing connected transactions (for 2016) between Huaneng Power International, Inc. and China Huaneng Group” entered into between the Company and Huaneng Group on 25 November 2015;
“Hua Neng HK”	China Hua Neng Group Hong Kong Limited;
“Independent Board Committee”	a committee of the Board established for the purpose of considering the terms and the transaction cap of the purchase of coal and transportation services contemplated under the Huaneng Group Framework Agreement and the Finance Lease and Leaseback Transactions, comprising Mr. Li Zhensheng, Mr. Zhang Shouwen, Mr. Yue Heng, Mr. Geng Jianxin 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 the Huaneng Group Framework Agreement and the Finance Lease and Leaseback Transactions;
“Latest Practicable Date”	17 December 2015, being the latest practicable date prior to the printing of this circular for ascertaining certain information contained herein;

DEFINITIONS

“Luoyuanwan Harbour”	Huaneng (Fujian) Harbour Limited Company;
“Pingliang Power Plant”	Huaneng Pingliang Power Generation Limited Company;
“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);
“Shanghai Listing Rules”	The Rules Governing the Listing of Securities on the Shanghai Stock Exchange;
“Shareholders”	the shareholders of the Company
“Stock Exchange”	The Stock Exchange of Hong Kong Limited;
“subsidiaries”	has the meaning ascribed to it in the Hong Kong Listing Rules; and
“Tiancheng Leasing Company”	Huaneng Tiancheng Financial Leasing Co., Ltd..



LETTER FROM THE BOARD

(a Sino-foreign joint stock limited company incorporated in the People's Republic of China)  
(Stock Code: 902)

Executive Directors:

Cao Peixi  
Liu Guoyue  
Fan Xiaxia

Legal Address:

Huaneng Building  
6 Fuxingmennei Street  
Xicheng District  
Beijing 100031  
PRC

Non-executive Directors:

Guo Junming  
Li Shiqi  
Huang Jian  
Mi Dabin  
Guo Hongbo  
Zhu Yousheng  
Li Song

Independent Non-executive Director:

Li Zhensheng  
Zhang Shouwen  
Yue Heng  
Geng Jianxin  
Xia Qing

21 December 2015

To the Shareholders

Dear Sir or Madam,

CONTINUING CONNECTED TRANSACTIONS  
CONNECTED TRANSACTIONS – FINANCE LEASE  
AND LEASEBACK TRANSACTIONS

1. INTRODUCTION

On 26 November 2015, the Company published two announcements regarding the continuing connected transactions arising from the Huaneng Group Framework Agreement and the Finance Lease and Leaseback Transactions. As stated in the announcements, the Company shall issue a circular to the Shareholders containing further information of the continuing connected transactions as contemplated by the Huaneng Group Framework Agreement and the Finance Lease and Leaseback Transactions.

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Under the Hong Kong Listing Rules, the conduct of purchase of coal and transportation services (including the proposed cap) between the Company (and its subsidiaries) and Huaneng Group and its subsidiaries and associates contemplated under the Huaneng Group Framework Agreement shall require Independent Shareholders' approval.

Under the Hong Kong Listing Rules, as the scale of the Finance Lease and Leaseback Transactions, on an aggregated basis, do not exceed 5% of the applicable ratios as calculated in accordance with Rule 14.7 of the Hong Kong Listing Rules, such transactions are 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 requirement. However, pursuant to the Shanghai Listing Rules, the Finance Lease and Leaseback Transactions shall be subject to approval by the Independent Shareholders of the Company. The Company proposes to seek approval from Independent Shareholders to approve (among other things) the Finance Lease and Leaseback Transactions at the EGM.

To comply with the requirements of the Hong Kong Listing Rules, the Independent Board Committee will advise the Independent Shareholders in connection with the terms of the continuing connected transaction (including the proposed cap) regarding the purchase of coal and transportation services contemplated under the Huaneng Group Framework Agreement and the Finance Lease and Leaseback Transactions. The letter from the Independent Board Committee to the Independent Shareholders is included in this circular. Guotai Junan Capital has been appointed as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders on (i) the fairness and reasonableness of the terms in respect of the purchase of coal and transportation services (including the proposed cap) contemplated under the Huaneng Group Framework Agreement and whether the purchase of coal and transportation services (including the proposed cap) under the Huaneng Group Framework Agreement is in the interests of the Company and its Shareholders as a whole; and (ii) the fairness and reasonableness of the terms of each of the Finance Lease and Leaseback Transactions and whether such transactions are in the interests of the Company and its Shareholders as a whole. The letter of advice from Guotai Junan Capital to the Independent Board Committee and the Independent Shareholders is also included in this circular.

Under the Hong Kong Listing Rules, Guotai Junan Capital is only required to opine on the continuing connected transaction relating to the purchase of coal and transportation services (including the proposed cap) contemplated under the Huaneng Group Framework Agreement and, in which case, Guotai Junan Capital will not provide opinion on the other transactions contemplated under the Huaneng Group Framework Agreement (the "Other Transactions"). Notwithstanding such arrangement, the Company still includes details of the Other Transactions in this circular so that Shareholders can have a full picture of all transactions as contemplated under the Huaneng Group Framework Agreement. 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 resolution at the EGM.

The purpose of this circular are:

- (i) to provide you with further information in relation to the transactions contemplated under the Huaneng Group Framework Agreement and the Finance Lease and Leaseback Transactions;

LETTER FROM THE BOARD

- (ii) to set out the letter of advice from Guotai Junan Capital to the Independent Board Committee and the Independent Shareholders and the recommendation of the Independent Board Committee as advised by Guotai Junan Capital; and
- (iii) to seek your approval of the ordinary resolution in relation to the transactions contemplated by the Huaneng Group Framework Agreement (together with proposed caps) and the ordinary resolutions in relation to the Finance Lease and Leaseback Transaction, which have been respectively set out in the notice of the EGM.

Independent Shareholders are advised to read this circular carefully for details of all the continuing connected transactions (including the purchase of coal and transportation services, as well as the Other Transactions) and the Finance Lease and Leaseback Transactions before making their decision as regards voting. Independent Shareholders should also note that, if they vote in favor of the resolution proposed at the EGM regarding the Huaneng Group Framework Agreement, they would approve all the continuing connected transactions contemplated under the Huaneng Group Framework Agreement including the purchase of coal and transportation services and the Other Transactions. In the event that the resolution proposed at the EGM as regards the Huaneng Group Framework Agreement is not approved by the Independent Shareholders, the continuing connected transactions contemplated under the Huaneng Group Framework Agreement including the purchase of coal and transportation services and the Other Transactions would not be carried out by the Company.

## 2. RELATIONSHIP BETWEEN THE COMPANY, HUANENG GROUP AND TIANCHENG LEASING COMPANY

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. As at the Latest Practicable Date, the controlled generation capacity is 81,132 MW and the equity based generation capacity is 72,375 MW. Diandong Energy and Diandong Yuwang are wholly-owned subsidiaries of the Company, while Luoyuanwan Harbour and Pingliang Power Plant are the controlling subsidiaries of the Company.

Huaneng Group is principally engaged in the operation and management of enterprises 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.

As at the Latest Practicable Date, HIPDC, being the direct controlling shareholder of the Company, holds 33.33 % of the total equity interest in the Company, while Huaneng Group holds a 67.75% direct equity interest and a 5% indirect equity interest in HIPDC. In addition, Huaneng Group holds a 10.23 % direct equity interest in the Company, a 3.11 % indirect equity interest in the Company through Hua Neng HK (a wholly-owned subsidiary of Huaneng Group), and a 0.49 % indirect equity interest in the Company through China Huaneng Finance Corporation Limited (a controlled subsidiary of Huaneng Group).

Tiancheng Leasing Company was incorporated in the PRC in April 2014, which is a sino-foreign joint venture finance lease enterprise with funds contributed by China Huaneng Capital Service Limited (“Huaneng Capital”), Hua Neng HK, the Company, Huaneng Lancang River Hydropower Co., Ltd. (“Huaneng Lancang River”), Huaneng Renewables Corporation Limited (“Huaneng Renewables”) and



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Huaneng Renewables (Hong Kong) Limited (“Huaneng Renewables HK”). Tiancheng Leasing Company is the platform for finance asset management of Huaneng Group and is principally engaged in equity finance leasing, finance leasing, purchase of finance leasing assets in the PRC and abroad, salvage treatment and maintenance of finance leasing assets, advisory and guarantee services on finance leasing transactions.

As at the Latest Practicable Date, the relationship between the Company, Huaneng Group and Tiancheng leasing Company is as follows:

\*Huaneng Group, through Hua Neng HK, its wholly-owned subsidiary, indirectly holds a 100% interest in Pro-Power Investment Limited while Pro-Power Investment Limited holds a 5% interest in HIPDC. Therefore, Huaneng Group holds a 5% indirect interest in HIPDC.

\*\*Huaneng Group holds a 10.23 % direct interest in the Company. It also holds 3.11 % and 0.49 % interest in the Company through Hua Neng HK (its wholly owned subsidiary) and China Huaneng Finance Corporation Limited (its controlled subsidiary), respectively.

Under the Hong Kong Listing Rules, Huaneng Group is a connected person of the Company while the transactions between the Company and Huaneng Group (including Tiancheng Leasing Company) constitute connected transactions of the Company, subject to the relevant disclosures and/or independent shareholders’ approval requirements as stipulated in the Hong Kong Listing Rules.

3. CONTINUING CONNECTED TRANSACTIONS CONTEMPLATED UNDER THE HUANENG GROUP FRAMEWORK AGREEMENT

HUANENG GROUP FRAMEWORK AGREEMENT

The Company entered into a framework agreement with Huaneng Group on 19 November 2014 (“2015 Huaneng Group Framework Agreement”) for the purpose of governing the conduct of certain continuing connected transactions between the Company and Huaneng Group (and its subsidiaries and associates) in 2015. The 2015 Huaneng Group Framework Agreement will expire on 31 December 2015. The Company entered into a supplemental agreement to the Huaneng framework agreement (“Supplemental Agreement to 2015 Huaneng Framework Agreement”) with Huaneng Group on 30 July 2015 for the purpose of governing the entrusted sales between the Company its subsidiaries and Huaneng Group and its

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subsidiaries and associates, i.e. Huaneng Power and its subsidiaries and associates to use the power generation quota of the Company and its subsidiaries for substituted power generation. The Supplemental Agreement to 2015 Huaneng Framework Agreement will expire on 31 December 2015. Reference is made to the announcement dated 20 November 2014, the circular dated 10 December 2014 and the announcement dated 31 July 2015 of the Company for details of the continuing connected transactions as contemplated by the 2015 Huaneng Group Framework Agreement and the Supplemental Agreement to 2015 Huaneng Framework Agreement (including the relevant caps).

In order to continue such transactions, the Company, as approved by the Board, entered into the Huaneng Group Framework Agreement with Huaneng Group on 25 November 2015 for a term commencing on 1 January 2016 and expiring on 31 December 2016. Pursuant to the Shanghai Listing Rules and Rule 14A.68(8) of the Hong Kong Listing Rules, Messrs. Cao Peixi, Guo Junming, Liu Guoyue, Li Shiqi, Huang Jian and Fan Xiaxia, all being directors of the Board of the Company and being regarded as having a material interest in the continuing connected transactions, abstained from voting on the board resolution relating to the entering of the Huaneng Group Framework Agreement (and each of the caps thereof). The resolution was voted by directors who are not connected to the transactions.

Pursuant to the Huaneng Group Framework Agreement, the Company 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 has 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 work for power plants. Pursuant to the 2015 Huaneng Group Framework Agreement with respect to the purchase of ancillary equipment and parts in 2015 by the Company and its subsidiaries from Huaneng Group and its subsidiaries and associates, the annual cap of such transactions for 2015 was set at RMB2.6 billion. During the period from 1 January 2015 to 31 October 2015, 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 RMB333 million. It is estimated that at the end of 2015, the actual aggregate transaction amount will not exceed the anticipated transaction amount of 2015. For 2016, 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 RMB2.6 billion. Such cap is estimated on the basis of 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 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 and its subsidiaries and associates to offer more favourable prices for ancillary equipment and parts,

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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 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 then prevailing market conditions; 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 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.

The Board (including the independent non-executive Directors) is of the view that the transactions for the purchase of ancillary equipment and parts as contemplated by the Huaneng Group Framework Agreement 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 and the proposed cap that are fair and reasonable and in the interest of the Company and its shareholders as a whole.

As 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 do not exceed 5%, such transactions are therefore only subject to the reporting and announcement requirements under Rules 14A.41 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 2016 exceeds the above cap (i.e. RMB2.6 billion), the Company will further comply with the requirements under Rule 14A.54 of the Hong Kong Listing Rules.

(2) Purchase of coal and transportation services

Coal is the major raw material of the Company for power generation. Pursuant to the Huaneng Group Framework Agreement, the Company and its subsidiaries will purchase coal 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 coal and the transportation service 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 coal supply or transportation services.

Pursuant to the 2015 Huaneng Group Framework Agreement with respect to the purchase of coal and transportation services in 2015 by the Company and its subsidiaries from Huaneng Group and its subsidiaries and associates, the cap of the aggregate transaction amount for 2015 was set at

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RMB42.8 billion. During the period from 1 January 2015 to 31 October 2015, the aggregate transaction amount (unaudited) for purchase of coal and transportation services by the Company and its subsidiaries from Huaneng Group and its subsidiaries and associates was approximately RMB14.089 billion. It is estimated that at the end of 2015, the actual aggregate transaction amount will not exceed the anticipated transaction amount of 2015. The difference between the estimated cap of the transaction amount for 2015 and the actual transaction amount was primarily due to the actual operation of the Company and the changes in the coal market and hence the variance in fuel purchase for 2015.

The cap of the transaction amount for purchase of coal 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 2016 is estimated to be RMB26.2 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 cap of such amount is set on the basis of 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 plant as deemed reasonable by the Company and its subsidiaries, taking into account at the same time the ability of Huaneng Group and its subsidiaries and associates to make bulk supply of coal and transportation services to the Company and its subsidiaries at favourable prices.

The competitive advantage of Huaneng Group and its subsidiaries and associates in the supply of coal and transportation services is that they can offer more favourable terms for bulk purchase of coal and transportation services. Taking into consideration the ability of Huaneng Group and its subsidiaries and associates to offer more favourable terms for purchases of coal 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 coal and transportation services in a timely and reliable manner, thereby minimising the management and operational costs of the Company and its subsidiaries.

The Board (including the independent non-executive Directors) is of the view that the transactions for the purchase of coal and transportation services from Huaneng Group and its subsidiaries and associates contemplated under the Huaneng Group Framework Agreement 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 and the proposed cap that are fair and reasonable and in the interest of the Company and its shareholders as a whole.

As the applicable percentage ratios relating to the transaction scale for the purchase of coal and transportation services between the Company (and its subsidiaries) and 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, 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 transaction will



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not (and the Company will through its internal control system ensure that such transaction 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 include power transmission and transformation assets, vessels, power plants land and office spaces, etc.) from Huaneng Group and its subsidiaries and associates. Pursuant to the 2015 Huaneng Group Framework Agreements with respect to the leasing of facilities, land and office spaces in 2015 by the Company and its subsidiaries from Huaneng Group and its subsidiaries and associates, the cap of the relevant transaction amount for 2015 was set at RMB300 million. During the period from 1 January 2015 to 31 October 2015, the aggregate fee (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 RMB234 million. It is estimated that at the end of 2015, the actual aggregate transaction amount will not exceed the anticipated transaction amount of 2015. Pursuant to the Huaneng Group Framework Agreement, the transaction amount with respect to the leasing of facilities, land and office spaces by the Company from Huaneng Group and its subsidiaries and associates in 2016 is estimated not to exceed RMB400 million. The estimate of such cap amount is based on the prevailing overall business scale and operation of the power plants of the Company and its subsidiaries including the leasing of power transmission and transformation assets at the leasing fee of approximately RMB141 million (details of which are more particularly set out on page 20 of this circular), the existing leasing of various facilities, lands and office premises, etc. at the rent of approximately RMB200 million and the leases which are expected to be entered into in 2016, the anticipated development and growth of such power plants as deemed reasonable by the Company and its subsidiaries, having 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 leasing of 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 then prevailing market conditions; 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 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 pursuant to the framework agreement.

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The Board (including the independent non-executive Directors) is of the view that the transactions for the leasing of facilities, land and office spaces contemplated under the Huaneng Group Framework Agreement 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 and the proposed cap that are fair and reasonable and in the interest of the Company and its shareholders as a whole.

As the applicable percentage ratios relating to the scale of the subject transactions calculated in accordance with Rule 14.07 of the Hong Kong Listing Rules do not exceed 5%, such transactions are therefore 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 conducting annual reviews of these continuing connected transactions. If the actual aggregate amount of such transactions during the year ending 31 December 2016 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.

(4) Technical services, engineering contracting services and other services

The reciprocal services for technical services, engineering contracting services and other services between the Company and its subsidiaries and its subsidiaries with Huaneng Group and its subsidiaries and associates mainly include the provision of maintenance of power plants monitoring system, real-time consolidation of project data, trial run of generating units, monitoring of facilities of construction works and insurance services by Huaneng Group and its subsidiaries and its subsidiaries to the Company and its subsidiaries. At the same time, the Company and its subsidiaries provide operation/production related services to Huaneng Group and its subsidiaries and its associates. Pursuant to the 2015 Huaneng Group Framework Agreements with respect to the purchase of technical services and engineering contracting services by the Company and its subsidiaries from Huaneng Group and its subsidiaries and associates, the cap for the aggregate transaction amount for 2015 was set at RMB1.2 billion. During the period from 1 January 2015 to 31 October 2015, the aggregate transaction amount (unaudited) for the purchase of technical services and engineering contracting services by the Company and its subsidiaries from Huaneng Group and its subsidiaries and associates was approximately RMB395 million. It is estimated that at the end of 2015, the actual aggregate transaction amount will not exceed the anticipated transaction amount of 2015. Pursuant to the Huaneng Group Framework Agreement, the 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 its associates in 2016 is estimated not to exceed RMB1.7 billion. The estimate of such cap is based on the one hand on the prevailing 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.

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On the one hand, the competitive advantage of Huaneng Group and its subsidiaries and in terms of providing technical services, engineering contracting services and other services is that they can offer more favourable prices. 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 ancillary equipment and parts in a timely and reliable manner, thereby minimizing the management and operational costs of the Company. 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, therefore can provide reliable and efficient services of information technology and project contracting, and can also provide advanced and thorough power station specialised technical services and project contracting services, which can lower the operational costs of the Company and its subsidiaries. On the other hand, the Company is of the view that the relevant production and operation services provided by Huaneng Group and its subsidiaries and associates can bring business benefits to the Company and its subsidiaries.

Pursuant to the Huaneng Group Framework Agreement, the terms and the prices 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 are negotiated at arm's length terms, taking into account the then prevailing market conditions; 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 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.

The Board (including the independent non-executive Directors) is of the view that the transactions for the purchase of technical services, engineering contracting services and other services as contemplated under the Huaneng Group Framework Agreement 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 and the proposed cap that are fair and reasonable and in the interest of the Company and its shareholders as a whole.

As the applicable percentage ratios relating to the scale of the subject transactions calculated in accordance with Rule 14.07 of the Hong Kong Listing Rules do not exceed 5%, such transactions are therefore 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 conducting annual reviews of these continuing connected transactions. If the actual aggregate amount of such transactions during the year ending 31 December 2016 exceeds the above cap (i.e. RMB1.7 billion), the Company will further comply with the requirements under Rule 14A.54 of the Hong Kong Listing Rules.

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(5) Provision of entrusted sale services

- (i) The provision of entrusted sale services from the Company and its subsidiaries to Huaneng Group and its subsidiaries and associates

The provision of entrusted sale services from the Company and its subsidiaries to Huaneng Group and its subsidiaries and associates involves mainly the use of power generation quota of Huaneng Group and its subsidiaries and associates for substituted power generation by the Company and its subsidiaries. Pursuant to the 2015 Huaneng Group Framework Agreement with respect to the provision of entrusted sale services to the Huaneng Group and its subsidiaries and associates from the Company and its subsidiaries, the cap of the aggregate transaction amount for 2015 was set at RMB600 million. During the period from 1 January 2015 to 31 October 2015, the aggregate transaction amount (unaudited) for the provision of entrusted sale services to the Huaneng Group and its subsidiaries and associates from the Company and its subsidiaries was nil. It is estimated that at the end of 2015, the actual aggregate transaction amount will not exceed the anticipated transaction amount of 2015. For 2016, the transaction amount with respect to such services between the Company and its subsidiaries and Huaneng Group and its subsidiaries and associates is estimated to be RMB400 million. Such cap is estimated on the basis of the existing overall business scale and operation of the relevant parties, anticipated power sold, substituted tariff and development of such transaction as deemed reasonable by the Company and its subsidiaries.

In order to increase output and boost efficiency, the Company and its subsidiaries have entered into substituted power generation transactions with power plants, closed or not, in places where they are located (including connected persons and non-connected persons). For the provision of substituted power generation, the advantage is it can produce a relatively higher marginal contribution in substituted power generation to the Company and its subsidiaries when the tariff for electricity for Huaneng Group and its subsidiaries and associates remains at relatively high level. Besides, Huaneng Group and its subsidiaries and associates maintain a good 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 services between the Company and its subsidiaries and Huaneng Group and its subsidiaries and associates are negotiated at arm's length terms, taking into account the then prevailing market conditions; 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. Payments under such substituted power generation transactions will primarily be settled in two ways: (1) upon power generation, the Company and its subsidiaries will settle the payment with the power grid company before paying the difference to Huaneng Group and its subsidiaries and associates; (2) upon power generation, Huaneng Group and its subsidiaries and associates will settle the payment with the power grid company before paying substituted power generation costs and other relevant expenses to the Company and its subsidiaries.

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The Board (including the independent non-executive Directors) is of the view that the transactions for provision of entrusted sale services from the Company and its subsidiaries to Huaneng Group and its subsidiaries and associates pursuant to the Huaneng Group Framework Agreement 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 than terms accepted by the Company to independent third parties); and (iii) on terms and the proposed cap that are fair and reasonable and in the interest of the Company and its shareholders as a whole.

As the applicable percentage ratios relating to the scale of the subject transactions calculated in accordance with Rule 14.07 of the Hong Kong Listing Rules do not exceed 5%, such transactions are therefore 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 2016 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.

(ii) The provision of entrusted sale services from the Huaneng Group and its subsidiaries and associates to the Company and its subsidiaries

The provision of entrusted sale services from Huaneng Group and its subsidiaries and associates to the Company and its subsidiaries 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. Pursuant to the Supplemental Agreement to 2015 Huaneng Group Framework Agreement with respect to the provision of entrusted sale services to the Company and its subsidiaries from Huaneng Group and its subsidiaries and associates, the cap of the aggregate transaction amount for 2015 was set at RMB400 million. During the period from 1 January 2015 to 31 October 2015, the aggregate transaction amount (unaudited) for the provision of entrusted sale services to the Company and its subsidiaries from Huaneng Group and its subsidiaries and associates was approximately RMB141 million. It is estimated that at the end of 2015, the actual aggregate transaction amount will not exceed the anticipated transaction amount of 2015. For 2016, the transaction amount with respect to such services between the Company and its subsidiaries and Huaneng Group and its subsidiaries and associates is estimated to be RMB900 million. Such cap is estimated on the basis of the existing overall business scale and operation of the relevant parties, anticipated power sold, substituted tariff and development of such transaction as deemed reasonable by the Company and its subsidiaries.

In order to implement the national energy-saving and emission-reducing strategy, save cost and boost efficiency, the Company and its subsidiaries have entered into substituted power generation transactions in places where they are located (mainly in Yunnan Province). The

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transaction parties include connected persons and non-connected persons. For the provision of substituted power generation, Huaneng Group and its subsidiaries and associates maintain a good 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 services between the Company and its subsidiaries and Huaneng Group and its subsidiaries and associates are negotiated at arm's length terms, taking into account the then prevailing market conditions; 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.

The Board (including the independent non-executive Directors) is of the view that the transactions for provision of entrusted sale services from Huaneng Group and its subsidiaries and associates to the Company and its subsidiaries pursuant to the Huaneng Group Framework Agreement 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 than terms accepted by the Company to independent third parties); and (iii) on terms and the proposed cap that are fair and reasonable and in the interest of the Company and its shareholders as a whole.

As the applicable percentage ratios relating to the scale of the subject transactions calculated in accordance with Rule 14.07 of the Hong Kong Listing Rules do not exceed 5%, such transactions are therefore 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 2016 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.

(6)

Sale of products

To be more cost-efficient in management, the Company's subsidiary(ies) will sell products (mainly coal) 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 the 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 the related products services. Pursuant to the 2015 Huaneng Group Framework Agreement with respect to the sale of coal by the Company and its subsidiaries to Huaneng Group and its subsidiaries and associates, the cap of the aggregate transaction amount for 2015 was set at RMB1.2 billion. During the period from 1 January 2015 to 31 October 2015, the aggregate transaction amount for the sale of products by the Company and its subsidiaries to Huaneng Group and its subsidiaries and associates was nil. It is estimated that at the end of 2015, the actual aggregate transaction amount will not exceed the anticipated transaction amount for 2015. Pursuant to the Huaneng Group Framework Agreement, the transaction amount with

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respect to the sale of products between the Company and Huaneng Group and its subsidiaries and associates for 2016 is estimated to be RMB1.5 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 pursuant to the Huaneng Group Framework Agreement. Such cap is based on the estimation of the coal and other related products required by certain power plants of Huaneng Group and its subsidiaries and associates for 2016. In addition, better prices can be obtained in bulk purchases. In order to leverage on the scale procurement of coal, the Company will not exclude the possibility of re-selling part of the additional coal to power plants of Huaneng Group and its subsidiaries and associates.

The Board (including the independent non-executive Directors) is of the view that the transactions for sale of products to Huaneng Group and its subsidiaries and associates pursuant to the Huaneng Group Framework Agreement 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 and the proposed cap that are fair and reasonable and in the interest of the Company and its shareholders as a whole.

As the applicable percentage ratios relating to the scale of the subject transactions calculated in accordance with Rule 14.07 of the Hong Kong Listing Rules do not exceed 5%, such transactions are therefore 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 conducting annual reviews of these continuing connected transactions. If the actual aggregate amount of such transactions during the year ending 31 December 2016 exceeds the above cap (i.e. RMB1.5 billion), the Company will further comply with the requirements under Rule 14A.54 of the Hong Kong Listing Rules.

(7)

Trust loans and entrusted loans

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; (ii) the provision of entrusted loans from Huaneng Group and its subsidiaries and associates to the Company and its subsidiaries. A trust loan is a loan that the Company and its subsidiaries can obtain from a trust company which must have a licence to engage in trust operations. An entrusted loan is a form of loan which the Company and its subsidiaries can obtain from Huaneng Group and its subsidiaries and associates through an intermediary which must be a financial institution under the PRC laws and regulations. The transaction amount (i.e. interest arising from borrowing of the relevant trust loans) of the maximum daily balance of the trust loans for 2016 is expected to be RMB600 million and the maximum daily balance of entrusted loans for 2016 is expected to be RMB5 billion.

The transaction amount (i.e. interest arising from borrowing of the relevant trust loans) of the maximum daily balances of each of the trust loans and entrusted loans for 2016 are determined based on the estimation of the operation and business scale of the Company and its subsidiaries and the favourable lending rates on loans that can be obtained from Huaneng Group and its subsidiaries and

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associates. As at the Latest Practicable Date, the Company and its subsidiaries did not borrow any trust loan from Huaneng Group and its subsidiaries and associates, while the entrusted loan borrowed from Huaneng Group and its subsidiaries and associates from the Company and its subsidiaries amounted to approximately RMB3.52 billion (unaudited). Based on the operation and business needs of the Company and its subsidiaries, the Company expects to increase the amount of the entrusted loans from Huaneng Group and its subsidiaries and associates in 2016, and therefore the transaction amount (i.e. interest arising from borrowing of the relevant trust loans) of the maximum daily balances of the entrusted loans for 2016 is expected to be RMB5 billion.

Given that the trust loans and entrusted loans are to be granted by or through Huaneng Group and its subsidiaries and associates to the Company and its subsidiaries on normal commercial terms which are comparable to or more favourable than those offered by independent third parties for similar service in the PRC and where no security over the assets of the Company is granted in respect of such services, the trust loans and entrusted loans contemplated under the Huaneng Group Framework Agreement are exempted from reporting, announcement and Independent Shareholders' approval requirements under Rule 14A.90 of the Hong Kong Listing Rules. The Company therefore makes disclosure simultaneously pursuant to the Company's announcement disclosed on the Shanghai Stock Exchange.

## FAIRNESS OF THE CONTINUING CONNECTED TRANSACTIONS AND THEIR IMPACT ON THE INDEPENDENCY OF THE COMPANY

Huaneng Group Framework Agreement is 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 in any event the terms of the relevant agreement and its transaction under such agreement given to the Company and its subsidiaries by the Huaneng Group and its subsidiaries and associates shall be no less favourable than those offered by independent third parties to the Company for the same or similar type of services. The Company and its subsidiaries will sign necessary written agreements on detailed transactions with Huaneng Group and its subsidiaries and associates 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 and a series of risk management arrangements in accordance with the regulatory requirements, endeavour to maintain its independency in decision-making, the fairness of the prices and terms of the transactions as well as the flexibility in purchasing coal from independent third parties other than the connected persons 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 will be no less favorable than those available from independent third parties.



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Based on the above, the Company is of the opinion that the Huaneng Group Framework Agreement and the continuing connected transactions under it are in the interests of the Company and the shareholders as a whole. Meanwhile, the Company has its complete business system and ability to operation independently facing the market, therefore the above-stated Framework Agreement and the continuing connected transactions under it do not affect the independency of the Company.

### MEASURES TO SAFEGUARD THE INTERESTS OF THE INDEPENDENT SHAREHOLDERS

Directors and senior management of the Company will monitor closely and review regularly each continuing connected transaction of the Company. The Company 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 the Company to conduct transactions with independent third parties other than Huaneng Group and its subsidiaries and associates. The relevant arrangements include:

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 conduct such transactions according to the Company's procurement policy, which mainly stipulates that the Company will, from time to time, obtain quotations and/or invite tenders from multiple suppliers and/or in certain circumstances obtain the quotations through enquiries from among established suppliers of scale (including Huaneng Group and its subsidiaries and associates). 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 coal and coal transportation services, the Company has established a dedicated information exchange and mechanisms for weekly and monthly information analysis, which mainly consists of: (i) collection of price information, such as pithead prices, the listed prices at major coal production localities, inland coal transaction price indices, harbour price indices, the futures indices on the Mainland, the prices of coal globally, 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 (<http://www.cctd.com.cn>), China Coal Resources website (<http://www.sxcoal.com>), Qinhuangdao website (<http://www.cqcoal.com>), Qinhuangdao Shipping website (<http://www.osc.org.cn>), etc. 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 harbour 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

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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's suppliers (including Huaneng Group and its subsidiaries and associates) will be invited to provide coal quotations within the range of the guidance procurement price. The Company will independently choose and purchase from the best offer according to the market conditions within the parameters of 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 on prices;

for transactions in relation to the purchase of coal and coal transportation services, the basis for determining the "market conditions" in the formulation of the Company's procurement strategies can principally be summarized in the following manner: (i) the changes in the prices of coal; (ii) the aspects on coal transportation, including status on ship transportation at port (i.e. in circumstances where the northern ports in 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 (i.e. whether the northern regions is/are affected by seasonal rain/snow); (iii) production condition (i.e. whether 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 whether the imported coal from coal production areas like Australia, Colombia, South Africa, etc. are affected by incidents of natural disasters, storm, typhoon, strike, etc.); (iv) status on level of inventory (including whether there have been any changes in the inventory at major ports or power enterprises, or whether coal companies run out of stock; and (v) status on changes in policies. The State has promulgated a number of environmental protection policies and coal industry policies which may have an impact on volume of coal consumption, the types and quality of coal required by power enterprises. The Company will timely follow and collect information on market condition for assessing and formulating the Company's procurement strategies;

for transaction in relation to leasing of power transmission and transformation assets, the Company and its subsidiaries will lease such facilities from Hunang Group and its subsidiaries and associates based on arm's length terms. The leasing fee is approximately RMB141 million, principally is to offset the outlay of the supplier's costs, interest payment, operational expenses in maintenance, etc. Such leasing fee has been adopted for use since 2004 and in the interim no adjustment on account of inflation or other factors has been made. For transactions in relation to the leasing of facilities, 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 obtainable as public information), and/or consult the advice of several reputable local real estate agents for benchmarks of assessment. Such transactions will be reviewed by the Company's legal department on the legal aspects and approved by the contract management department;

for transaction in relation to provision of technical services, engineering contracting services and other services, the Company will conduct such transactions according to the relevant procurement policy and management rules, and will from time to time obtain quotations, and/

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or invite tenders from multiple suppliers and/or in certain circumstances obtain the quotations through enquiries from established suppliers of scale (including Huaneng Group and its subsidiaries and connected suppliers). 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 in performing the contract and the follow-up services consequential to completion of a transaction, in order to maximise the Company's interest;

provision of entrusted sale services is formulated in response to the "Eleventh Five Year" Plan of the State on energy conservation and emission reduction policies. Through the centralised coordination carried out by various regional government agencies or the management platform of power grid companies governing transactions in substituted power generation of power plants with high energy consumption, the Company will conduct the transactions in accordance with the implementation rules governing substitution of power generation on the area(s) where such power plant(s) is/are located, having taken into account the status regarding the operation of generation units and the actual changes in the market;

for transaction 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 relating to sale of coal transactions between the fuel company of the Company and with related power plants of Huaneng Group and its subsidiaries and associates. In circumstances where there is a severe shortage in the level of inventory, extreme market or weather conditions and on condition that the Company's own power plants are preserved with sufficient coal supply, the Company will sell part of 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 process as mentioned in transaction regarding purchase of coal and coal transportation above, with reference to the then market conditions and in conjunction with the costs for coal purchase by fuel company to determine the then selling prices, so as to recoup the costs and to have a small profit; and

with respect to transaction involving bidding, such bidding process shall be conducted in accordance with the Bidding Law and other relevant rules and regulations of the PRC. At least two quotations will be obtained from independent third parties providing similar products or services for evaluation by the Company's evaluation committee which will make recommendations based on quantified ratings and submit the results to the Company's bidding team, bidding committee and general manager's office for consideration and approval. 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 whether the transaction prices are reasonable.

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4. CONNECTED TRANSACTIONS – FINANCE LEASE AND LEASEBACK TRANSACTIONS

The Company announces that on 25 November 2015, each of Diandong Energy, Diandong Yuwang, Luoyuanwan Harbour and Pingliang Power Plant has entered into a finance lease agreement with Tiancheng Leasing Company.

BRIEF DESCRIPTION OF THE TRANSACTION BETWEEN DIANDONG ENERGY AND TIANCHENG LEASING COMPANY

For purpose of obtaining finance by adopting the sale and leaseback model, Diandong Energy shall sell to Tiancheng Leasing Company its equipment assets forming part of the boilers and steam turbines located in the power plant of Diandong Energy in Yunnan Province, the PRC. Such equipment assets shall be leased back for use by Diandong Energy. Upon expiry of the lease term, Diandong Energy shall repurchase the same at the price of RMB1 in accordance with the stipulations of the agreement. The finance amount shall be RMB1,100 million and the lease term shall be 5 years.

Major terms of the finance lease agreement entered into between Diandong Energy and Tiancheng Leasing Company on 25 November 2015 are as follows:

- (1) Subject to the leased assets: equipment assets forming part of the boilers and steam turbines.
- (2) Form of lease: sale and leaseback.
- (3) Term of lease: 5 years, from the date when the leasing amount is paid by Diandong Energy to Tiancheng Leasing Company, which will be on or around 15 January 2016.
- (4) Finance amount: RMB1,100 million.
- (5) Consolidated finance costs/interest rate of the leasing: 7% lower than the benchmark RMB lending rate for 5 year term as quoted by The People's Bank of China as of the date when finance lease agreement becomes effective. Should there be any adjustment to the benchmark lending rate of The People's Bank of China during the term of leasing, the lease amount under the agreement shall be subject to adjustment for the same direction and with the same proportion.
- (6) Handling fee for the lease or deposit money: Nil.
- (7) Leasing amount and payment method: the aggregate of the leasing amount shall be around RMB1,299 million and the actual amount shall be that as specified in the Payment Table of actual leasing amount and the Notice of Payment of leasing amount. Leasing amount (equal to principal plus relevant leasing interest) shall be payable on a quarterly basis commencing on the respective dates of the first drawdown and the second drawdown of the principal, each having 20 instalments in total.
- (8) Amount on repurchase: RMB1.

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- (9) Terms and time for agreement to become effective: on the date when the legal representative/ chief representative (or their authorized person) of both parties sign on or stamp on the agreement.

BRIEF DESCRIPTION OF THE TRANSACTION BETWEEN DIANDONG YUWANG AND TIANCHENG LEASING COMPANY

For purpose of obtaining finance by adopting the sale and leaseback model, Diandong Yuwang shall sell to Tiancheng Leasing Company its equipment assets forming part of the boilers, steam turbines, machine condensers and induced fans located in the power plant of Diandong Yuwang in Yunnan Province, the PRC. Such equipment assets shall be leased back for use by Diandong Yuwang. Upon expiry of the lease term, Diandong Yuwang shall repurchase the same at the price of RMB1 in accordance with the stipulations of the agreement. The finance amount shall be RMB1,500 million and the lease term shall be 5 years.

Major terms of the finance lease agreement entered into between Diandong Yuwang and Tiancheng Leasing Company on 25 November 2015 are as follows:

- (1) Subject to the leased assets: equipment assets forming part of the boilers, steam turbines, machine condensers and induced draft fans.

(2) Form of lease: sale and leaseback.

- (3) Term of lease: 5 years, from the date when the leasing amount is paid by Diandong Yuwang to Tiancheng Leasing Company, which will be on or around 15 January 2016.

(4) Finance amount: RMB1,500 million.

- (5) Consolidated finance costs/interest rate of the leasing: 7% lower than the benchmark RMB lending rate for 5 year term as quoted by The People's Bank of China as of the date when finance lease agreement becomes effective. Should there be any adjustment to the benchmark lending rate of The People's Bank of China during the term of leasing, the lease amount under the agreement shall be subject to adjustment for the same direction and with the same proportion.

(6) Handling fee for the lease or deposit money: Nil.

- (7) Leasing amount and payment method: the aggregate of the leasing amount shall be around RMB1,776 million and the actual amount shall be that as specified in the Payment Table of actual leasing amount and the Notice of Payment of leasing amount. Leasing amount (equal to principal plus relevant leasing interest) shall be payable on a quarterly basis commencing on the respective dates of the first drawdown and the second drawdown of the principal, each having 20 instalments in total.

(8) Amount on repurchase: RMB1.

LETTER FROM THE BOARD

(9) Terms and time for agreement to become effective: on the date when the legal representative/ chief representative (or their authorized person) of both parties sign on or stamp on the agreement.

BRIEF DESCRIPTION OF THE TRANSACTION BETWEEN LUOYUANWAN HARBOUR AND TIANCHENG LEASING COMPANY

For purpose of obtaining finance by adopting the sale and leaseback model, Luoyuanwan Harbour shall sell to Tiancheng Leasing Company its equipment assets forming part of the loading equipment located in the power plant of Luoyuanwan Harbour in Fuzhou, the PRC. Such equipment assets shall be leased back for use by Luoyuanwan Harbour. Upon expiry of the lease term, Luoyuanwan Harbour shall repurchase the same at the price of RMB1 in accordance with the stipulation of the agreement. The finance amount shall be RMB270 million and the lease term shall be 5 years.

Major terms of the finance lease agreement entered into between Luoyuanwan Harbour and Tiancheng Leasing Company on 25 November 2015 are as follows:

(1) Subject to the leased assets: equipment assets forming part of the unloading equipment.

(2) Form of lease: sale and leaseback.

(3) Term of lease: 5 years, from the date when the leasing amount is paid by Luoyuanwan Harbour to Tiancheng Leasing Company, which will be on or around 15 January 2016.

(4) Finance amount: RMB270 million.

(5) Consolidated finance costs/interest rate of the leasing: 7% lower than the benchmark RMB lending rate for 5 year term as quoted by The People's Bank of China as of the date when finance lease agreement becomes effective. Should there be any adjustment to the benchmark lending rate of The People's Bank of China during the term of leasing, the lease amount under the agreement shall be subject to adjustment for the same direction and with the same proportion.

(6) Handling fee for the lease or deposit money: Nil.

(7) Leasing amount and payment method: the aggregate of the leasing amount shall be around RMB307 million and the actual amount shall be that as specified in the Payment Table of actual leasing amount and the Notice of Payment of leasing amount. Leasing amount (equal to principal plus relevant leasing interest) shall be payable on a quarterly basis commencing on the lease commencement date and there will be 20 instalments in total.

(8) Amount on repurchase: RMB1.

(9) Terms and time for agreement to become effective: on the date when the legal representative/ chief representative (or their authorized person) of both parties sign on or stamp on the agreement.

LETTER FROM THE BOARD

BRIEF DESCRIPTION OF THE TRANSACTION BETWEEN PINGLIANG POWER PLANT AND TIANCHENG LEASING COMPANY

For purpose of obtaining finance by adopting the sale and leaseback model, Pingliang Power Plant shall sell to Tiancheng Leasing Company its equipment assets forming part of the boilers, steam turbines and generators located in the Pingliang Power Plant in Gansu Province, the PRC. Such equipment assets shall be leased back for use by Pingliang Power Plant. Upon expiry of the lease term, Pingliang Power Plant shall repurchase the same at the price of RMB1 in accordance with the stipulations of the agreement. The finance amount will be RMB700 million, and the lease term will be 5 years.

Major terms of the finance lease agreement entered into between Pingliang Power Plant and Tiancheng Leasing Company on 25 November 2015 are as follows:

- (1) Subject of the leased assets: equipment assets including boilers, steam turbines and generators.
- (2) Form of lease: sale and leaseback.
- (3) Term of lease: 5 years, from the date when the leasing amount is paid by Pingliang Power Plant to Tiancheng Leasing Company, which will be on or around 15 February 2016.
- (4) Finance amount: RMB700 million.
- (5) Consolidated finance costs/interest rate of the leasing: 7% lower than the benchmark RMB lending rate for 5 year term as quoted by The People's Bank of China as of the date when the Finance Lease Agreement becomes effective. Should there be any adjustment to the benchmark lending rate of The People's Bank of China during the term of leasing, the lease amount under the agreement shall be subject to adjustment for the same direction and with the same proportion.
- (6) Handling fee for the lease or deposit money: Nil.
- (7) Leasing amount and payment method: the aggregate of the leasing amount shall be around RMB797 million and the actual amount shall be that as specified in the Payment Table of actual leasing amount and the Notice of Payment of leasing amount. Leasing amount (equal to principal plus relevant leasing interest) shall be payable on a quarterly basis commencing on the lease commencement date and there will be 20 instalments in total.
- (8) Amount on repurchase: RMB1.
- (9) Terms and time for agreement to become effective: on the date when the legal representative/ chief representative (or their authorized person) of both parties sign on or stamp on the agreement.

## LETTER FROM THE BOARD

### PRICING POLICY

The pricing policy of the Finance Lease and Leaseback Transactions shall be in accordance with the normal commercial terms (on arm's length terms or on terms which shall be no less favourable than those offered by independent third parties), basing on the market prices on principles of fairness, openness, voluntary and trustworthiness as negotiated by the parties. Specific pricing policy is as follows: the consolidated finance costs of the Finance Lease and Leaseback Transactions shall be 7% lower than the benchmark RMB lending rate for 5 year term as quoted by The People's Bank of China as of the date when relevant finance lease agreement(s) become(s) effective. As at the Latest Practicable Date, the prevailing RMB lending rate for 5 year term as quoted by The People's Bank of China is 4.75% per annum. Each lease amount comprises of a fix element for principal and a variable element for interest repayment, should there be any adjustments to the benchmark lending rate quoted by The People's Bank of China during the term of leasing, the lease amount (with respect to the interests component) under the relevant agreement(s) shall be subject to adjustment for the same direction and with the same proportion that is proportional to the change in interest rate. Such finance costs shall not be higher than the finance costs for comparable finance lease services available from other finance leasing companies in the PRC and will not be higher than the finance costs for similar finance lease services offered by Tiancheng Leasing Company to other members of Huaneng Group.

### PURPOSE OF THE FINANCE LEASE AND LEASEBACK TRANSACTIONS AND ITS IMPACT ON THE COMPANY

The Finance Lease and Leaseback Transactions are conducive to broaden the financing channels, lower the finance cost, vitalize the inventory of fixed assets, and improve the asset utilization efficiency ratio of the Company. Not only can they satisfy the Company's normal operation production needs for use of equipment assets, they also serve to alleviate the demands for capital by the Company. It does not exist circumstances that will prejudice the interests of the Company and its Shareholders.

### BOARD CONFIRMATION

The Eleventh Meeting and Twelfth Meeting of the Eighth Session of the Board held by the Company on 20 October 2015 and 25 November 2015 had respectively approved the Resolution regarding the related transactions on finance lease and leaseback of the Controlled Subsidiaries and the Resolution regarding the related transaction on finance lease and leaseback services of Huaneng Pingliang Power Generation Limited Company as a controlled subsidiary. Pursuant to Rule 14A.68(8) of the Hong Kong Listing Rules, Messrs. Cao Peixi, Guo Junming, Liu Guoyue, Li Shiqi, Huang Jian and Fan Xiaxia, all being Directors of the Board of the Company and being regarded as having a connected interest in the connected transactions, abstained from voting on the resolutions. The relevant resolutions were voted by Directors who are not connected to the Finance Lease and Leaseback Transactions.

The Board (including the independent non-executive Directors) are of the view that the Finance Lease and Leaseback Transactions are: (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 independent third parties offered by the Company); and (iii) on terms that are fair and reasonable and in the interest of the Company and its shareholders as a whole.