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Beijing Jingneng Clean Energy Co., Limited
北京 能清潔能源電力股份有限公司

(A limited liability company incorporated in the People's Republic of China with its registered office at Room 1001, 10/F, No. 100, Zhongyuan Road, Beijing, P.R. of China)
(Stock Code: 00579)

CIRCULAR
DISCLOSEABLE AND CONNECTED TRANSACTIONS
PROPOSED ACQUISITIONS OF 100% EQUITY INTERESTS IN
SICHUAN DACHUAN AND SICHUAN HONGNENG

Independent Financial Adviser: Independent Board Committee
Independent Non-Executive Directors



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DEFINITIONS

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<i>w</i>	<i>m</i>	<i>e</i>	<i>:</i>																	
“associate(s)”																				has the meaning ascribed to it under the Listing Rules
“BDHG”																				北京市熱力集團有限公司 (Beijing District Heating (Group) Co., Ltd.), a state-owned company incorporated in the PRC and a Shareholder which directly held 0.261% of the total issued share capital of the Company as at the Latest Practicable Date. BDHG is a wholly-owned subsidiary of BEIH
“BEIH”																				北京能源投資(集團)有限公司 (Beijing Energy Investment Holding Co., Ltd.), a limited liability company incorporated in the PRC and the controlling Shareholder of the Company which directly held 67.958% of the total issued share capital of the Company as at the Latest Practicable Date
“Beijing SASAC”																				北京市人民政府國有資產監督管理委員 (State-owned Assets Supervision and Administration Commission of People’s Government of Beijing Municipality)
“BIEE”																				北京國際電氣工程有限公司 (Beijing International Electric Engineering Co., Ltd.), a company incorporated in the PRC and a Shareholder which directly held 0.437% of the total issued share capital of the Company as at the Latest Practicable Date. BIEE is a wholly-owned subsidiary of BEIH and a connected person of the Company
“Board”																				the board of directors of the Company
“BSAMAC”																				北京國有資本經營管理中心 (Beijing State Assets Management and Administration Center), a Shareholder which directly held 3.648% of the total issued share capital of the Company as at the Latest Practicable Date. BSAMAC is the sole shareholder of BEIH
“China” or “PRC”																				the People’s Republic of China (excluding, for the purposes of this Circular, Hong Kong, Macau and Taiwan)
“China Assets Appraisal”																				中資資產評估有限公司 (China Assets Appraisal Co., Ltd.), an independent assets appraisal firm qualified in the PRC
“Circular”																				this Circular for the EGM

DEFINITIONS

“Company”	Beijing Jingneng Clean Energy Co., Limited (北京京能清潔能源電力股份有限公司), a joint stock company incorporated in the PRC with limited liability, the H Shares of which are listed on the Stock Exchange (stock code: 00579), and except where the context indicates otherwise, include all of its subsidiaries
“Director(s)”	the director(s) of the Company
“EGM”	the third extraordinary general meeting of 2012 of the Company to be held on 29 December 2012
“ETA(1)”	the equity transfer agreement entered into between the Company and BDHG on 24 July 2012 in respect of the acquisition of a 19.97% equity interest in Jingqiao Power by the Company
“ETA(2)”	the equity transfer agreement entered into between the Company and BEIH on 13 November 2012 in respect of the acquisition of a 100% equity interest in Sichuan Dachuan by the Company
“ETA(3)”	the equity transfer agreement entered into between the Company and BEIH on 13 November 2012 in respect of the acquisition of a 100% equity interest in Sichuan Zhongneng by the Company
“Group”	the Company together with its subsidiaries
“H Share(s)”	overseas listed foreign invested share(s) in the Company’s issued share capital with a par value of RMB1.00 per share which are listed on the Stock Exchange
“Hong Kong”	Hong Kong Special Administrative Region of the PRC
“Independent Board Committee”	the committee, consisting of Mr. LIU Chaoan, Mr. SHI Xiaomin, Ms. LAU Miu Man and Mr. Wei Yuan, who are independent non-executive Directors, formed to advise the Independent Shareholders on the Proposed Acquisitions
“Independent Financial Adviser” or “GF Capital”	GF Capital (Hong Kong) Limited, a corporation licensed to carry on Type 6 (advising on corporate finance) regulated activity under the SFO
“Independent Shareholders”	Shareholders other than BEIH, BIEE, BDHG and BSAMAC
“Jingqiao Power”	北京京橋熱電有限責任公司 (Beijing Jingqiao Thermal Power Co., Ltd.), a company established by the Company and BDHG as the co-founders in the PRC and currently wholly-owned by the Company

“Latest Practicable Date”	23 November 2012, being the latest practicable date prior to the printing of this Circular for ascertaining certain information contained herein
“Listing Rules”	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited
“Non-competition Agreements”	the non-competition agreement dated 13 June 2011 and the supplemental non-competition agreement on 2 December 2011 entered into between BEIH and the Company
“PRC GAAP”	generally accepted accounting principles in the PRC
“Proposed Acquisitions”	the transactions contemplated under the ETA(2) and the ETA(3)
“	

LETTER FROM THE BOARD



Beijing Jinneng Clean Energy Co., Ltd.
北京 能清潔能源電力股份有限公司

(A limited liability company incorporated in the People's Republic of China with its registered office at Room 118, Ziguang East Road, Yanqing County, Beijing, PRC (Stock Code: 00579))

Non-executive Directors:

Mr. Lu Haijun
Mr. Guo Mingxing
Mr. Xu Jingfu
Mr. Liu Guochen
Mr. Yu Zhongfu
Mr. Jin Yudan

Executive Director:

Mr. Chen Ruijun

Independent Non-executive Directors:

Mr. Liu Chaoan
Mr. Shi Xiaomin
Ms. Lau Miu Man
Mr. Wei Yuan

Registered Office:

1 Ziguang East Road, Room 118
Badaling Economic Development Zone
Yanqing County
Beijing
The PRC

Principal Place of Business in Hong Kong:

Level 28, Three Pacific Place
1 Queen's Road East
Hong Kong

29 November 2012

Dear Sir or Madam,

Dear Sir or Madam,

**DISCLOSEABLE AND CONNECTED TRANSACTIONS
PROPOSED ACQUISITIONS OF 100% EQUITY INTERESTS IN
SICHUAN DACHUAN AND SICHUAN HONGNENG**

1. INTRODUCTION

Reference is made to the announcement of the Company dated 24 July 2012 in relation to the Company's acquisition of a 19.97% equity interest in Jingqiao Power pursuant to the ETA(1) and the announcement of the Company dated 13 November 2012 in relation to the Proposed Acquisitions.

LETTER FROM THE BOARD

The Board announced on 24 July 2012 that the Company entered into the ETA(1) with BDHG, pursuant to which the Company has agreed to acquire, and BDHG has agreed to sell, a 19.97% equity interest in Jingqiao Power at a total consideration of RMB116,721,800.

The Board announced on 13 November 2012 that the Company entered into the ETA(2) and ETA(3) with BEIH, pursuant to which the Company has agreed to acquire, and BEIH has agreed to sell, a 100% equity interest in Sichuan Dachuan at a total consideration of RMB1,281,032,600 and a 100% equity interest in Sichuan Zhongneng at a total consideration of RMB558,870,900.

As at the Latest Practicable Date, BEIH directly holds 67.958% of the issued share capital of the Company. Accordingly, BEIH is a substantial Shareholder of the Company and thus a connected person of the Company as defined under the Listing Rules. In addition, as BDHG is a subsidiary of BEIH, it is therefore a connected person of the Company under Chapter 14A of the Listing Rules by virtue of being an associate of the Company's substantial Shareholder. As a result, the transactions under the ETA(1), ETA(2) and ETA(3) constitute connected transactions of the Company under Chapter 14A of the Listing Rules.

Considering the transactions under the ETA(1), ETA(2) and ETA(3) were entered into by the Company with parties connected with each other within a period of 12 months, such transactions shall be aggregated pursuant to Rule 14A.25 of the Listing Rules. As the highest applicable percentage ratio in respect of the transactions under the ETA(1), ETA(2) and ETA(3), after aggregation, exceeds 5% but is less than 25%, the Proposed Acquisitions constitute (i) discloseable transactions subject to the reporting and announcement requirements under Chapter 14 of the Listing Rules; and (ii) connected transactions subject to the reporting, announcement and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

An Independent Board Committee comprising all of the independent non-executive Directors has been formed to advise the Independent Shareholders on the Proposed Acquisitions. GF Capital has been appointed as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders on the same.

The purpose of this Circular is to provide, among other things, further information about the Proposed Acquisitions, letters from the Independent Board Committee and the Independent Financial Adviser, and a notice to Shareholders convening the EGM approving the Proposed Acquisitions.

2. ETA(1)

Reference is made to the announcement of the Company dated 24 July 2012 in relation to the Company's acquisition of 19.97% equity interests in Jingqiao Power under the ETA(1). The major terms of the ETA(1) are set out below.

D

24 July 2012

LETTER FROM THE BOARD

PART 1

Vendor: BDHG
Acquirer: The Company

Equity Interests in Jingqiao Power

19.97% of the equity interests in Jingqiao Power held by BDHG

Consideration

The total consideration for the acquisition of the 19.97% equity interests in Jingqiao Power is RMB116,721,800, which was determined by the Company and BDHG following arm's length negotiations by reference to, inter alia, the appraised value of the 100% equity interests in Jingqiao Power of RMB584,485,700 as at 31 December 2011. Such appraisal was prepared by Beijing Zhongping Jiancheng Asset Appraisal Co., Ltd., an independent assets appraisal firm qualified in the PRC, based on the income approach.

Payment

The payment shall be made in a lump sum in cash within ten business days after the ETA(1) takes effect.

Operating Profit

The Company shall be entitled to the operating profit or loss incurred by the remaining 19.97% equity interests in Jingqiao Power to be purchased from BDHG from the reference date of 31 December 2011 to the completion of the transfer. The Company and BDHG will be liable for their respective tax and fees in relation to the transfer.

As at the Latest Practicable Date, the acquisition pursuant to the ETA(1) has been completed.

3. ETA(2)

Reference is made to the section headed "Relationship with Our Controlling Shareholder" of the Prospectus in respect of the hydropower business retained by BEIH and the acquisition options granted by BEIH to the Company under the Non-competition Agreements, as well as to the announcement of the Company dated 13 November 2012 in relation to the Proposed Acquisitions contemplated under the ETA(2) and ETA(3).

The major terms of the ETA (2) are set out below.

D

13 November 2012

LETTER FROM THE BOARD

PART 1

Vendor: BEIH
Acquirer: The Company

Equity Interests in Sichuan Dachuan

100% of the equity interests in Sichuan Dachuan held by BEIH

Consideration

The total consideration for the proposed transaction under the ETA(2) of RMB1,281,032,600 was determined by the Company and BEIH following arm's length negotiations by reference to, inter alia, the appraised value of the 100% equity interests in Sichuan Dachuan of RMB1,281,032,600 as at 30 September 2012, being the reference date. Such appraisal was prepared by China Assets Appraisal based on the income approach. The Company will use its internal funds to pay the consideration.

The consideration paid by BEIH for the purchase of the 100% equity interests in Sichuan Dachuan in July 2011 was RMB1,447,540,581.15. As the hydropower business generates stable revenues, Sichuan Dachuan has kept a steady cash flow and has accumulated considerable monetary capitals. In order to improve its capital using efficiency and optimize capital management capability, after taking into consideration of the need for capital required for its daily operation, and as approved by the meeting of the board of directors and shareholders' meeting of Sichuan Dachuan, in August 2012, Sichuan Dachuan reduced its registered and paid-in capital by RMB250,000,000 by way of cash, with a concurrent increase of its registered and paid-in capital by RMB5,124,000 through the transfer of the surplus reserves. Upon completion of the above, the registered and paid-in capital of Sichuan Dachuan was RMB130,000,000. Such reduced capital was refunded to BEIH in compliance with relevant PRC laws and regulations. The difference between the original purchase price paid by BEIH and the appraised value of Sichuan Dachuan is mainly attributable to the aforesaid capital reduction.

Payment

The payment will be made in cash in two instalments. The first instalment of RMB640,516,300 will be made within 30 business days after obtaining the approval from the Beijing SASAC and the remaining RMB640,516,300 will be made within 30 business days after the completion of the amendment filings with the competent industry and commerce authorities.

Conditions of the ETA(2)

The ETA (2) is conditional upon, among others, the following being fulfilled:

- (1) the acquisition under the ETA(2) being approved by relevant competent authorities in the PRC; and
- (2) the acquisition under the ETA(2) being approved by the Independent Shareholders.

LETTER FROM THE BOARD

Completion

The acquisition will be completed on the date when the equity interests acquired are registered under the name of the Company and the amendment filings with the competent industry and commerce authorities are completed.

Operating Profit

The Company shall be entitled to the operating profit or loss incurred by the 100% equity interests in Sichuan Dachuan to be acquired from BEIH from the reference date of 30 September 2012 to the completion date of the transaction under the ETA(2). The Company and BEIH will be liable for their respective fees in relation to the transfer.

Profit Appraisal Approach - Discounted Cash Flow Approach - Appraisal

Given that the appraisal of Sichuan Dachuan involves the use of discounted cash flow approach, such appraisal is regarded as a profit forecast under Rule 14.61 of the Listing Rules and the Company has fully complied with the requirements of Rule 14.62 of the Listing Rules.

The valuation of total equity of Sichuan Dachuan contained in the valuation report has been prepared on the following principal basis and assumptions:

- (1) *Key Assumptions*
- (a) As of the appraisal reference date, all examined and verified licences, use permits, letters of consent or other legal or administrative authorization documents issued by relevant local or national governments or organizations as required for the utilization of the assets, upon which this valuation is based, have been normally and legitimately used during their respective terms of validity, and may be renewed or reissued (such as business licence) at any time upon expiry;
 - (b) Sichuan Dachuan has been in full compliance with the prevailing national and local laws and regulations, and has responsibly fulfilled its duties as the owner of the asset and managed the assets in a competent and efficient manner;
 - (c) The valuation is based on the purchasing power of local currency as at 30 September 2012; and
 - (d) There will be no material change in political, economic and social environments, national industry policies, interest rates, exchange rates, and financial, fiscal and taxation policies in the regions where the parties to the transaction are located.

LETTER FROM THE BOARD

- (2) **A** ..
- (a) The business of Sichuan Dachuan is and will be operating as a going concern. There will be no material change in its current scope of business as well as existing business activities and operations due to changes in future industry policies;
 - (b) The subject assets will be continuously utilized in accordance with the current usage and utilization manner, scale, frequency, environment and other parameters. Sichuan Dachuan will commit certain capital expenditures and maintenance costs each year to ensure normal use of the assets, and may continue to operate as a going concern through continuous self compensations and updates;
 - (c) The revenue generated in the future will basically be collected as planned without incurring any material bad debts, and Sichuan Dachuan will be able to obtain adequate funding on a timely basis as and when the needs for financial supports arise in the future course of business;
 - (d) There is no other material adverse impact arising from any unforeseeable factor or force majeure; and
 - (e) The inflation factor is not taken into consideration.

Deloitte Touche Tohmatsu, the reporting accountants of the Company, have reported to the Directors of the Company in respect of the compilation, in accordance with the assumptions described above, of the discounted future estimated cash flows in connection with the valuation of 100% equity interests in Sichuan Dachuan prepared by China Assets Appraisal as set out in its appraisal report dated 31 October 2012.

The Directors confirm that the appraisal of Sichuan Dachuan, which constitutes a profit forecast under Rule 14.61 of the Listing Rules, has been made after due and careful enquiries.

Letters from Deloitte Touche Tohmatsu and the Board relating to the valuation are set out as Appendix II and Appendix III to this Circular, respectively.

4. ETA(3)

Reference is made to the section headed “Relationship with Our Controlling Shareholder” of the Prospectus in respect of the hydropower business retained by BEIH and the acquisition granted by BEIH to the Company under the Non-competition Agreements, as well as to the announcement of the Company dated 13 November 2012 in relation to the Proposed Acquisitions contemplated under the ETA(2) and ETA(3). The major terms of the ETA (3) are set out below.

D

13 November 2012

LETTER FROM THE BOARD

P

Vendor: BEIH
Acquirer: The Company

E **I** **B** **A**

100% of the equity interests in Sichuan Zhongneng held by BEIH

C

The total consideration for the transaction under the ETA(3) of RMB558,870,900 was determined by the Company and BEIH following arm's length negotiations by reference to, inter alia, the appraised value of the 100% equity interests in Sichuan Zhongneng of RMB558,870,900 as at 30 September 2012 being the reference date. Such appraisal was prepared by China Assets Appraisal based on the income approach. The Company will use its internal funds to pay the consideration.

The consideration paid by BEIH for the purchase of the 100% equity interests in Sichuan Zhongneng in July 2011 was RMB768,974,583.66. As the hydropower business generates stable revenues, Sichuan Zhongneng has kept a steady cash flow and has accumulated considerable monetary capital. In order to improve its capital using efficiency and optimize its capital management capability, after taking into consideration of the need for capital for its daily operation and as approved by the meeting of the board of directors and shareholders' meeting of Sichuan Zhongneng, in August 2012, Sichuan Zhongneng reduced its registered and paid-in capital by RMB250,000,000 by way of cash, with a concurrent increase of its registered and paid-in capital by RMB25,991,100 through the transfer of the surplus reserves. Upon completion of the above, the registered and paid-in capital of Sichuan Zhongneng was RMB90,000,005. Such reduced capital was refunded to BEIH in compliance with relevant PRC laws and regulations. The difference between the original purchase price paid by BEIH and the appraised value of Sichuan Zhongneng is mainly attributable to the aforesaid capital reduction.

P

The payment will be made in cash in two instalments. The first instalment of RMB279,435,450 will be made within 30 business days after obtaining the approval from the Beijing SASAC and the remaining RMB279,435,450 will be made within 30 days after the completion of the amendment filings with the competent industry and commerce authorities.

E **A** **(3)**

The ETA(3) is conditional upon, among others, the following being fulfilled:

- (1) the acquisition under the ETA(3) being approved by relevant competent authorities in the PRC; and
- (2) the acquisition under the ETA(3) being approved by the Independent Shareholders.

LETTER FROM THE BOARD

Completion

The acquisition will be completed on the date when the equity interests acquired are registered under the name of the Company and the amendment filings with the competent industry and commerce authorities are completed.

Operating Profit

The Company shall be entitled to the operating profit or loss incurred by the 100% equity interests in Sichuan Zhongneng to be acquired from BEIH from the reference date of 30 September 2012 to the completion date of the transaction under the ETA(3). The Company and BEIH will be liable for their respective fees in relation to the transfer.

Principal Assumptions in Discounted Cash Flow Appraisal

Given that the appraisal of Sichuan Zhongneng involves the use of discounted cash flow approach, such appraisal is regarded as a profit forecast under Rule 14.61 of the Listing Rules and the Company has fully complied with the requirements of Rule 14.62 of the Listing Rules.

The valuation of total equity of Sichuan Zhongneng contained in the valuation report has been prepared on the following principal basis and assumptions:

- (1) *Assumptions*
 - (a) As of the appraisal reference date, all examined and verified licences, use permits, letters of consent or other legal or administrative authorization documents issued by relevant local or national governments or organizations as required for the utilization of the assets, upon which this valuation is based, have been normally and legitimately used during their respective terms of validity, and may be renewed or reissued (such as business licence) at any time upon expiry;
 - (b) Sichuan Zhongneng has been in full compliance with the prevailing national and local laws and regulations, and has responsibly fulfilled its duties as the owner of the asset and managed the assets in a competent and efficient manner;
 - (c) The valuation is based on the purchasing power of local currency as at 30 September 2012; and
 - (d) There will be no material change in political, economic and social environments, national industry policies, interest rates, exchange rates, and financial, fiscal and taxation policies in the regions where the parties to the transaction are located.

(2) **A**

- (a) The business of Sichuan Zhongneng is and will be operating as a going concern. There will be no material change in its current scope of business as well as existing business activities and operations due to changes in future industry policies;
- (b) The subject assets will be continuously utilized in accordance with the current usage and utilization manner, scale, frequency, environment and other parameters. Sichuan Zhongneng will commit certain capital expenditures and maintenance costs each year to ensure normal use of the assets, and may continue to operate as a going concern through continuous self compensations and updates;
- (c) The revenue generated in the future will basically be collected as planned without incurring any material bad debts, and Sichuan Zhongneng will be able to obtain adequate funding on a timely basis as and when the needs for financial supports arise in the future course of business;
- (d) There is no other material adverse impact arising from any unforeseeable factor or force majeure; and
- (e) The inflation factor is not taken into consideration.

Deloitte Touche Tohmatsu, the reporting accountants of the Company, have reported to the Directors of the Company in respect of the compilation, in accordance with the assumptions described above, of the discounted future estimated cash flows in connection with the valuation of 100% equity interests in Sichuan Zhongneng prepared by China Assets Appraisal as set out in its appraisal report dated 31 October 2012.

The Directors confirm that the appraisal of Sichuan Zhongneng, which constitutes a profit forecast under Rule 14.61 of the Listing Rules, has been made after due and careful enquiries.

Letters from Deloitte Touche Tohmatsu and the Board relating to the valuation are set out as Appendix II and Appendix III to this Circular, respectively.

5. REASONS FOR AND BENEFITS OF THE PROPOSED ACQUISITIONS

The Company currently operates a diversified clean energy portfolio including small to medium

LETTER FROM THE BOARD

The Board believes that the Proposed Acquisitions are in line with the Company's strategy to focus on the development of its clean energy power generation businesses and are beneficial to optimize the allocation of resources of the Company.

Upon completion of the Proposed Acquisitions, the Company will hold a 100% equity interest in Sichuan Dachuan and a 100% equity interest in Sichuan Zhongneng.

6. INFORMATION ON THE PARTIES

天 能 电 力

The Company is the largest gas-fired power provider in Beijing and a leading wind power operator in the PRC, with a diversified clean energy portfolio including gas-fired power and heat energy, wind power, small to medium hydropower and other clean energy projects.

BEIH

BEIH is a limited liability company incorporated in the PRC and is principally engaged in investments in energy, real estate, infrastructure, high-tech and financial sectors in the PRC. BEIH is the controlling Shareholder of the Company, directly holds approximately 67.958% of the issued share capital of the Company, and therefore is a connected person of the Company pursuant to the Listing Rules.

BDHG

BDHG is a state-owned company incorporated in the PRC, which is primarily engaged in generation, transportation and supply of heat energy. BDHG is a shareholder of the Company, holding 0.261% of the total issued share capital of the Company. It is a directly wholly-owned subsidiary of BEIH.

京 桥 电 力

Jingqiao Power is a company incorporated in the PRC and currently a wholly-owned subsidiary of the Company. Jingqiao Power manages and operates Jingqiao power plant, which generates heat energies.

四川 大 观 电 力

Sichuan Dachuan is a company incorporated in the PRC and a wholly-owned subsidiary of BEIH. Sichuan Dachuan is primarily engaged in hydropower energy generation in Sichuan Province.

LETTER FROM THE BOARD

Based on the audited financial accounts of Sichuan Dachuan prepared under the PRC GAAP as at 30 September 2012, the total assets and net assets of Sichuan Dachuan were RMB659,780,503.77 and RMB284,498,621.83, respectively. The total profits/(loss) attributable to the equity to be acquired, which is 100% of the equity interests of Sichuan Dachuan, for the two years ended 31 December 2010 and 31 December 2011, prepared under the PRC GAAP, were as follows:

	F_u - 31 D 2010 (audited)	F_u - 31 D 2011 (audited)
	<i>U : RMB</i>	
Net profit/(loss) attributable to the equity to be acquired in Sichuan Dachuan (before taxation and extraordinary items)	122,212,357.56	68,891,600.64*
Net profit/(loss) attributable to the equity to be acquired in Sichuan Dachuan (after taxation and extraordinary items)	113,967,085.30	51,611,192.67*

Sichuan Zhongneng

Sichuan Zhongneng is a company incorporated in the PRC and a wholly-owned subsidiary of BEIH. Sichuan Zhongneng is primarily engaged in hydropower energy generation in Sichuan Province.

Based on the audited financial accounts of Sichuan Zhongneng prepared under the PRC GAAP as at 30 September 2012, the total assets and net assets of Sichuan Zhongneng were RMB290,002,403.02 and RMB155,747,599.15, respectively. The total profits/(loss) attributable to the equity to be acquired, which is 100% of the equity interests of Sichuan Zhongneng, for the two years ended 31 December 2010 and 31 December 2011, prepared under the PRC GAAP, were as follows:

	F_u - 31 D 2010 (audited)	F_u - 31 D 2011 (audited)
	<i>U : RMB</i>	
Net profit/(loss) attributable to the equity to be acquired in Sichuan Zhongneng (before taxation and extraordinary items)	115,098,479.70	39,447,147.29*
Net profit/(loss) attributable to the equity to be acquired in Sichuan Zhongneng (after taxation and extraordinary items)	96,343,980.32	38,093,482.13*

* Net profit/(loss) attributable to the equity to be acquired in Sichuan Zhongneng (before taxation and extraordinary items) for the year ended 31 December 2011.

LETTER FROM THE BOARD

7. LISTING RULES IMPLICATIONS

As at the Latest Practicable Date, BEIH directly held 67.958% of the issued share capital of the Company. Accordingly, BEIH is a substantial Shareholder of the Company and thus a connected person of the Company as defined under the Listing Rules. In addition, as BDHG is a subsidiary of BEIH, it is a connected person of the Company under Chapter 14A of the Listing Rules by virtue of being an associate of the Company's substantial Shareholder. As a result, the transactions under the ETA(1), ETA(2) and ETA(3) constitute connected transactions of the Company under Chapter 14A of the Listing Rules.

Considering the transactions under the ETA(1), ETA(2) and ETA(3) were entered into by the Company with parties connected with each other within a period of 12 months, such transactions shall be aggregated pursuant to Rule 14A.25 of the Listing Rules. As the highest applicable percentage ratio in respect of the transactions under the ETA(1), ETA(2) and ETA(3), after aggregation, exceeds 5% but is less than 25%, the Proposed Acquisitions constitute (i) discloseable transactions subject to the reporting and announcement requirements under Chapter 14 of the Listing Rules; and (ii) connected transactions subject to the reporting, announcement and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

As disclosed in the "Relationship with our Controlling Shareholder" section of the Prospectus, BEIH has granted the Company the acquisition options which is exercisable at any time during the term of the Non-competition Agreements to purchase any equity interest which form part/or all of the business retained by BEIH. The independent non-executive Directors will be responsible for reviewing, considering and deciding whether or not to exercise the acquisition options. Prior to the acquisitions by BEIH in 2011, Sichuan Dachuan and Sichuan Zhongneng were not considered by the Company as suitable targets for acquisition taking into account, among other things, their respective profitabilities and corporate governance systems. Leveraging on the management and resources of BEIH, from 2011 to 2012, Sichuan Dachuan and Sichuan Zhongneng have improved their profitabilities* and further strengthened their corporate governance systems to a standard, in the view of the Company, commensurate with that required of businesses of a listed issuer. Accordingly, the independent non-executive Directors had convened a meeting to consider the exercise of, and had resolved to exercise, the acquisition options to acquire the 100% equity interests in Sichuan Dachuan and Sichuan Zhongneng. The Board has also resolved and approved the ETA(2), ETA(3) and the transactions contemplated thereunder. Mr. LU Haijun, Mr. GUO Mingxing, Mr. XU Jingfu and Mr. LIU Guochen, concurrently serving as Directors and directors and/or management members of BEIH, have material interests in the transactions between the Company and BEIH, and have all abstained from voting on the Board resolution approving the Proposed Acquisitions.

An Independent Board Committee comprising all of the independent non-executive Directors has been formed to advise the Independent Shareholders on the Proposed Acquisitions. GF Capital has been appointed as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders on the same.

* Net Total (after 2012) of RMB92,772,340 and RMB42,809,646, respectively.

BEIH, BDHG, BIEE and BSAMAC will abstain from voting at the EGM on the ordinary resolutions approving the Proposed Acquisitions. BSAMAC, the holding entity of BEIH, is an associate of BEIH, BDHG and BIEE as defined in Chapter 1 of the Listing Rules. As at the Latest Practicable Date, BEIH, BDHG, BIEE and BSAMAC held, in the aggregate, 72.304% of the issued share capital of the Company with BEIH, BDHG, BIEE and BSAMAC, respectively, holding 67.958%, 0.261%, 0.437% and 3.648% of the issued share capital of the Company. Any vote of the Independent Shareholders at the EGM shall be taken by poll. The Company confirms that none of the independent non-executive Directors has any interests in the ETA(2), ETA(3) and the Proposed Acquisitions.

8. THE EGM

A notice convening the EGM to be held at 9:30 a.m. on Saturday, 29 December 2012, at the Video Conference Room, Suite 2911, Block A CBD International Tower, 16 Yongan Dongli, Chaoyang District, Beijing PRC, has been despatched to the shareholders on 14 November 2012.

A proxy form for use at the EGM has been despatched to the shareholders on 14 November 2012 and was also published on the HKExnews website of the Stock Exchange (<http://www.hkexnews.hk>). If you intend to appoint a proxy to attend the EGM, you are requested to complete and return the enclosed proxy form in accordance with the instructions printed thereon not less than 24 hours before the time fixed for holding the EGM or any adjournment thereof (as the case may be). Completion and return of the proxy form will not preclude you from attending the EGM and voting in person if you so wish. Shareholders who intend to attend the meeting in person or by proxy should complete and deliver the reply slip to the H Share registrar of the Company in accordance with the instructions printed thereon on or before Friday, 7 December 2012.

The resolutions proposed at the EGM will be voted by poll.

9. CONCLUSIONS AND RECOMMENDATIONS

GF Capital has been appointed as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders with regard to the Proposed Acquisitions.

The Independent Financial Adviser considers that ts ws w 46-2.8006Tndes0(n)s2(he)-b8(w)loldndependee59-1((ur)3(n

LETTER FROM THE BOARD

10. OTHER INFORMATION

Your attention is drawn to the letter from the Independent Financial Adviser which contains its advice to the Independent Board Committee and the Independent Shareholders, the letter from the Independent Board Committee which sets out its recommendation to the Independent Shareholders, the additional information set out in the appendices to this Circular and the notice of the EGM.

By order of the Board

BARRY JEFFREY CHEN, Chairman
LU HING
Chairman

LETTER FROM THE INDEPENDENT BOARD COMMITTEE



BEIJING JINNENG CLEAN ENERGY CO., LTD.
北京能清潔能源電力股份有限公司

(A registered company in the People's Republic of China with
(Stock Code: 00579))

29 November 2012

To the Independent Shareholders

Dear Sir or Madam,

**DISCLOSEABLE AND CONNECTED TRANSACTIONS
PROPOSED ACQUISITIONS OF 100% EQUITY INTERESTS IN
SICHUAN DACHUAN AND SICHUAN HONGNENG**

We refer to the Circular issued by the Company to the Shareholders dated 29 November 2012, of which this letter forms part. The terms defined in the Circular shall have the same meanings in this letter unless the context otherwise requires.

On 13 November 2012, the Board announced that the Company entered into the ETA(2) and the ETA(3) with BEIH. Further details are contained in the letter from the Board set out on pages 4 to 17 of the Circular.

The Independent Board Committee was formed to make a recommendation to the Independent Shareholders as to whether, in its view, the Proposed Acquisitions are fair and reasonable in so far as the Independent Shareholders are concerned.

GF Capital has been appointed to act as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders with regard to the Proposed Acquisitions as described in the Circular. The text of the letter of advice from the Independent Financial Adviser containing their recommendation and the principal factors they have taken into account in arriving at their recommendation are set out from pages 20 to 33 of the Circular.

The Independent Shareholders are recommended to read the letter from the Independent Financial Adviser, the letter from the Board contained in the Circular as well as the additional information set out in the appendices to the Circular.

As your Independent Board Committee, we have discussed with the management of the Company the reasons for and the benefits of the Proposed Acquisitions. We have also considered the key factors taken into account by the Independent Financial Adviser in arriving at its opinion regarding the Proposed Acquisitions.

LETTER FROM THE INDEPENDENT BOARD COMMITTEE

The Independent Board Committee concurs with the view of the Independent Financial Adviser and considers that the Proposed Acquisitions are fair and reasonable, on normal commercial terms and are in the interests of the Company and the Shareholders (including the Independent Shareholders) as a whole. Accordingly, the Independent Board Committee recommends the Independent Shareholders to vote in favour of the ordinary resolutions set out in the notice of the EGM.

Yours faithfully

For and on behalf of
Independent Board Committee
L. J. C.
S.
L. J. M. J. M.
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LETTER FROM THE INDEPENDENT FINANCIAL ADISER

The independent financial adviser of the Company is GF Capital (Hong Kong) Limited, which is a subsidiary of BEIH. The independent financial adviser is also a connected person of the Company.



Suites 2301-5 & 2313, COSCO Tower
183 Queen's Road Central
Hong Kong

29 November 2012

The independent financial adviser of the Company is GF Capital (Hong Kong) Limited, which is a subsidiary of BEIH. The independent financial adviser is also a connected person of the Company.

Dear Sirs,

DISCLOSEABLE AND CONNECTED TRANSACTIONS PROPOSED ACQUISITIONS OF 100% EQUITY INTERESTS IN SICHUAN DACHUAN AND SICHUAN HONGNENG

INTRODUCTION

We refer to our appointment as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders in relation to the Proposed Acquisitions, details of which, among other things, are set out in the letter from the Board (the “Letter from the Board”) contained in the circular of the Company dated 29 November 2012 (the “Circular”) of which this letter forms part. Capitalized terms used in this letter shall have the same meanings ascribed to them in the Circular, unless the context requires otherwise.

As set out in the Letter from the Board, on 13 November 2012, the Company entered into the ETA(2) and ETA(3) with BEIH, pursuant to which the Company has agreed to acquire, and BEIH has agreed to sell, a 100% equity interest in Sichuan Dachuan at a total consideration of RMB1,281,032,600 and a 100% equity interest in Sichuan Zhongneng at a total consideration of RMB558,870,900. Upon the completion of the Proposed Acquisitions, Sichuan Dachuan and Sichuan Zhongneng will become the wholly-owned subsidiaries of the Company.

As at the Latest Practicable Date, BEIH directly held approximately 67.958% of the issued share capital of the Company. Accordingly, BEIH is a substantial Shareholder and thus a connected person of the Company as defined under the Listing Rules. In addition, as BDHG is a subsidiary of BEIH, it is therefore a connected person of the Company under Chapter 14A of the Listing Rules by virtue of being an associate of the Company's substantial Shareholder. As a result, the transactions under the ETA(1), ETA(2) and ETA(3) constitute connected transactions of the Company under Chapter 14A of the Listing Rules.

LETTER FROM THE INDEPENDENT FINANCIAL AD ISER

Considering the transactions under the ETA(1), ETA(2) and ETA(3) were entered into by the Company with parties connected with each other within a period of 12 months, such transactions shall be aggregated pursuant to Rule 14A.25 of the Listing Rules. As the highest applicable percentage ratio in respect of the transactions under the ETA(1), ETA(2) and ETA(3), after aggregation, exceeds 5% but is less than 25%, the Proposed Acquisitions constitute (i) discloseable transactions subject to the reporting and announcement requirements under Chapter 14 of the Listing Rules; and (ii) connected transactions subject to the reporting, announcement and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

BEIH, BDHG, BIEE and BSAMAC will abstain from voting at the EGM on the ordinary resolutions approving the Proposed Acquisitions. BSAMAC, the holding entity of BEIH, is an associate of BEIH, BDHG and BIEE as defined in Chapter 1 of the Listing Rules. As at the Latest Practicable Date, BEIH, BDHG, BIEE and BSAMAC held, in the aggregate, approximately 72.304% of the issued share capital of the Company with BEIH, BDHG, BIEE and BSAMAC, respectively, holding 67.958%, 0.261%, 0.437% and 3.648% of the issued share capital of the Company. Any vote of the Independent Shareholders at the EGM shall be taken by poll. The Company confirms that none of the independent non-executive Directors has any material interests in the ETA(2), ETA(3) and the Proposed Acquisitions.

INDEPENDENT BOARD COMMITTEE

The Independent Board Committee comprising all independent non-executive Directors, namely Mr. Liu Chaoan, Mr. Shi Xiaomin, Ms. Lau Miu Man and Mr. Wei Yuan, has been established to advise the Independent Shareholders in respect of the Proposed Acquisitions.

We have been appointed as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders as to whether the Proposed Acquisitions are on normal commercial terms and fair and reasonable so far as the Independent Shareholders are concerned; and whether the Proposed Acquisitions are in the interests of the Company and the Shareholders as a whole.

BASIS OF OUR OPINION

In formulating our opinion, we have relied on the information, statements, opinions and representations provided to us by the Company, its representatives, its management (the "Management") and the Directors for which they are solely and wholly responsible and we have assumed that all such information, statements, opinions and representations contained or referred to in the Circular were true, accurate and complete at the time they were made and continue to be true, accurate and complete as at the date of the Circular.

We have assumed that all statements of belief, opinion and intention made by the Company, its representatives, the Management and the Directors as set out in the Circular were reasonably made after due and careful enquiry. We have also sought and obtained confirmation from the Company that no material facts have been omitted from the information provided and referred to in the Circular. The Directors confirmed that they have provided us with all currently available information and documents which are available under present circumstances to enable us to reach an informed view and we have relied on the accuracy of such information and the information contained in the Circular to provide a reasonable basis of our opinion.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Our review and analyses were based upon the information and facts contained or referred to in the Circular, the information provided by the Company and our review of relevant public information and discussion with the Management. We consider that we have reviewed sufficient information to reach a reasonably informed view to justify our reliance on the accuracy of the information contained in the Circular as aforesaid and to provide reasonable grounds for our advice. In addition, we have no reason to doubt the truth, accuracy and/or completeness of the information and representations as provided to us by the Directors. We, however, have not conducted any independent in-depth investigation into the business, affairs, financial position or prospects of the Group, Sichuan Dachuan and Sichuan Zhongneng nor we have carried out any independent verification of the information supplied.

PRINCIPAL FACTORS AND REASONS CONSIDERED

In arriving at our opinion and recommendation in respect of the Proposed Acquisitions, we have considered the following principal factors and reasons:

1. Business and Assets

The Company is principally engaged in the provision of gas-fired power and operation of wind power. As advised by the Company, it is the largest gas-fired power provider in Beijing and a leading wind power operator in the PRC, with a diversified clean energy business portfolio including (i) gas-fired power and heat energy generation; (ii) wind power; (iii) small to medium hydropower and other clean energy projects.

The Group's hydropower business primarily involves the management and operation of hydropower plants and sales of electricity generated to local grid companies. As at the Latest Practicable Date, the Group had one small to medium hydropower project in operation in Sichuan province, with a consolidated installed capacity of 6.40 MW, and five small to medium hydropower projects under construction in Sichuan province and Yunnan province, with a consolidated capacity under construction of 258.4 MW.

As disclosed in the Prospectus, the hydropower business operated by the Sichuan Dachuan and Sichuan Zhongneng was treated as the retained business and BEIH has granted the Company acquisition options which is exercisable at any time during the term of the Non-competition Agreements to purchase any equity interest which form part/or all of the business retained by BEIH.

The independent non-executive Directors are responsible for reviewing, considering and deciding whether or not to exercise the acquisitions options. Prior to the acquisitions by BEIH in 2011, Sichuan Dachuan and Sichuan Zhongneng were not considered by the Company as suitable targets for acquisition taking into account, among other things, their respective profitabilities and corporate governance systems. Leveraging on the management and resources of BEIH, from 2011 to 2012, the profitabilities* of Sichuan Dachuan and Sichuan Zhongneng have been improved and their corporate governance systems have been further strengthened to a standard, in the view of the Company, commensurate with that required of businesses of a listed issuer. Accordingly, the independent non-

* Net Profit (after interest, depreciation and amortization) of Sichuan Dachuan and Sichuan Zhongneng in the year ended 30 September 2012 was RMB92,772,340 and RMB42,809,646, respectively.

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executive Directors had convened a meeting to consider the exercise of, and had resolved to exercise, the acquisition options to acquire the 100% equity interests in Sichuan Dachuan and Sichuan Zhongneng. The Board has also resolved and approved the ETA(2), ETA(3) and the transactions contemplated thereunder. Mr. Lu Haijun, Mr. Guo Mingxing, Mr. Xu Jingfu and Mr. Liu Guochen, concurrently serving as Directors and directors and/or management members of BEIH, have material interests in the transactions between the Company and BEIH, and have all abstained from voting on the Board resolution approving the Proposed Acquisitions.

2. 獨立財務顧問對收購事項的意見

獨立財務顧問的意見如下：

We noted from the annual report of the Company for the year ended 31 December 2011 (the “**2011 Annual Report**”) that “committed to building quality projects, achieving balanced development of “gas, wind, hydro and solar” powers” is one of the Group’s targets in 2012. The Group is committed to building quality projects with the main focus on, among others, putting huge emphasis on hydropower projects, to finally reach a new stage of balanced development of clean energy power generation from “gas, wind, hydro and solar” powers.

It was stated in the Prospectus that the Group intends to develop and expand its small to medium hydropower business with a focus on southwest China. Southwest China (including Sichuan province) has abundant hydro resources, and possesses significant economic growth potential with favourable policies promulgated by the PRC government under its strategy for the large-scale development of western China (including Sichuan province). Accordingly, the Proposed Acquisitions are in line with the development strategy of the Group.

根據收購事項的招股說明書，本集團有意發展和擴大其小至中規模的水電業務，重點發展西南中國。西南中國（包括四川省）擁有豐富的水電資源，並具有顯著的經濟增長潛力，且受惠於中國政府為大規模發展西部中國（包括四川省）而頒布之有利政策。因此，擬議收購事項與本集團之發展策略一致。

As stated in the Letter from the Board, Sichuan Dachuan and Sichuan Zhongneng are both primarily engaged in hydropower energy generation, all of the hydropower plants operated by Sichuan Dachuan and Sichuan Zhongneng are located in Sichuan province, where the Group also has hydropower business. As advised by the Management, Sichuan Dachuan is currently operating 7 hydropower plants with an installed capacity of 122.1 MW, and have commenced operations of approximately 5 years. Besides, Sichuan Zhongneng is currently operating 7 hydropower plants with an installed capacity of 60.39 MW, and have commenced operations of approximately 5 years.

According to the audited financial accounts of Sichuan Dachuan and Sichuan Zhongneng prepared under the PRC GAAP, Sichuan Dachuan achieved turnover of approximately RMB164.5 million for the nine months ended 30 September 2012, which was equivalent to approximately 1,610.8% of the revenue generated from hydropower business segment of the Group for the year ended 31 December 2011. Besides, Sichuan Zhongneng achieved turnover of approximately RMB71.1 million for the nine months ended 30 September 2012, which was equivalent to approximately 696.2% of the revenue generated from hydropower business segment of the Group for the year ended 31 December 2011.

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As advised by the Management, having considered the hydropower plants operated by Sichuan Dachuan and Sichuan Zhongneng have years of commercial operation with stable operation, the Proposed Acquisitions are expected to help the Group strengthen its hydropower business.

Due to the recent environmental pollution and driven by the demand for sustainable economic development, China has been committed to promoting the use of clean energy to reduce the emissions from electricity generation. According to the “Twelfth Five-Year Plan”, the PRC government states its commitment to developing the clean energy industry, which includes, enhancing power grid constructions during the 12th Five-Year Plan period (which is from 2011 to 2015), and developing a more technically advanced power grid system in the PRC.

Besides, the urbanization and population growth in the PRC boost the future development of the clean energy. As such, the PRC government has promulgated favourable policies and offered significant incentives, including, on-grid tariff premiums and PRC tax benefits, to promote the use of clean energy, including wind, natural gas-fired, hydro and solar power. We believe through the Proposed Acquisitions, the Group will benefit from the rapid growth of the clean energy industry in the PRC.

As stated in the Letter from the Board, as Sichuan Dachuan and Sichuan Zhongneng operate the hydropower business retained by BEIH, the Directors are of the view that by acquiring the entire equity interests in Sichuan Dachuan and Sichuan Zhongneng, the intensity of competition relating to the hydropower business between BEIH and the Group could be reduced, which is in the interests of the Group and the Shareholders as a whole.

Taking into account the background of and reasons for and benefits of the Proposed Acquisitions discussed above, we are of the view that it is justifiable for the Company to conduct the Proposed Acquisitions.

3. Pursuant to the Acquisition of the Entire Equity Interests in Sichuan Dachuan and Sichuan Zhongneng under the ETA(2) and ETA(3)

A. Acquisition of the Entire Equity Interests in Sichuan Dachuan under the ETA(2)

On 13 November 2012, the Company and BEIH entered into the ETA(2), pursuant to which the Company has agreed to acquire, and BEIH has agreed to sell, the entire equity interests in Sichuan Dachuan.

(i) The acquisition of the entire equity interests in Sichuan Dachuan under the ETA(2)

- (a) the acquisition under the ETA(2) being approved by relevant competent authorities in the PRC; and

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- (b) the acquisition under the ETA(2) being approved by the Independent Shareholders.

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As set out in the Letter from the Board, the total consideration for the proposed transaction under the ETA(2) of RMB1,281,032,600 was determined by the Company and BEIH following arm's length negotiations by reference to, inter alia, the appraised value of the 100% equity interests in Sichuan Dachuan of RMB1,281,032,600 as at 30 September 2012, being the reference date. Such appraisal was prepared by China Assets Appraisal based on the income approach.

The consideration paid by BEIH for the purchase of the 100% equity interests in Sichuan Dachuan in July 2011 was RMB1,477,540,581.15. As the hydropower business generates stable revenues, Sichuan Dachuan has kept a steady cash flow and has accumulated considerable monetary capitals. In order to improve its capital using efficiency and optimize capital management capability, after taking into consideration of the need for capital required for its daily operation, and as approved by the meeting of the board of directors and shareholders' meeting of Sichuan Dachuan, in August 2012, Sichuan Dachuan reduced its registered and paid-in capital by RMB250,000,000 by way of cash, with a concurrent increase of its registered and paid-in capital by RMB5,124,000 through the transfer of the surplus reserves. Upon completion of the above, the registered and paid-in capital of Sichuan Dachuan was RMB130,000,000. Such reduced capital was refunded to BEIH in compliance with relevant PRC laws and regulations. The difference between the original purchase price paid by BEIH and the appraised value of Sichuan Dachuan is mainly attributable to the aforesaid capital reduction.

Pursuant to the ETA(2), the consideration payable by the Company for the acquisition of the 100% equity interests in Sichuan Dachuan will be satisfied in cash by the Company in the following manners:

- (a) the first instalment (as to 50% of the consideration) of RMB640,516,300 within 30 business days after obtaining the approval from the Beijing SASAC; and
- (b) the remaining RMB640,516,300 within 30 business days after the completion of the amendment filings with the competent industry and commerce authorities.

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The Company shall be entitled to the operating profit or loss incurred by the 100% equity interests in Sichuan Dachuan to be acquired from BEIH from the reference date of 30 September 2012 to the completion date of the transaction under the ETA(2). The Company and BEIH will be liable for their respective fees in relation to the transfer.

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B. E A(3)

On 13 November 2012, the Company and BEIH entered into the ETA(3), pursuant to which the Company has agreed to acquire, and BEIH has agreed to sell, the entire equity interests in Sichuan Zhongneng.

() C 1, 2 re 3, 4 e ETA(3)

- (a) the acquisition under the ETA(3) being approved by relevant competent authorities in the PRC; and
- (b) the acquisition under the ETA(3) being approved by the Independent Shareholders.

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As set out in the Letter from the Board, the total consideration for the transaction under ETA(3) of RMB558,870,900 was determined by the Company and BEIH following arm's length negotiations by reference to, inter alia, the appraised value of the 100% equity interests in Sichuan Zhongneng of RMB558,870,900 as at 30 September 2012 being the reference date. Such appraisal was prepared by China Assets Appraisal based on the income approach.

The consideration paid by BEIH for the purchase of the 100% equity interests in Sichuan Zhongneng in July 2011 was RMB768,974,583.66. As the hydropower business generates stable revenues, Sichuan Zhongneng has kept a steady cash flow and has accumulated considerable monetary capital. In order to improve its capital using efficiency and optimize its capital management capability, after taking into consideration of the need for capital for its daily operation and as approved by the meeting of the board of directors and shareholders' meeting of Sichuan Zhongneng, in August 2012, Sichuan Zhongneng reduced its registered and paid-in capital by RMB250,000,000 by way of cash, with a concurrent increase of its registered and paid-in capital by RMB25,991,100 through the transfer of the surplus reserves. Upon completion of the above, the registered and paid-in capital of Sichuan Zhongneng was RMB90,000,005. Such reduced capital was refunded to BEIH in compliance with relevant PRC laws and regulations. The difference between the original purchase price paid by BEIH and the appraised value of Sichuan Zhongneng is mainly attributable to the aforesaid capital reduction.

Pursuant to the ETA(3), the consideration payable by the Company for the acquisition of the 100% equity interests of Sichuan Zhongneng will be satisfied in cash by the Company in the following manners:

- (c) the first instalment (as to 50% of the consideration) of RMB279,435,450 within 30 business days after obtaining the approval from the Beijing SASAC; and
- (d) the remaining RMB279,435,450 within 30 business days after the completion of the amendment filings with the competent industry and commerce authorities.

LETTER FROM THE INDEPENDENT FINANCIAL AD ISER

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The Company shall be entitled to the operating profit or loss incurred by the 100% equity interests in Sichuan Zhongneng to be acquired from BEIH from the reference date of 30 September 2012 to the completion date of the transaction under the ETA(3). The Company and BEIH will be liable for their respective fees in relation to the transfer.

B e e e e

In assessing the fairness and reasonableness of the consideration for the Proposed Acquisitions, we have performed (i) the comparable transactions analysis; (ii) the comparable companies analysis; and (iii) an analysis based on the independent valuation reports (the “ 日 报 评 估 报 告 ”) dated 31 October 2012 as prepared by China Assets Appraisal (the “ 中 信 评 估 ”), an independent qualified asset appraisal firm in the PRC.

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Based on information available from the website of the Stock Exchange, we have searched and reviewed other acquisitions of interests in companies which are primarily engaged in the development and operation of small to medium hydropower plants in the PRC (in general, small to medium hydropower plants, in the PRC, are those with an installed capacity less than 300 MW), which were announced from 1 January 2011 up to the date of announcement of the Proposed Acquisitions being 13 November 2012. However, we noted that there is no transactions which is comparable to the targets of the Proposed Acquisitions in terms of the installed capacity, years of operation and the location in which Sichuan Dachuan and Sichuan Zhongneng operate.

() C n r e n e

We have also searched all power generation companies listed on the Main Board and the Growth Enterprise Market of the Stock Exchange which are engaged in the development and operation of small to medium hydropower plants in the PRC (in general, small to medium hydropower plants, in the PRC, are those with an installed capacity less than 300 MW), by

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

reference to their prospectus, annual reports and interim reports. Based on such criteria, we have identified the following list of comparable companies (the “Comparable Companies”) on a best effort basis:

Comparable Company	Market Capitalization (Latest Practicable Date)	Historical PBR (Latest Practicable Date)	Historical PER (Latest Practicable Date)	Projected PER (Latest Practicable Date)
	(N o 1)	(N o 2&3)	(N o 2&4)	(N o 2&5)
	(RMB)	(RMB)	(RMB)	(RMB)
China Power New Energy Development Company Limited (Stock code:735)	HK\$4,191.3 million	0.52	19.55	15.19
Huadian Fuxin Energy Corporation Limited (Stock code:816)	HK\$11,223.3 million	0.92	16.65	5.95
Haitian Hydropower International Limited (Stock code: 8261)	HK\$860.0 million	11.39	160.83	69.53
Middle East Energy Development Company Limited		11.39	160.83	69.53
Middle East Energy Development Company Limited		0.52	16.65	5.95
Middle East Energy Development Company Limited		4.28	65.68	30.22
Saudi Energy Development Company Limited		4.50	24.82	
Saudi Energy Development Company Limited		3.59	14.67	

Notes:

- Source: Bloomberg
- The figures are extracted from the prospectus or latest published annual reports and interim reports of the Comparable Companies, and where applicable, the amounts in RMB are translated into HK\$ at the exchange rate of RMB1 to HK\$1.2.
- The historical PBR of the Comparable Companies is calculated based on its unaudited consolidated net assets attributable to its shareholders as at 30 June 2012 and its closing market capitalization as at the Latest Practicable Date. The historical PBR of the Proposed Acquisitions is calculated based on its unaudited consolidated net assets as at 30 September 2012 and consideration.
- The historical PER of the Comparable Companies is calculated based on its net profit attributable to its shareholders for the year ended 31 December 2011 and its closing market capitalization as at the Latest Practicable Date. The PER of the Proposed Acquisitions is calculated based on its audited net profits after taxation for the year ended 31 December 2011 and consideration.
- The projected PER of the Comparable Companies is calculated based on its net profit attributable to its shareholders for the six months ended 30 June 2012 multiplied by two and its closing market capitalization as at the Latest Practicable Date. The PER of the Proposed Acquisitions is calculated based on its audited net profits after taxation for the year ended 31 December 2011 and consideration.

LETTER FROM THE INDEPENDENT FINANCIAL AD ISER

As shown in the above table, the historical PBRs of the Comparable Companies ranged from approximately 0.52 time to 11.39 times, with a mean of approximately 4.28 times. The historical PBR of Sichuan Dachuan of approximately 4.50 times represented by the consideration of the acquisition for Sichuan Dachuan and the historical PBR of Sichuan Zhongneng of approximately 3.59 times represented by the consideration of the acquisition for Sichuan Zhongneng are both within the range of the historical PBRs of the Comparable Companies.

Also, the historical PERs of the Comparable Companies ranged from approximately 16.65 times to 160.83 times, with a mean of approximately 65.68 times. Furthermore, the projected PERs of the Comparable Companies ranged from approximately 5.95 times to 69.53 times, with a mean of approximately 30.22 times. The PER of Sichuan Dachuan of approximately 24.82 times represented by the consideration of the acquisition for Sichuan Dachuan and the historical PER of Sichuan Zhongneng of approximately 14.67 times represented by the consideration of the acquisition for Sichuan Zhongneng are both within the range of the historical and projected PERs of the Comparable Companies.

As set out in the prospectus, the annual reports of the Comparable Companies for the year ended 31 December 2011 and the interim reports of the Comparable Companies for the six months ended 30 June 2012, we noted that the Comparable Companies, other than Haitian Hydropower International Limited, are not only engaged in the hydropower business, but also other clean energy businesses, which include but not limited to, wind power and other clean power generation in the PRC. For China Power New Energy Development Company Limited and Huadian Fuxin Energy Corporation Limited, the revenue generated from the hydropower business accounted for only 6.2% and 20.3% its total revenue for the year ended 31 December 2011, respectively. As such, we consider that these two Comparable Companies should not be regarded as fully comparable to the Proposed Acquisitions.

We noted that Haitian Hydropower International Limited exhibits the highest historical PBRs and historical PERs and projected PERs of 11.39, 160.83 and 69.53 among the Comparable Companies, respectively, which is substantially higher than the historical PBR and PER of Sichuan Dachuan and Sichuan Zhongneng represented by the consideration of the Proposed Acquisitions, respectively. Among the Comparable Companies, Haitian Hydropower International Limited possesses the highest similarities with Sichuan Dachuan and Sichuan Zhongneng with respect to the principal business. However, in order to achieve a high level of accuracy, comparable companies analysis including PER and PBR analysis should be performed against a significant number of comparable companies within the same industry. Based on our findings and our analysis as set out above, in particular that China Power New Energy Development Company Limited and Huadian Fuxin Energy Corporation Limited have limited exposure in hydropower business as compared to other businesses, we consider that comparable companies analysis is not appropriate to assess the fairness and reasonableness of the considerations for the Proposed Acquisitions and should be for the illustrative purpose only.

LETTER FROM THE INDEPENDENT FINANCIAL AD ISER

() A e n e e V R e r

According to the Valuation Reports and our discussion with the Valuer, we understood that the Valuer has considered three generally accepted approaches, namely the asset-based approach, market approach and income approach. The Valuer considered that, the asset-based approach and market approach are not appropriate for the valuations of the equity interests of Sichuan Dachuan and Sichuan Zhongneng since (1) the market approach is difficult to apply since companies in similar business may not be directly comparable in terms of the location and installed capacity of the hydropower plants; and (2) the asset-based approach does not reflect the earning capabilities of hydropower plants. In this regards, the Valuer considers that the income approach is the most appropriate valuation approach for the valuations of the Sichuan Dachuan and Sichuan Zhongneng.

Taking into account the characteristics, business nature of the hydropower industry and the long operating history of Sichuan Dachuan and Sichuan Zhongneng, we concur with the Valuer's that the income approach is the most appropriate valuation approach for valuing the equity interests of Sichuan Dachuan and Sichuan Zhongneng.

In assessing the fairness and reasonableness of the principal basis and assumptions adopted for the Valuation Reports, we noted that the Valuer has made various general and special assumptions for the valuations of the total equity of Sichuan Dachuan and Sichuan Zhongneng, the details of which are set out in the Appendix IA and Appendix IB to the Circular. During our discussion with the Valuer, we have reviewed and have not identified any major factors which cause us to doubt the fairness and reasonableness of the principal basis and assumptions adopted for the Valuation Reports.

Besides, we have performed the followings steps regarding the appraisal value of Sichuan Dachuan and Sichuan Zhongneng prepared by the Valuer and Valuation Reports pursuant to note 1(d) to Rule 13.80 of the Listing Rules:

- (a) reviewed the company website of the Valuer and were satisfied with their experience and expertise;
- (b) reviewed the terms of engagement and the scope of work of the Valuer and considered that the scope of their work is appropriate and without limitation; and
- (c) confirmed with the Valuer that they have no current or prior relationships with the Company and BEIH or its associates other than the engagements of appraisals in relation to the Proposed Acquisitions.

Given the valuations of the equity interests of Sichuan Dachuan and Sichuan Zhongneng in the Valuation Reports involve the use of discounted cash flows approach, it is regarded as a profit forecast under Rule 14.61 of the Listing Rules. The Directors have confirmed that they have reviewed and discussed with the Valuer the bases and assumptions upon which the Valuation Reports have been made. We understood that the Directors have engaged Deloitte Touche Tohmatsu, the reporting accountants of the Company, to review its discounted future

estimated cash flows, so far as the calculations are concerned, have been properly complied in all material respects, in accordance with the assumptions set out in the Valuation Reports. The Directors have confirmed that the Valuation Reports which constitutes a profit forecast under Rule 14.61 of the Listing Rules, have been made after due and careful enquiries according to the Letter from the Board. Letter from Deloitte Touche Tohmatsu and the Board relating to the Valuation Reports are set out as Appendix II and Appendix III to this Circular, respectively.

As the considerations for the Proposed Acquisitions were determined by reference to the Valuation Reports prepared by the Valuer, an independent qualified asset appraisal firm in the PRC, we consider that the considerations of the Proposed Acquisitions are fair and reasonable so far as the Independent Shareholders are concerned.

4. 2012 Interim Report

Financial position

According to the 2012 Interim Report, the Group recorded net assets attributable to the Shareholders of approximately RMB8,739.5 million as at 30 June 2012.

Set out below is the segment information on the revenue of the Group for the year ended 31 December 2011:

	Group				
	Hydropower	Clean Energy	Other	Total	
	RMB million	RMB million	RMB million	RMB million	Percentage
Segment revenue (RMB million)	1,176.7	2,699.7	10.2	3,905.0	
Segment profit (loss) (RMB million)	672.7	838.3	6.5	1,488.6	
Segment margin	57.2%	31.1%	63.7%	38.1%	

Based on the above table, we noted that although the hydropower segment contributed only minor portion of the total segment result of the Group, it has the highest segment margin amongst other clean energy business segments of the Group for the year ended 31 December 2011.

Financial position and performance

LETTER FROM THE INDEPENDENT FINANCIAL AD ISER

Unit: RMB

	Financial year ended 31 December 2010 (audited)	Financial year ended 31 December 2011 (audited)
Net profit/(loss) attributable to the 100% equity interests of Sichuan Dachuan (before taxation and extraordinary items)	122,212,357.56	68,891,600.64*
Net profit/(loss) attributable to the 100% equity interests of Sichuan Dachuan (after taxation and extraordinary items)	113,967,085.30	51,611,192.67*

Financial position of Sichuan Zhongneng

As set out in the Letter from the Board, the total assets and net assets of Sichuan Zhongneng as at 30 September 2012 was approximately RMB290.0 million and approximately RMB155.7 million, respectively. The total profits/(loss) attributable to the 100% equity interests of Sichuan Zhongneng, for the two years ended 31 December 2010 and 31 December 2011, prepared under the PRC GAAP, were as follows:

Unit: RMB

	Financial year ended 31 December 2010 (audited)	Financial year ended 31 December 2011 (audited)
Net profit/(loss) attributable to the 100% equity interests of Sichuan Zhongneng (before taxation and extraordinary items)	115,098,479.70	39,447,147.29*
Net profit/(loss) attributable to the 100% equity interests of Sichuan Zhongneng (after taxation and extraordinary items)	96,343,980.32	38,093,482.13*

* Net profit/(loss) attributable to the 100% equity interests of Sichuan Zhongneng (before taxation and extraordinary items) for the year ended 31 December 2011, was RMB39,447,147.29 million, which was audited by BEIH.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Upon completion of the Proposed Acquisitions, Sichuan Dachuan and Sichuan Zhongneng will be accounted for as the wholly-owned subsidiaries of the Company, all of its profits and losses will be consolidated in the Group's profit and loss accounts and all of their assets and liabilities will be consolidated in the Group's statement of financial position.

As set out in the Letter from the Board, the aggregate considerations for the Proposed Acquisitions are intended to be satisfied by the Group's internal funding and the Group's cash and bank balances would be reduced by the amount equivalent to the considerations for the Proposed Acquisitions. In this respect, we noted from the 2012 Interim Report that the Group had a total cash and cash equivalents of approximately RMB2,276.6 million as at 30 June 2012. As confirmed by the Management that there has been no material adverse change in the liquidity position of the Group since 30 June 2012, we concur with the Management that the Group has sufficient internal financial resources to finance the total consideration of approximately RMB1,839.9 million for the Proposed Acquisitions.

We noted from the announcement of the Company dated 28 February 2012 that the Company proposed to issue fix-rate corporate bonds of RMB3.6 billion for repaying loans from financial institutions and replenishing the working capital of the Company. As disclosed in the 2012 Interim Report, the issuance has successfully completed on 9 July 2012. Besides, on 23 August 2012, the Company has announced to issue of short-term debentures with a principal amount not exceeding RMB1,800 million for repayment part of the short-term bank loans and to supplement the working capital that of the Company. As at the Latest Practicable Date, the issuance of the short-term debentures has not been completed.

Based on the above and also the good prospect of the hydropower industry in the PRC, we consider that the Proposed Acquisitions will have a potential positive impact to the revenue and earnings of the Group.

RECOMMENDATION

Having considered the principal reasons and factors discussed above, we are of the view that the Proposed Acquisitions are on normal commercial terms and fair and reasonable so far as the Independent Shareholders are concerned; and that the Proposed Acquisitions are in the interests of the Company and the Shareholders as a whole. Accordingly, we recommend the Independent Board Committee to advise the Independent Shareholders, and advise the Independent Shareholders to vote in favour of the ordinary resolutions to be proposed at the EGM to approve the Proposed Acquisitions.

For and on behalf of

GF C p. (H. r K. r) L. m. ' .

D. m. r. n.
M. D r e r . y
H e . y C r r e F e

B. r. L
D e M D r e r

T A e_y IA E r m r e r e 100%

Company nature: company with limited liability (wholly state-owned)

2. *B e e*

(1) Dachuan Power Plant

Dachuan Power Plant is mainly responsible for operation and management of Zhongzui Power Station, Changshiba Power Station, Foshan Power Station, Xiaoniujing Power Station and Masangping Power Station.

Zhongzui Power Station: With an installed capacity of 2x12MW, Zhongzui Power Station commenced operation in September 2005.

Changshiba Power Station: With an installed capacity of 2x11MW, Changshiba Power Station put its two units into operation respectively in August 2006 and September 2006.

Foshan Power Station: With an installed capacity of 2x12MW, Foshan Power Station commenced operation in December 2006.

Xiaoniujing Power Station: With an installed capacity of 2x10MW, Xiaoniujing Power Station commenced operation in January 2008.

Masangping Power Station: With an installed capacity of 2x8.2MW, Masangping Power Station commenced operation in November 2007.

(2) Jiahong Power Plant

With installed capacity of 2x5MW and 1x2.5MW, Jiahong Power Plant commenced operation in January 1995.

(3) Jinfeng Power Plant

With an installed capacity of 2x1.6MW, Jinfeng Power Plant commenced operation in May 1998.

4. Sichuan Dachuan Power Co., Ltd.

As at the valuation reference date, Sichuan Dachuan Power Co., Ltd. has a registered capital of RMB130,000,000 and a paid-in capital of RMB130,000,000, and is 100% owned by Beijing Energy Investment Holding Co., Ltd..

5. Accounting Standards

The Accounting Standards for Business Enterprises and relevant requirements are adopted by Sichuan Dachuan Power Co., Ltd..

II. VALUATION PURPOSE

The valuation of the entire shareholders'

3. Law on Urban Real Estate Administration of the People's Republic of China (5 July 1994);
4. Law on Stated-owned Assets of Enterprises of the People's Republic of China (implemented on 1 May 2009);
5. Administrative Measures on Valuation of State-owned Assets, Order No. 91 of the State Council, 16 November 1991;
6. Provisional Regulations on Supervision and Administration of State-owned Assets of Enterprises, Order No. 378 of the State Council, 2003;
7. Provisional Administrative Measures on Transfer of State-owned Property Rights of Enterprises, Order No. 3 of State-owned Assets Supervision and Administration Commission of the State Council ("SASAC") and the Ministry of Finance;
8. Provisional Administrative Measures on Valuation of State-owned Assets of Enterprises, Order No. 12 of SASAC;
9. Notice on the Issues in relation to the Enhancement of Administration on Valuation of State-owned Assets of Enterprises (SASAC Chan Quan [2006] No. 274) issued by SASAC;
10. Notice on Circulation of "Provisional Administrative Measures on Valuation of State-owned Assets of Enterprises in Beij/tN SASAC302161Tc-dd 12681(A)3w304(A)-3(g399(N)G(V)3(o399(N)Z(r)

5. Regulatory Standards on Real Estate Valuation (GB/T 50291-1999);
6. Regulations on Urban Land Valuation (GB-T 18508 – 2001);
7. Accounting Standards for Business Enterprises – Basic Standards (2006), Order No. 33, issued by the Ministry of Finance.

(I) B

1. Business licences of the principal and the subject entity;
2. Building ownership certificates;
3. State-owned land use right certificates;
4. Vehicle licences;
5. The articles of association and capital verification reports;
6. Other documentary proof of property ownership.

() B

1. Audit reports, financial statements and asset valuation application form provided by the subject entity;
2. Financial information including general ledger, sub-ledgers and accounting vouches provided by the subject entity;
3. Engineering drawings and engineering final accounts information provided by the subject entity;
4. Corporate track records and future business forecast provided by the subject entity;
5. Budget Quota for Hydropower Equipment Installation Works (2003) (China Science and Technology Press);
6. Requirements on Preparation of Budgetary Estimates for Hydropower Engineering Design (version 2007) (China Electric Power Press);
7. Rate Standards on Budgetary Estimates for Hydropower Engineering Design (version 2007) (China Electric Power Press);
8. Standards on Assessment of Damage Level of Buildings issued by the Ministry of Housing and Urban-Rural Development;

9. Quotation Handbook for Mechanical and Electrical Products 2010 prepared by the Science and Technology Information Research Institute of the Ministry of Machinery Industry;
10. HC360 BizInfo (慧 商情) -

2. Bills receivable

First, the appraisers cross-checked general ledger, sub-ledgers, financial statements and the valuation check-up spreadsheet. Then, through supervising the stocktaking of inventory bills and checking the register of bills receivable, the valuation is determined based on the verified book value.

3. Trade receivables, prepayments and other receivables

By verifying original vouchers against book value, we reviewed the business, occurrence date and reasons underlying for receivables and prepayments. By adopting individual confirmation method and ageing analysis method with reference to feedbacks of enquiry letters, we analysed and made judgments on the asset interests arising therefrom and the feasibility of recovery. Based on comprehensive analysis, the recoverable amount of receivables and prepayments are recognized and the risks of loss in recoverable amount are estimated.

4. Inventories

Inventories represent the materials and supplies held for sale during the ordinary production and operation, or to be consumed during the production process. The enterprise's inventories mainly include raw materials, the cost of which is recognized based on actual costs incurred in purchase on an as-needed basis, with a book value per unit approximate to market selling price per unit as at the reference date. Therefore, the valuation of raw materials is determined based on the verified book value.

– N - rre e

5. Long-term equity investment

The enterprise has 1 long-term equity investment, being 70% equity interests in Chengdu Jinhuaneng Power Industry Co., Ltd.. The appraisers made an overall asset valuation on Chengdu Jinhuaneng Power Industry Co., Ltd. based on its business licence, articles of association, capital verification report, audit report and financial statements, and took its net assets based on the valuation multiplied by the shareholding to determine the value of the long-term equity investment.

6. Property assets

According to the valuation purpose and the conditions of target assets, replacement cost method is adopted for valuation of property assets according to the following formula:

$$\text{Valuation} = \text{Replacement cost} \times \text{Newness rate}$$

(1) Replacement cost

$$\text{Replacement cost} = \text{Construction and installation work cost} + \text{Preliminary construction work expenses} + \text{Cost of capital}$$

i) Construction and installation work cost

Construction and installation work cost: For major works with budgetary estimates, budget and final accounts information, the budget and final accounts reconciliation method is adopted. Accordingly, the appraisers derived the estimated construction and installation work cost based on work quantities in budget and final accounts, quota and price documents prevailing on the valuation reference date.

For major works without budgetary estimates, budget and final accounts information, the re-budgeting method is adopted. Accordingly, the appraisers derived the estimated construction and installation work cost as at the valuation reference date based on the work quantities as estimated according to drawings provided by the asset owner and results of field survey, relevant quota and price documents prevailing on the valuation reference date.

For general construction works, the appraisers derived their construction and installation costs with reference to the construction and installation cost of the same type of works, as modified according to structural differences.

ii) Preliminary construction work expenses and other expenses

Determined based on the rating standards promulgated by competent authorities and prevailing on the valuation reference date.

iii) Cost of capital

The cost of capital is the interest or opportunity cost of funds used in asset construction process, as calculated based on the bank lending rate for the same period which was determined as the lending rate published by the People's Bank of China on the valuation reference date. The utilization of capital is generally estimated on a straight-line basis over the construction period.

$$\text{Cost of capital} = \frac{(\text{Construction and installation work cost} + \text{Preliminary construction work expenses and other expenses}) \times \text{Lending rate} \times \text{Construction period}}{2}$$

(2) Determination of newness rate

In determining newness rate, we adopted the combined newness rate which is determined as the weighted average of the field survey newness rate according to a scoring approach and the theoretical newness rate based on the economic life approach for a given building.

To determine field survey newness rate of a given building, we first determined the standard scores of its major components according to its type and structural characteristics. Then we determined the completeness scores based on findings of field survey, so as to determine the completeness score for the whole building to arrive at its field survey newness rate.

$$\text{Field survey newness rate (\%)} = \frac{\sum \text{Completion score}}{\text{Standard score}} \times 100\%$$

$$\text{Theoretical newness rate (\%)} = \frac{(\text{Economic life} - \text{Serviced life})}{\text{Economic life}} \times 100\%$$

$$\text{Combined newness rate (\%)} = \text{Field survey newness rate} \times 60\% + \text{Theoretical newness rate} \times 40\%$$

(3) Calculation of valuation

$$\text{Valuation} = \text{Replacement cost} \times \text{Combined newness rate}$$

7. Equipment assets

According to the valuation purpose, replacement cost method is adopted to derive the valuation of machinery and equipment, transportation vehicles and electronic equipment. Namely, on the basis of continuous usage of a given asset, we determined the replacement cost based on the prevailing market value for re-acquisition of such asset, as well as the newness rate based on field survey and the losses estimated through combined technical analysis, so as to calculate the valuation. The formula is as below:

$$\text{Valuation of equipment} = \frac{\text{Replacement cost of equipment}}{\text{of equipment}} \times \text{Combined newness rate}$$

(I) Machinery and equipment

First, based on the application form for valuation of machinery and equipment submitted by the enterprise, the appraisers made on-site inspection on equipment conditions, and exchanged opinions with the operators to understand historical and actual conditions of generation units as far as possible. Then, replacement full price and newness rate were determined on a case-by-case basis to arrive at the valuation.

For the valuation purpose, the equipment is classified as Categories A, B and C on a systematic, complete set and important basis and with reference to their values:

Category A comprises main machine equipment and major auxiliary equipment for hydropower generation that are of significant importance and value, such as: hydraulic turbine, generator, main transformer, electro-hydraulic speed control system, excitation system, overhead crane of main plant, inlet valve, tail water gate, control and detection systems;

Category B comprises supporting auxiliary equipment for hydropower generation that are of considerable importance and value, such as: high-voltage switchgear, auxiliary transformers, DC systems, large-scale measurement system, shutter equipment, double-girder cranes, automation control systems, instruments and meters, power distribution equipment, communication equipment and maintenance equipment;

Category C comprises supporting auxiliary equipment for hydropower generation and installation-free equipment that are of normal importance and insignificant value, such as: compressors, pumps, fans, lifting and transportation equipment, production management appliances, non-productive equipment and appliances.

The replacement full price and newness rate are determined using different methods according to the classification above.

(1) Determination of replacement full price for equipment of Categories A and B

For equipment of Categories A and B, the replacement cost consists of four parts namely equipment acquisition cost, installation expenses, other expenses and cost of capital, in accordance with the Requirements on Preparation of Budgetary Estimates for Hydropower Engineering Design (version 2007) and the Rate Standards on Budgetary Estimates for Hydropower Engineering Design (version 2007) issued by the Renewable Energy Quota Station of Hydropower and Water Resources Planning and Design General Institute, and the Quota of Budgetary Estimates for Hydropower Equipment Installation Works (version 2003) issued by the State Economic and Trade Commission.

Pursuant to the Notice on Certain Issues in Implementation of the Value-added Tax Reform in China (Cai Shui [2008] No. 170) issued by the State Administration of Taxation of the Ministry of Finance, with effect from 1 January 2009, the input VAT on purchased or self-made fixed assets (including renovation, expansion and installation) is deductible from the output VAT in accordance with the Provisional Regulations on Value-added Tax of the People's Republic of China (State Council Order No. 538) and the Implementation Rules of the Provisional Regulations on Value-added Tax of the People's Republic of China (State Administration of Taxation of the Ministry of Finance, Order No. 50). Therefore, in calculating replacement full price of productive machinery and equipment, the input VAT on equipment acquisition should be deducted. The formula for calculating replacement full price is as below:

$$\text{Replacement full price} = \text{Equipment cost} + \text{Installation expenses} + \text{Other expenses} + \text{Cost of Capital} - \text{Input VAT on equipment acquisition and transportation expenses}$$

1) Equipment cost

Equipment cost includes original equipment price, transportation and miscellaneous expenses, transportation insurance premium, super-large (heavy) transportation surcharges, procurement and premium expenses.

i) Determination of original equipment price

For main machine equipment and major auxiliary equipment (such as hydraulic turbine, generator, main transformer, electro-hydraulic speed control system, excitation system, overhead crane of main plant, inlet valve and tail water gate), the original equipment price is determined by taking into consideration the enquiries to the manufacturers, or with reference to quotations for the same type of equipment in similar-sized hydropower stations newly commencing construction. For common equipment, the price is determined based on recent order price of the same type of equipment, or with reference to the equipment price in the original engineering budgetary estimates while taking into consideration the recent price adjustment coefficients, and/or enquires to manufacturers for certain equipment when necessary.

ii) Determination of transportation and miscellaneous expenses

Equipment transportation and miscellaneous expenses include all expenses incurred in transporting the equipment from manufacturer to the installation site, where:

Transportation and miscellaneous expenses for major equipment are calculated according to “2.11 Transportation and miscellaneous rates for major equipment” set out in the Rate Standards on Budgetary Estimates for Hydropower Engineering Design (version 2007), taking into consideration the local conditions.

Transportation and miscellaneous expenses for other equipment are calculated based on the original equipment price according to “2.12 Transportation and miscellaneous rates for other equipment” set out in the Rate Standards on Budgetary Estimates for Hydropower Engineering Design (version 2007), taking into consideration the local conditions.

iii) Determination of super-large (heavy) transportation surcharges

Super-large (heavy) transportation surcharges represent certain special expenses incurred in off-site transportation process for large-size equipment such as hydroelectric turbine generation unit, overhead crane and main transformer, including road and bridge renovation and strengthening costs, obstruction removal and rehabilitation expenses. These surcharges are calculated based on the original equipment price according to “2.13 Rates of super-large (heavy) transportation surcharges” set out in the Rate Standards on Budgetary Estimates for Hydropower Engineering Design (version 2007), taking into consideration the local conditions.

iv) Determination of procurement and premium expenses

Procurement and premium expenses represent the expenses incurred in the equipment procurement and safekeeping process. These expenses are calculated based on the sum of original equipment price and transportation and miscellaneous expenses according to “2.14 Rates of equipment procurement and safekeeping expenses” set out in the Rate Standards on Budgetary Estimates for Hydropower Engineering Design (version 2007), taking into consideration the local conditions.

2) Installation expenses

Installation expenses are calculated with reference to the installation quantities set out in the original engineering budgetary estimates while taking into consideration the recent price adjustment coefficients, in accordance with the Requirements on Preparation of Budgetary Estimates for Hydropower Engineering Design (version 2007) and the Rate Standards on Budgetary Estimates for Hydropower Engineering Design (version 2007) issued by the Renewable Energy Quota Station of Hydropower and Water Resources Planning and Design General Institute, and the Quota of Budgetary Estimates for Hydropower Equipment Installation Works (version 2003) issued by the State Economic and Trade Commission.

3) Other expenses

Determined based on the rating standards promulgated by competent authorities and prevailing on the valuation reference date.

4) Cost of capital

Cost of capital is calculated based on the sum of equipment acquisition cost, installation expenses and other expenses over a reasonable construction period.

5) Determination of input VAT on equipment acquisition and transportation expenses

Pursuant to the Notice on Certain Issues in Implementation of the Value-added Tax Reform in China (Cai Shui [2008] No. 170) issued by the State Administration of Taxation of the Ministry of Finance, the input VAT on purchased or self-made fixed assets (including renovation, expansion and installation) and the transportation expenses is deductible from the output VAT in accordance with relevant requirements. The input VAT on equipment acquisition and transportation expenses is calculated according to the following formula:

$$\text{Input VAT on equipment acquisition} = \text{Equipment acquisition cost} \times \text{VAT rate}/(1 + \text{VAT rate})$$

$$\text{Input VAT on transportation expenses} = \text{Transportation expenses} \times \text{VAT rate}$$

VAT rate on equipment acquisition: 17%; VAT rate on transportation expenses: 7%.

(2) Determination of replacement full price for equipment of Category C

Equipment of Category C represents common equipment with lower value that can be readily purchased in market. Its replacement full price is determined mainly based on equipment acquisition price and transportation and miscellaneous expenses, while taking into consideration its installation and test expenses as well as the deductible input VAT on equipment acquisition and transportation expenses. The calculation formula is as below:

$$\text{Replacement full price} = \text{Equipment acquisition cost} + \text{Installation expenses} - \text{Input VAT on equipment acquisition and transportation expenses}$$

The acquisition price of this category of equipment is mainly determined mainly based on market enquiries, with reference to the Quotation Handbook for Mechanical and Electrical Products 2012 and the Price Information Query System for Mechanical and Electrical Products 2012 developed by the Science and Technology Information Research Institute of the Ministry of Machinery Industry.

(3) Determination of combined newness rate for equipment of Categories A and B

The combined newness rate is determined as a weighted average of the life-based newness rate (0.4) and the field survey newness rate (0.6), or as the product of the life-based newness rate multiplied by the correction coefficient for newness rate:

$$\text{Combined newness rate} = \text{Life-based newness rate} \times 40\% + \text{Field survey newness rate} \times 60\%, \text{ or}$$

$$\text{Combined newness rate} = \text{Life-based newness rate} \times \text{Correction coefficient for newness rate}$$

1) Life-based newness rate

Life-based newness rate is calculated based on serviced life, economic life and remaining useful life beyond the economic life of machinery and equipment with reference to relevant data.

i) Equipment servicing within economic life:

$$\text{Life-based newness rate} = (1 - \text{Serviced life/Economic life}) \times 100\%$$

ii) Equipment servicing beyond the economic life

$$\text{Life-based newness rate} = \frac{[\text{Remaining useful life/}(\text{Serviced life} + \text{Remaining useful life})]}{\text{Remaining useful life}} \times 100\%$$

2) Field survey newness rate

Field survey newness rate is determined using the field survey scoring approach based on the field survey to components of the equipment, including inspection on its conditions and relevant running and management archives and information.

3) Correction coefficient for newness rate

For system equipment such as large-scale control and inspection systems for which field survey is infeasible, the correction coefficient for newness rate is determined based on its design standards, manufacturing and installation quality and the inspection on relevant running and maintenance management archives and information, with reference to the overall load, technical performance, safety performance, etc..

(4) Determination of combined newness rate for equipment of Category C

The newness rate is determined using the life-based approach, and appropriate adjustments may be made to certain equipment based on results of survey where there is a significant deviation of actual technical conditions from the life-based newness rate.

Life-based newness rate is calculated based on serviced life, economic life and remaining useful life beyond the economic life of machinery and equipment with reference to relevant data.

i) Equipment servicing within economic life:

$$\text{Life-based newness rate} = (1 - \text{Serviced life/Economic life}) \times 100\%$$

ii) Equipment servicing beyond the economic life

$$\text{Life-based newness rate} = \frac{[\text{Remaining useful life/}(\text{Serviced life} + \text{Remaining useful life})]}{\text{Remaining useful life/}(\text{Serviced life} + \text{Remaining useful life})} \times 100\%$$

(II) Transportation vehicles

(1) Determination of replacement cost

Transportation vehicle prices as at the valuation reference date are firstly determined with reference to recent vehicle market price information including vehicle market information in Chengdu region, Topcars Info (黑馬信息廣告), HC360 Auto (慧 汽車商情網) and Pcauto.com (太平洋汽車網). On such basis, the replacement full price is determined by taking into account the vehicle purchase tax, vehicle inspection and licensing expenses pursuant to the Provisional Regulations on Vehicle Purchase Tax in the People's Republic of China and relevant documents in Chengdu.

$$\text{Replacement cost} = \text{Purchase price} + \text{Purchase tax} + \text{Vehicle inspection and licensing expenses}$$

(2) Determination of combined newness rate

First, the theoretical newness rate is determined as the lower of the life-based newness rate and the mileage-based newness rate, as calculated respectively according to serviced life and travelled mileage. The combined newness rate is then determined by applying positive or negative correction scores based on results of field survey on the performance and conditions of the vehicle's engine, gearbox, front and rear axles, steering, circuit and braking assemblies as well as the appearance and exhaust condition.

Where,

$$\text{Life-based newness rate} = (1 - \text{Serviced life/Statutory useful life}) \times 100\%$$

$$\text{Mileage-based newness rate} = (1 - \text{Travelled mileage/Statutory useful mileage}) \times 100\%$$

Statutory useful life and statutory useful mileage of vehicles are determined with reference to relevant information.

(III) Electronic equipment

(1) Determination of replacement full price

Electronic equipment prices as at the valuation reference date are firstly determined with reference to recent market price information including market information in Chengdu region and HC360 BizInfo (慧商情). On such basis, the replacement full price is determined by taking into account transportation and miscellaneous expenses, installation and test expenses, and the deductible input VAT on equipment acquisition and transportation expenses.

$$\text{Replacement full price} = \text{Equipment acquisition cost} + \text{Installation and test expenses} - \text{Input VAT on equipment acquisition and transportation expenses}$$

For electronic equipment which is transported, installed and test at cost of supplier or needs no installation, the replacement full price is mainly determined based on the prevailing market price and the deductible input VAT on equipment acquisition and transportation expenses.

(2) Determination of newness rate

Life-based newness rate is calculated based on serviced life, economic life and remaining useful life beyond the economic life of electronic equipment with reference to relevant data. The newness rate is then determined by applying corrections with reference to results of field survey:

i) Equipment servicing within economic life:

$$\text{Life-based newness rate} = (1 - \text{Serviced life/Economic life}) \times 100\%$$

ii) Equipment servicing beyond the economic life

$$\text{Life-based newness rate} = \frac{\text{Remaining useful life}}{(\text{Serviced life} + \text{Remaining useful life})} \times 100\%$$

As for the electronic equipment manufactured long ago, having exceeding the economic life and without specification and model information, the valuation is determined with reference to recent secondary market information rather than calculating the newness rate.

8. Intangible assets

8.1 Intangible assets – Land use right

Pursuant to the Regulations on Urban Land Valuation, the current prevailing land premium valuation methods include market comparison approach, income capitalization approach, residue method (assumed development method), cost approximation method, and benchmark land premium coefficient correction method. We adopted benchmark land premium coefficient correction method and cost approximation method pursuant to the Regulations on Urban Land Valuation, with reference to local real estate market development as well as characteristics of the target assets and the valuation purpose.

(1) Benchmark land premium coefficient correction method

Benchmark land premium is a standard land price formulated by and published in the name of government, which is public, authoritative and relatively stable and has a restraint and guiding effect on market transaction prices. Under the benchmark land premium coefficient correction method, a comparison is made between the regional and specific conditions of the target land and the average conditions of its area. Then, the land use price as at the valuation reference date is derived by using the valuation findings including the urban benchmark land premium and its correction coefficient table to make corrections to benchmark land premium based on the replacement principle. It is based on the replacement principle: under normal market conditions, the lands with similar conditions and use values should be transacted at similar prices between the parties equivalently knowledgeable of market information. The calculation formula is as below:

$$\frac{\text{Target land premium with development progress under benchmark land premium}}{\text{Benchmark land premium}} = \text{Benchmark land premium} \times K1 \times K2 \times K3 \times (1+\Sigma K)$$

Where, K1: Correction coefficient on date

K2: Correction coefficient on land useful life

K3: Correction coefficient on floor area ratio

ΣK : Sum of the correction coefficients on regional factors and specific factors affecting land premium

(2) Cost approximation method

Land price is determined based on all costs payable for acquisition of land, mainly including land acquisition cost, land development cost, investment interest, investment profit and land appreciation gain. The target land premium is then determined by applying useful life correction according to the remaining useful life of the granted land.

$$\begin{aligned} \text{Land premium} &= (\text{Land acquisition cost} + \text{Land development cost} + \text{Investment interest} + \text{Investment profit} + \text{Land appreciation gain}) \times \text{Correction coefficient on land useful life} \\ &= 1 - \frac{1}{(1+r)^n} \end{aligned}$$

Correction coefficient on land useful life

Where, r represents capitalization interest rate of land; n represents land useful life.

(3) Method for determination of land premium

Based on the target land premiums respectively estimated according to benchmark land premium coefficient correction method and cost approximation method, the appraisers derived the final target land premium through comprehensive analysis.

8.2 Intangible assets – Other intangible assets

The valuation is determined based on the verified book value according to original accounting vouchers and underlying documents of intangible assets.

9. Construction in progress

The appraisers have verified construction items and content, figurative progress, payment progress and the rationality of cost composition. On such basis, the valuation is determined based on the verified book value.

10. Deferred income tax assets

Deferred income tax assets are recognized based on the calculation result by applying the applicable income tax rate to the temporary difference, being a deductible temporary difference arising from the gap of the carrying amount below the tax base of assets. The appraisers investigated and examined the reasons and origination of such difference, and confirmed that the recognized amount is in accordance with the Accounting Regulations for Business Enterprises and the taxation law. Therefore, the valuation is determined based on the verified book value.

- C r r e e e j j - r r e e

The liabilities include trade payables, advances from customers, staff remuneration payable, taxes payable, dividends payable, other payables, long-term borrowings, etc. Based on the confirmed amounts, the appraisers verified the liabilities as to whether the enterprise is liable for them as at the reference date and whether the creditors exist. On such basis, the valuation is determined based on the effective amount of liabilities payable as at the based date.

..) e

1. I r e j j m e r

The income approach is to value an enterprise's assets as a whole on the basis of income capitalization, i.e., the net incomes expected to generate in the future are capitalized to derive the capital or investment amount as of the reference date. Under the income approach, the incomes from implication and utilization of target assets are consistent with the capitalization rate.

2. A e j j m e r

We believe that income approach is a rational method for valuation of enterprise value. The reason lies in that the enterprise value is dependent on the future investment income and, under normal conditions for continuing as a going concern, investors may transfer but may not redeem their shareholdings, and may control or influence but may not occupy the assets of the investee. Meanwhile, with a focus on the future investment income from the investee, the investors are buying the business (instead of assets) of the investee, and the investment value is achieved through the future profits of the investee. On this ground, income approach is a rational method for valuation of enterprise value.

3. P r e e j j r

This valuation is designed to value the assets of the enterprise as a whole in a complete and real course of business and market environment. As the valuation is based on the estimated future income from the assets and the selected discount rate, the target assets should meet the following preconditions:

- (1) The target assets should have the foundation and conditions for continued use or operation;
- (2) There should be a stable proportional relationship between the target assets and the income therefrom, and the future income and risks should be estimated and quantified.

4. Ge er qe e qe m

Based on the due diligence process and the subject entity’s asset composition and characteristics of principal business, we took its financial statements for estimation of its equity capital value under the following general guidelines:

- (1) For assets and principal operations consolidated in financial statements, the expected income is estimated based on historical movements of business performance in recent years and their classification respectively, and the value of operating assets is derived on a discount basis.
- (2) For long-term equity investment, the value is calculated through an appropriate method.
- (3) For overage or non-operating assets (liabilities) included in financial statements but not considered in estimation of expected income (net cash flow), the valuation is estimated on a standalone basis.
- (4) Based on the overall enterprise value by adding up the aforesaid assets and liabilities and deducted by interest-bearing debts, the entire shareholders’ equity of the subject entity is derived.

The valuation model is:

Value of entire shareholders’ equity = Overall enterprise value – Interest-bearing debts

$$\text{Overall enterprise value} = \text{Value of operating assets} + \text{Value of long-term equity investment} + \text{Value of non-operating assets and overage assets}$$

P’ = P – C + D + E

- Where, P’: Value of entire shareholders’ equity
- P: Value of operating assets
- C: Value of operating interest-bearing debts
- E: Value of long-term equity investment
- D: Value of non-operating assets and overage assets and liabilities

Where, value of operating assets is calculated according to the following formula:

$$P = \sum_{t=1}^n \frac{F_t}{(1+i)^t} + \frac{F_n}{i(1+i)^n}$$

Where, P: Value of operating assets
 Ft: Corporate free cash flow in Income Period t in the future
 Fn: Corporate free cash flow in Year n in the future
 n: Year n
 t: Year t in the future
 i: Discount rate (weighted average cost of capital)

5. Corporate free cash flow

Corporate free cash flow is estimated based on the free cash flow before interest and after tax, as calculated according to the following formula for the forecast period:

$$\text{Corporate free cash flow} = \text{Profit before interest and after tax} + \text{Depreciation and amortization} - \text{Capital expenditure} - \text{Working capital calls}$$

6. Income

Based on the assumption on continuing as a going concern, an unlimited term is adopted for the income period under this valuation.

7. Discount rate (weighted average cost of capital)

Discount rate is a function of cash flow risks: the greater the risks, the higher the discount rate. In accordance with the matching principle of income amount and discount rate, we took the corporate free cash flow as the income amount, and took the weighted average cost of capital (WACC) as the discount rate.

$$\text{Formula: WACC} = K_e \times [E/(E + D)] + K_d \times (1 - T) \times [D/(E + D)]$$

Where, E: Equity market value
 D: Debt market
 Ke: Cost of equity capital

Kd: Cost of debt capital

T: Income tax rate on the subject entity

Cost of equity capital is arrived at based on the internationally accepted CAPM model:

$$\begin{aligned} \text{Formula: } K_e &= R_f + [E(R_m) - R_f] \times \beta + a \\ &= R_f + R_{pm} \times \beta + a \end{aligned}$$

Where, Rf: Risk-free return rate as at the reference date

E(Rm): Market expected earning rate

Rpm: Market risk premium

β: Systemic risk coefficient of equity

a: Enterprise-specific risk adjustment coefficient

8. $O = e_r \times (e_e - e_r) \times e_j$

Operating interest-bearing debts are determined based on the subject entity’s interest-bearing debts as at the reference date, including its short-term borrowings, long-term borrowings due within one year and long-term borrowings.

9. $N = e_r \times e, e_r \times e \times e_j \times e$

The valuation derived through income approach represents the value generated from operating assets, and does not include non-operating assets, overage assets and liabilities without contributing to income of the enterprise. Therefore, such amounts should be added back when determining the value of shareholders’ equity.

III. ALUATION ASSUMPTIONS

(I) $P = \sum_{t=1}^n \frac{CF_t}{(1+r)^t} + \frac{CF_n}{(1+r)^n}$

1. The business of the enterprise is and will be operating as a going concern; There will be no material change in its current scope of business as well as existing business activities and operations due to the changes in future industry policies;
2. The target assets will be continuously utilized in accordance with the current usage and use manner, scale, frequency, environment and other parameters; The enterprise will commit certain capital expenditures and maintenance costs each year to ensure normal use of the assets, and may continue as a going concern through continuous self compensations and updates;

3. The revenue generated in the future will basically be collected as scheduled without incurring any material bad debts; and the enterprise will be able to obtain adequate funding on a timely basis as and when the needs for financial supports arise in the future course of business;
4. There is no other material adverse impact arising from any unforeseeable factor or force majeure;
5. The inflation factor is not taken into consideration.

(II) General Assumptions

1. As of the valuation reference date, all examined and verified licences, use permits, letters of consent or other legal or administrative authorization documents issued by relevant local or national governments or organizations as required for the utilization of the assets, upon which this valuation is based, have been normally and legitimately used within their respective terms of validity as of the valuation reference date, and may be renewed or reissued (such as business licence) at any time upon expiry;
2. The enterprise has been in full compliance with the prevailing national and local laws and regulations; and the enterprise has responsibly fulfilled the duties as an asset owner and managed the assets in a competent and efficient manner;
3. Our valuation is based on the purchasing power of local currency as at 30 September 2012;
4. There will be no material change in political, economic and social environment, national industrial policies, interest rates, exchange rates and financial, fiscal and taxation policies in the regions where the parties to the Transaction are located.

I . VALUATION CONCLUSION

After implementing the aforesaid asset valuation procedures and methods and on the basis of continuing as a going concern, we set out the valuation of the entire shareholders' equity of Sichuan Dachuan Power Co., Ltd. as at 30 September 2012, being the valuation reference date, as follows:

With respect to the subject entity principally engaged in hydropower generation, a clean energy source encouraged by the State featuring less pollution, low cost and high efficiency, the asset-based approach may not fully reflect its earning capability. Given the stable power generation capacity and earning capability of hydropower stations in normal circumstances and with reference to the valuation purpose, we are of the opinion that the result of income approach is more appropriate. On this ground, we take the result under income approach as the final valuation conclusion, namely:

On the basis of continuing as a going concern, the valuation of the entire shareholders' equity of Sichuan Dachuan Power Co., Ltd. as at 30 September 2012, being the valuation reference date, is RMB1,281,032,600.

. DATE OF THE ALUATION REPORT

The date of the valuation report, being 31 October 2012, is the day on which the professional opinions of the certified public appraisers are finalized.

(NO BODY TEXT CONTAINED IN THIS PAGE)

Legal Representative of the Valuer:

Zhang Hongxin

Certified Public Appraiser:

Lei Chunyu

Certified Public Appraiser:

Huang Hongwei

China Appraisal Co., Ltd.

October 2012
Beijing, PRC

Table of contents in Chinese characters, listing sections like 'Introduction', 'Valuation Methodology', etc.

ASSET VALUATION REPORT

on

100% Equity Interests in Sichuan Zhongneng Power Co., Ltd. Proposed to be Transferred by Beijing Energy Investment Holding Co., Ltd. (Beijing Energy Investment Holding Co., Ltd. (Beihongneng))

Zhong Zi Ping Bao [2012] No. 447

Beijing Energy Investment Holding Co., Ltd.:

We, China Assets Appraisal Co., Ltd., refer to your engagement for valuation of the market value as at 30 September 2012 of the entire shareholders' equity of Sichuan Zhongneng Power Co., Ltd. in relation to 100% equity interests in Sichuan Zhongneng Power Co., Ltd. proposed to be transferred by Beijing Energy Investment Holding Co., Ltd.. The valuation is conducted in accordance with the relevant laws, regulations, standards and principles for asset valuation, using both asset-based approach and income approach and applying necessary valuation procedures. The valuation conclusion is reported as follows:

I. PROFILE OF THE PRINCIPAL, SUBJECT ENTITY AND OTHER USERS OF THE VALUATION REPORT AS AGREED IN THE LETTER OF ENGAGEMENT

This asset valuation is for the purpose of the equity transfer. The principal is Beijing Energy Investment Holding Co., Ltd.; the subject entity is Sichuan Zhongneng Power Co., Ltd.; and the owners of property right are shareholders of Sichuan Zhongneng Power Co., Ltd.. Users of this report other than the principal are the parties in relation to the equity transfer and those prescribed by laws and regulations.

(I) Information of the Principal

1. General Information

Table with 2 columns: Field (Company name, Domicile, Legal representative, Registered capital, Paid-in capital) and Value (Beijing Energy Investment Holding Co., Ltd., 9th Floor, West Wing Building A, Tianyin Mansion, No. 2 (Jia) Fuxingmen Nandajie, Xicheng District, Beijing, Lu Haijun, RMB8,800,000,000, RMB8,800,000,000)

Company nature: company with limited liability

2. Business

Licensed operations: None

General operations: not allowed for those prohibited by laws, administrative regulations or decisions of the State Council; conditional upon approval by the approving authorities and registration with industrial and commercial administrative authorities for those subject to approval under laws, administrative regulations or decisions of the State Council; autonomous operations if no approval is required by laws, administrative regulations and decisions of the State Council.

(II) Investment

1. Investment

Company name: Sichuan Zhongneng Power Co., Ltd.

Registered address: No. 1 Guandu Avenue, Jinyuan Town, Dayi County, Sichuan (inside Xingming Power Company)

Registered capital: RMB90,000,005

Paid-in capital: RMB90,000,005

Legal representative: Liu Haixia

Nature of enterprise: company with limited liability (wholly-owned by a corporate entity that is invested or controlled by non-natural persons)

2. Business

Hydropower generation (only by subsidiaries and branches) and development; survey, design, construction, commissioning, maintenance and technical services for power transmission/distribution and supply projects; property leasing (excluding those expressly prohibited or restricted by the State's laws, administrative regulations or decisions of the State Council, and subject to qualification licence if applicable).

3. Investment

The capital contribution from the original shareholders of Sichuan Zhongneng Power Co., Ltd. was RMB314,008,905. In mid 2011, the original shareholders transferred 100% of their equity interests in Sichuan Zhongneng to Beijing Energy Investment Holding Co., Ltd.. In May 2012, it submitted an

application for reducing its registered capital by RMB250,000,000 to RMB64,008,905 and transferring its accumulative surplus reserve of RMB25,991,100 to capital. Upon completion of such matters, its registered capital was changed to RMB90,000,005.

The company has seven branches namely Dafeishui Power Station, Shuanghe Power Station, Xinsheng Power Station, Yanfeng Power Station, Anzihe Power Station, Jiulongtan Power Station and Sanba Power Station, details of which are set out as below:

- (1) *D e P w e r S* : With an installed capacity of 2x2.5MW, Dafeishui Power Station commenced operation in September 1970.
- (2) *S e P w e r S* : With an installed capacity of 3x1.25MW, Shuanghe Power Station commenced operation in August 1993.
- (3) *X e P w e r S* : With an installed capacity of 7x0.32MW, Xinsheng Power Station commenced operation in July 1982.
- (4) *Y e P w e r S* : With an installed capacity of 2x5.5MW, Yanfeng Power Station commenced operation in October 1998.
- (5) *A e P w e r S* : With an installed capacity of 2x6MW, Anzihe Power Station commenced operation in November 1998.
- (6) *J P w e r S* : With an installed capacity of 3x5MW, Jiulongtan Power Station commenced operation in September 1998.

(7) *Sanba Power Station*: With an installed capacity of 1.5MWx2+5MW+3.2MW, Sanba Power Station commenced operation in January 1982.

4. *Valuation Basis*

As at the valuation reference date, Sichuan Zhongneng Power Co., Ltd. has registered capital of RMB90,000,005 and paid-in capital of RMB90,000,005, and is 100% owned by Beijing Energy Investment Holding Co., Ltd..

5. *Accounting Standards*

The Accounting Standards for Business Enterprises and relevant requirements are adopted by Sichuan Zhongneng Power Co., Ltd.

II. VALUATION PURPOSE

The valuation of the entire shareholders' equity of Sichuan Zhongneng Power Co., Ltd. is for the purpose of providing value reference for the proposed transfer of 100% equity interests in Sichuan Zhongneng Power Co., Ltd. by Beijing Energy Investment Holding Co., Ltd. (the "Transaction").

III. ALUATION TARGET AND SCOPE

The valuation target is the entire shareholders' equity of Sichuan Zhongneng Power Co., Ltd. as of the valuation reference date. The valuation scope is all assets and liabilities of Sichuan Zhongneng Power Co., Ltd..

The valuation target and scope are consistent with those in respect of the Transaction.

The book values adopted for the valuation are based on the financial statements which have been audited by ShineWing Certified Public Accountants Co., Ltd. and verified by us and the asset valuation application form, both provided by the subject entity.

I . T PE AND DEFINITION OF ALUE

According to the valuation purpose and characteristics of the valuation target, the valuation conclusion hereof is defined as market value. Definition of market value: Market value represents the estimated amount for which the valuation target should be traded on the valuation reference date between a willing buyer and a willing seller in an arm's-length transaction wherein the parties had each acted knowledgeable, prudently and without compulsion.

. ALUATION REFERENCE DATE

According to the implementation proposal and schedule of engagement, the valuation reference date for this engagement is determined as 30 September 2012.

I. BASIS OF ALUATION

The major basis of valuation includes:

(I) B

1. Documents in respect of the Transaction; and
2. The letter of engagement for this asset valuation.

(II) L^W

1. Company Law of People's Republic of China (amended on 27 October 2005);
2. Land Administration Law of the People's Republic of China (amended on 28 August 2004);
3. Law on Urban Real Estate Administration of the People's Republic of China (5 July 1994);
4. Law on Stated-owned Assets of Enterprises of the People's Republic of China (implemented on 1 May 2009);

7. Accounting Standards for Business Enterprises – Basic Standards (2006), Order No. 33, issued by the Ministry of Finance.

(I) B

1. Business licences of the principal and the subject entity;
2. Building ownership certificates;
3. State-owned land use right certificates;
4. Vehicle licences;
5. The articles of association and capital verification reports;
6. Other documentary proof of property ownership.

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1. Audit reports, financial statements and asset valuation application form provided by the subject entity;
2. Financial information including general ledger, sub-ledgers and accounting vouches provided by the subject entity;
3. Engineering drawings and engineering final accounts information provided by the subject entity;
4. Corporate track records and future business forecast provided by the subject entity;
5. Budget Quota for Hydropower Equipment Installation Works (2003) (China Science and Technology Press);
6. Requirements on Preparation of Budgetary Estimates for Hydropower Engineering Design (version 2007) (China Electric Power Press);
7. Rate Standards on Budgetary Estimates for Hydropower Engineering Design (version 2007) (China Electric Power Press);
8. Standards on Assessment of Damage Level of Buildings issued by the Ministry of Housing and Urban-Rural Development;
9. Quotation Handbook for Mechanical and Electrical Products 2010 prepared by the Science and Technology Information Research Institute of the Ministry of Machinery Industry;

10. HC360 BizInfo (慧 商情) – National Automobile, Household Appliances and Office Automation Markets (January 2011);
11. Notice on Publication of Discarding Standards for Automobiles (Guo Jingmao Jing [1997] No. 456), Notice on Certain Requirements on Adjustments to Discarding Standards for Automobiles (Guo Jingmao Ziyuan [2000] No. 1202), and Notice on Adjustments to Discarding Standards for Light Trucks (Guo Jing Mao [1998] No. 407);
12. Field survey and market enquiries by appraisers and other information obtained by us;
13. Other relevant materials provided by the subject entity.

II. VALUATION METHODOLOGY

(I) Selection of Market Approach

3. Trade receivables, prepayments and other receivables

By verifying original vouchers against book value, we reviewed the business, occurrence date and reasons underlying for receivables and prepayments. By adopting individual confirmation method and ageing analysis method with reference to feedbacks of enquiry letters, we analysed and made judgments on the asset interests arising therefrom and the feasibility of recovery. Based on comprehensive analysis, the recoverable amount of receivables and prepayments are recognized and the risks of loss in recoverable amount are estimated.

4. Inventories

Inventories represent the materials and supplies held for sale during the ordinary production and operation, or to be consumed during the production process. The enterprise's inventories mainly include raw materials, the cost of which is recognized based on actual costs incurred in purchase on an as-needed basis, with a book value per unit approximate to market selling price per unit as at the reference date. Therefore, the valuation of raw materials is determined based on the verified book value.

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5. Long-term equity investment

The enterprise has 1 long-term equity investment, being 30% equity interests in Chengdu Jinhuaneng Power Industry Co., Ltd.. The appraisers made an overall asset valuation on Chengdu Jinhuaneng Power Industry Co., Ltd. based on its business licence, articles of association, capital verification report, audit report and financial statements, and took its net assets based on the valuation multiplied by the shareholding to determine the value of the long-term equity investment.

6. Property assets

According to the valuation purpose and the conditions of target assets, replacement cost method is adopted for valuation of property assets according to the following formula:

$$\text{Valuation} = \text{Replacement cost} \times \text{Newness rate}$$

(1) Replacement cost

$$\text{Replacement cost} = \text{Construction and installation work cost} + \frac{\text{Preliminary construction work}}{\text{expenses}} + \text{Cost of capital}$$

i) Construction and installation work cost

Construction and installation work cost: For major works with budgetary estimates, budget and final accounts information, the budget and final accounts reconciliation method is adopted. Accordingly, the appraisers derived the estimated construction and installation work cost based on work quantities in budget and final accounts, quota and price documents prevailing on the valuation base date.

For major works without budgetary estimates, budget and final accounts information, the re-budgeting method is adopted. Accordingly, the appraisers derived the estimated construction and installation work cost as at the valuation base date based on the work quantities as estimated according to drawings provided by the asset owner and results of field survey, relevant quota and price documents prevailing on the valuation base date.

For general construction works, the appraisers derived their construction and installation costs with reference to the construction and installation cost of the same type of works, as modified according to structural differences.

ii) Preliminary construction work expenses and other expenses

Determined based on the rating standards promulgated by competent authorities and prevailing on the valuation base date.

iii) Cost of capital

The cost of capital is the interest or opportunity cost of funds used in asset construction process, as calculated based on the bank lending rate for the same period which was determined as the lending rate published by the People's Bank of China on the valuation base date. The utilization of capital is generally estimated on a straight-line basis over the construction period.

$$\text{Cost of capital} = \frac{(\text{Construction and installation work cost} + \text{Preliminary construction work expenses and other expenses}) \times \text{Lending rate} \times \text{Construction period}}{2}$$

(2) Determination of newness rate

In determining newness rate, we adopted the combined newness rate which is determined as the weighted average of the field survey newness rate according to a scoring approach and the theoretical newness rate based on the economic life approach for a given building.

To determine field survey newness rate of a given building, we first determined the standard scores of its major components according to its type and structural characteristics. Then we determined the completeness scores based on findings of field survey, so as to determine the completeness score for the whole building to arrive at its field survey newness rate.

$$\text{Field survey newness rate (\%)} = \frac{\sum \text{Completion score}}{\text{Standard score}} \times 100\%$$

$$\text{Theoretical newness rate (\%)} = \frac{(\text{Economic life} - \text{Serviced life})}{\text{Economic life}} \times 100\%$$

$$\text{Combined newness rate (\%)} = \text{Field survey newness rate} \times 60\% + \text{Theoretical newness rate} \times 40\%$$

(3) Calculation of valuation

$$\text{Valuation} = \text{Replacement cost} \times \text{Combined newness rate}$$

7. Equipment assets

According to the valuation purpose, replacement cost method is adopted to derive the valuation of machinery and equipment, transportation vehicles and electronic equipment. Namely, on the basis of continuous usage of a given asset, we determined the replacement cost based on the prevailing market value for re-acquisition of such asset, as well as the newness rate based on field survey and the losses estimated through combined technical analysis, so as to calculate the valuation. The formula is as below:

$$\text{Valuation of equipment} = \frac{\text{Replacement cost of equipment}}{\text{of equipment}} \times \text{Combined newness rate}$$

(I) Machinery and equipment

First, based on the application form for valuation of machinery and equipment submitted by the enterprise, the appraisers made on-site inspection on equipment conditions, and exchanged opinions with the operators to understand historical and actual conditions of generation units as far as possible. Then, replacement full price and newness rate were determined on a case-by-case basis to arrive at the valuation.

For the valuation purpose, the equipment is classified as Categories A, B and C on a systematic, complete set and important basis and with reference to their values:

Category A comprises main machine equipment and major auxiliary equipment for hydropower generation that are of significant importance and value, such as: hydraulic turbine, generator, main transformer, electro-hydraulic speed control system, excitation system, overhead crane of main plant, inlet valve, tail water gate, control and detection systems;

Category B comprises supporting auxiliary equipment for hydropower generation that are of considerable importance and value, such as: high-voltage switchgear, auxiliary transformers, DC systems, large-scale measurement system, shutter equipment, double-girder cranes, automation control systems, instruments and meters, power distribution equipment, communication equipment and maintenance equipment;

Category C comprises supporting auxiliary equipment for hydropower generation and installation-free equipment that are of normal importance and insignificant value, such as: compressors, pumps, fans, lifting and transportation equipment, production management appliances, non-productive equipment and appliances.

The replacement full price and newness rate are determined using different methods according to the classification above.

(1) Determination of replacement full price for equipment of Categories A and B

For equipment of Categories A and B, the replacement cost consists of four parts namely equipment acquisition cost, installation expenses, other expenses and cost of capital, in accordance with the Requirements on Preparation of Budgetary Estimates for Hydropower Engineering Design (version 2007) and the Rate Standards on Budgetary Estimates for Hydropower Engineering Design (version 2007) issued by the Renewable Energy Quota Station of Hydropower and Water Resources Planning and Design General Institute, and the Quota of Budgetary Estimates for Hydropower Equipment Installation Works (version 2003) issued by the State Economic and Trade Commission.

Pursuant to the Notice on Certain Issues in Implementation of the Value-added Tax Reform in China (Cai Shui [2008] No. 170) issued by the State Administration of Taxation of the Ministry of Finance, with effect from 1 January 2009, the input VAT on purchased or self-made fixed assets (including renovation, expansion and installation) is deductible from the output VAT in accordance with the Provisional Regulations on Value-added Tax of the People's Republic of China (State Council Order No. 538) and the Implementation Rules of the Provisional Regulations on Value-added Tax of the People's Republic of China (State Administration of Taxation of the Ministry of Finance, Order No. 50). Therefore, in calculating replacement full price of productive machinery and equipment, the input VAT on equipment acquisition should be deducted. The formula for calculating replacement full price is as below:

$$\text{Replacement full price} = \text{Equipment cost} + \text{Installation expenses} + \text{Other expenses} + \text{Cost of Capital} - \text{Input VAT on equipment acquisition and transportation expenses}$$

1) Equipment cost

Equipment cost includes original equipment price, transportation and miscellaneous expenses, transportation insurance premium, super-large (heavy) transportation surcharges, procurement and premium expenses.

i) Determination of original equipment price

For main machine equipment and major auxiliary equipment (such as hydraulic turbine, generator, main transformer, electro-hydraulic speed control system, excitation system, overhead crane of main plant, inlet valve and tail water gate), the original equipment price is determined by taking into consideration the enquiries to the manufacturers, or with reference to quotations for the same type of equipment in similar-sized hydropower stations newly commencing construction. For common equipment, the price is determined based on recent order price of the same type of equipment, or with reference to the equipment price in the original engineering budgetary estimates while taking into consideration the recent price adjustment coefficients, and/or enquires to manufacturers for certain equipment when necessary.

ii) Determination of transportation and miscellaneous expenses

Equipment transportation and miscellaneous expenses include all expenses incurred in transporting the equipment from manufacturer to the installation site, where:

Transportation and miscellaneous expenses for major equipment are calculated according to “2.11 Transportation and miscellaneous rates for major equipment” set out in the Rate Standards on Budgetary Estimates for Hydropower Engineering Design (version 2007), taking into consideration the local conditions.

Transportation and miscellaneous expenses for other equipment are calculated based on the original equipment price according to “2.12 Transportation and miscellaneous rates for other equipment” set out in the Rate Standards on Budgetary Estimates for Hydropower Engineering Design (version 2007), taking into consideration the local conditions.

iii) Determination of super-large (heavy) transportation surcharges

Super-large (heavy) transportation surcharges represent certain special expenses incurred in off-site transportation process for large-size equipment such as hydroelectric turbine generation unit, overhead crane and main transformer, including road and bridge renovation and strengthening costs, obstruction removal and rehabilitation expenses. These surcharges are calculated based on the original equipment price according to “2.13 Rates of super-large (heavy) transportation surcharges” set out in the Rate Standards on Budgetary Estimates for Hydropower Engineering Design (version 2007), taking into consideration the local conditions.

iv) Determination of procurement and premium expenses

Procurement and premium expenses represent the expenses incurred in the equipment procurement and safekeeping process. These expenses are calculated based on the sum of original equipment price and transportation and miscellaneous expenses according to “2.14 Rates of equipment procurement and safekeeping expenses” set out in the Rate Standards on Budgetary Estimates for Hydropower Engineering Design (version 2007), taking into consideration the local conditions.

2) Installation expenses

Installation expenses are calculated with reference to the installation quantities set out in the original engineering budgetary estimates while taking into consideration the recent price adjustment coefficients, in accordance with the Requirements on Preparation of Budgetary Estimates for Hydropower Engineering Design (version 2007) and the Rate Standards on Budgetary Estimates for Hydropower Engineering Design (version 2007) issued by the Renewable Energy Quota Station of Hydropower and Water Resources Planning and Design General Institute, and the Quota of Budgetary Estimates for Hydropower Equipment Installation Works (version 2003) issued by the State Economic and Trade Commission.

3) Other expenses

Determined based on the rating standards promulgated by competent authorities and prevailing on the valuation reference date.

4) Cost of capital

Cost of capital is calculated based on the sum of equipment acquisition cost, installation expenses and other expenses over a reasonable construction period.

5) Determination of input VAT on equipment acquisition and transportation expenses

Pursuant to the Notice on Certain Issues in Implementation of the Value-added Tax Reform in China (Cai Shui [2008] No. 170) issued by the State Administration of Taxation of the Ministry of Finance, the input VAT on purchased or self-made fixed assets (including renovation, expansion and installation) and the transportation expenses is deductible from the output VAT in accordance with relevant requirements. The input VAT on equipment acquisition and transportation expenses is calculated according to the following formula:

$$\text{Input VAT on equipment acquisition} = \text{Equipment acquisition cost} \times \text{VAT rate} / (1 + \text{VAT rate})$$

$$\text{Input VAT on transportation expenses} = \text{Transportation expenses} \times \text{VAT rate}$$

VAT rate on equipment acquisition: 17%; VAT rate on transportation expenses: 7%.

(2) Determination of replacement full price for equipment of Category C

Equipment of Category C represents common equipment with lower value that can be readily purchased in market. Its replacement full price is determined mainly based on equipment acquisition price and transportation and miscellaneous expenses, while taking into consideration its installation and test expenses as well as the deductible input VAT on equipment acquisition and transportation expenses. The calculation formula is as below:

$$\text{Replacement full price} = \text{Equipment acquisition cost} + \text{Installation expenses} - \text{Input VAT on equipment acquisition and transportation expenses}$$

The acquisition price of this category of equipment is mainly determined mainly based on market enquiries, with reference to the Quotation Handbook for Mechanical and Electrical Products 2012 and the Price Information Query System for Mechanical and Electrical Products 2012 developed by the Science and Technology Information Research Institute of the Ministry of Machinery Industry.

(3) Determination of combined newness rate for equipment of Categories A and B

The combined newness rate is determined as a weighted average of the life-based newness rate (0.4) and the field survey newness rate (0.6), or as the product of the life-based newness rate multiplied by the correction coefficient for newness rate:

$$\text{Combined newness rate} = \text{Life-based newness rate} \times 40\% + \text{Field survey newness rate} \times 60\%, \text{ or}$$

$$\text{Combined newness rate} = \text{Life-based newness rate} \times \text{Correction coefficient for newness rate}$$

1) Life-based newness rate

Life-based newness rate is calculated based on serviced life, economic life and remaining useful life beyond the economic life of machinery and equipment with reference to relevant data.

i) Equipment servicing within economic life:

$$\text{Life-based newness rate} = (1 - \text{Serviced life/Economic life}) \times 100\%$$

ii) Equipment servicing beyond the economic life

$$\text{Life-based newness rate} = \frac{[\text{Remaining useful life/}(\text{Serviced life} + \text{Remaining useful life})]}{\text{Remaining useful life}} \times 100\%$$

2) Field survey newness rate

Field survey newness rate is determined using the field survey scoring approach based on the field survey to components of the equipment, including inspection on its conditions and relevant running and management archives and information.

3) Correction coefficient for newness rate

For system equipment such as large-scale control and inspection systems for which field survey is infeasible, the correction coefficient for newness rate is determined based on its design standards, manufacturing and installation quality and the inspection on relevant running and maintenance management archives and information, with reference to the overall load, technical performance, safety performance, etc.

(4) Determination of combined newness rate for equipment of Category C

The newness rate is determined using the life-based approach, and appropriate adjustments may be made to certain equipment based on results of survey where there is a significant deviation of actual technical conditions from the life-based newness rate.

Life-based newness rate is calculated based on serviced life, economic life and remaining useful life beyond the economic life of machinery and equipment with reference to relevant data.

i) Equipment servicing within economic life:

$$\text{Life-based newness rate} = (1 - \text{Serviced life/Economic life}) \times 100\%$$

ii) Equipment servicing beyond the economic life

$$\text{Life-based newness rate} = \frac{[\text{Remaining useful life/}]{\text{(Serviced life)}} + \text{Remaining useful life}}{\text{(Serviced life)}} \times 100\%$$

(II) Transportation vehicles

(1) Determination of replacement cost

Transportation vehicle prices as at the valuation reference date are firstly determined with reference to recent vehicle market price information including vehicle market information in Chengdu region, Topcars Info (黑馬信息廣告), HC360 Auto (慧 汽車商情網) and Pcauto.com (太平洋汽車網). On such basis, the replacement full price is determined by taking into account the vehicle purchase tax, vehicle inspection and licensing expenses pursuant to the Provisional Regulations on Vehicle Purchase Tax in the People's Republic of China and relevant documents in Chengdu.

$$\text{Replacement cost} = \text{Purchase price} + \text{Purchase tax} + \text{Vehicle inspection and licensing expenses}$$

(2) Determination of combined newness rate

First, the theoretical newness rate is determined as the lower of the life-based newness rate and the mileage-based newness rate, as calculated respectively according to serviced life and travelled mileage. The combined newness rate is then determined by applying positive or negative correction scores based on results of field survey on the performance and conditions of the vehicle's engine, gearbox, front and rear axles, steering, circuit and braking assemblies as well as the appearance and exhaust condition.

Where,

$$\text{Life-based newness rate} = (1 - \text{Serviced life/Statutory useful life}) \times 100\%$$

$$\text{Mileage-based newness rate} = (1 - \text{Travelled mileage/Statutory useful mileage}) \times 100\%$$

Statutory useful life and statutory useful mileage of vehicles are determined with reference to relevant information.

(III) Electronic equipment

(1) Determination of replacement full price

Electronic equipment prices as at the valuation reference date are firstly determined with reference to recent market price information including market information in Chengdu region and HC360 BizInfo (慧商情). On such basis, the replacement full price is determined by taking into account transportation and miscellaneous expenses, installation and test expenses, and the deductible input VAT on equipment acquisition and transportation expenses.

$$\text{Replacement full price} = \text{Equipment acquisition cost} + \text{Installation and test expenses} - \text{Input VAT on equipment acquisition and transportation expenses}$$

For electronic equipment which is transported, installed and test at cost of supplier or needs no installation, the replacement full price is mainly determined based on the prevailing market price and the deductible input VAT on equipment acquisition and transportation expenses.

(2) Determination of newness rate

Life-based newness rate is calculated based on serviced life, economic life and remaining useful life beyond the economic life of electronic equipment with reference to relevant data. The newness rate is then determined by applying corrections with reference to results of field survey:

i) Equipment servicing within economic life:

$$\text{Life-based newness rate} = (1 - \text{Serviced life/Economic life}) \times 100\%$$

ii) Equipment servicing beyond the economic life

$$\text{Life-based newness rate} = \frac{\text{Remaining useful life}}{(\text{Serviced life} + \text{Remaining useful life})} \times 100\%$$

As for the electronic equipment manufactured long ago, having exceeding the economic life and without specification and model information, the valuation is determined with reference to recent secondary market information rather than calculating the newness rate.

8. Intangible assets

Pursuant to the Regulations on Urban Land Valuation, the current prevailing land premium valuation methods include market comparison approach, income capitalization approach, residue method (assumed development method), cost approximation method, and benchmark land premium coefficient correction method. We adopted benchmark land premium coefficient correction method and cost approximation method pursuant to the Regulations on Urban Land Valuation, with reference to local real estate market development as well as characteristics of the target assets and the valuation purpose.

(1) Benchmark land premium coefficient correction method

Benchmark land premium is a standard land price formulated by and published in the name of government, which is public, authoritative and relatively stable and has a restraint and guiding effect on market transaction prices. Under the benchmark land premium coefficient correction method, a comparison is made between the regional and specific conditions of the target land and the average conditions of its area. Then, the land use price as at the valuation reference date is derived by using the valuation findings including the urban benchmark land premium and its correction coefficient table to make corrections to benchmark land premium based on the replacement principle. It is based on the replacement principle: under normal market conditions, the lands with similar conditions and use values should be transacted at similar prices between the parties equivalently knowledgeable of market information. The calculation formula is as below:

$$\text{Target land premium with development progress under benchmark land premium} = \frac{\text{Benchmark land premium}}{\text{Benchmark land premium}} \times K1 \times K2 \times K3 \times (1+\Sigma K)$$

Where, K1: Correction coefficient on date

K2: Correction coefficient on land useful life

K3: Correction coefficient on floor area ratio

ΣK: Sum of the correction coefficients on regional factors and specific factors affecting land premium

(2) Cost approximation method

Land price is determined based on all costs payable for acquisition of land, mainly including land acquisition cost, land development cost, investment interest, investment profit and land appreciation gain. The target land premium is then determined by applying useful life correction according to the remaining useful life of the granted land.

$$\begin{aligned}
\text{Land premium} &= \text{(Land acquisition cost)} + \text{Land development cost} + \text{Investment interest} + \text{Investment profit} + \text{Land appreciation gain) x Correction coefficient on land useful life} \\
&= 1 - \frac{1}{(1+r)^n}
\end{aligned}$$

Correction coefficient on land useful life

Where, r represents capitalization interest rate of land; n represents land useful life.

(3) Method for determination of land premium

Based on the target land premiums respectively estimated according to benchmark land premium coefficient correction method and cost approximation method, the appraisers derived the final target land premium through comprehensive analysis.

9. Construction in progress

The appraisers have verified construction items and content, figurative progress, payment progress and the rationality of cost composition. On such basis, the valuation is determined based on the verified book value.

10. Deferred income tax assets

Deferred income tax assets are recognized based on the calculation result by applying the applicable income tax rate to the temporary difference, being a deductible temporary difference arising from the gap of the carrying amount below the tax base of assets. The appraisers investigated and examined the reasons and origination of such difference, and confirmed that the recognized amount is in accordance with the Accounting Regulations for Business Enterprises and the taxation law. Therefore, the valuation is determined based on the verified book value.

- C r r e e e y - r r e e

The liabilities include advances from customers, staff remuneration payable, taxes payable, dividends payable, other payables, etc. Based on the confirmed amounts, the appraisers verified the liabilities as to whether the enterprise is liable for them as at the reference date and whether the creditors exist. On such basis, the valuation is determined based on the effective amount of liabilities payable as at the based date.

..) . . . e . . .

1. I r e y m e r

The income approach is to value an enterprise's assets as a whole on the basis of income capitalization, i.e., the net incomes expected to generate in the future are capitalized to derive the capital or investment amount as of the reference date. Under the income approach, the incomes from implication and utilization of target assets are consistent with the capitalization rate.

2. A e y e r m e r

We believe that income approach is a rational method for valuation of enterprise value. The reason lies in that the enterprise value is dependent on the future investment income and, under normal conditions for continuing as a going concern, investors may transfer but may not redeem their shareholdings, and may control or influence but may not occupy the assets of the investee. Meanwhile, with a focus on the future investment income from the investee, the investors are buying the business (instead of assets) of the investee, and the investment value is achieved through the future profits of the investee. On this ground, income approach is a rational method for valuation of enterprise value.

3. P r e e y r

This valuation is designed to value the assets of the enterprise as a whole in a complete and real course of business and market environment. As the valuation is based on the estimated future income from the assets and the selected discount rate, the target assets should meet the following preconditions:

- (1) The target assets should have the foundation and conditions for continued use or operation;
- (2) There should be a stable proportional relationship between the target assets and the income therefrom, and the future income and risks should be estimated and quantified.

4. G e e r e e e e y m

Based on the due diligence process and the subject entity's asset composition and characteristics of principal business, we took its financial statements for estimation of its equity capital value under the following general guidelines:

- (1) For assets and principal operations consolidated in financial statements, the expected income is estimated based on historical movements of business performance in recent years and their classification respectively, and the value of operating assets is derived on a discount basis.
- (2) For long-term equity investment, the value is calculated through an appropriate method.
- (3) For overage or non-operating assets (liabilities) included in financial statements but not considered in estimation of expected income (net cash flow), the valuation is estimated on a standalone basis.
- (4) Based on the overall enterprise value by adding up the aforesaid assets and liabilities and deducted by interest-bearing debts, the entire shareholders' equity of the subject entity is derived.

The valuation model is:

Value of entire shareholders' equity = Overall enterprise value – Interest-bearing debts

Overall enterprise value = Value of operating assets + Value of long-term equity investment + Value of non-operating assets and overage assets

$$P' = P - C + D + E$$

Where, P': Value of entire shareholders' equity

P: Value of operating assets

C: Value of operating interest-bearing debts

E: Value of long-term equity investment

D: Value of non-operating assets and overage assets and liabilities

Where, value of operating assets is calculated according to the following formula:

$$P = \sum_{t=1}^n \frac{F_t}{(1+i)^t} + \frac{F_n}{i(1+i)^n}$$

Where, P: Value of operating assets

F_t: Corporate free cash flow in Income Period t in the future

F_n: Corporate free cash flow in Year n in the future

n: Year n

t: Year t in the future

i: Discount rate (weighted average cost of capital)

5. Corporate free cash flow

Corporate free cash flow is estimated based on the free cash flow before interest and after tax, as calculated according to the following formula for the forecast period:

$$\text{Corporate free cash flow} = \text{Profit before interest and after tax} + \text{Depreciation and amortization} - \text{Capital expenditure} - \text{Working capital calls}$$

6. Income

Based on the assumption on continuing as a going concern, an unlimited term is adopted for the income period under this valuation.

7. Discount rate

Discount rate is a function of cash flow risks: the greater the risks, the higher the discount rate. In accordance with the matching principle of income amount and discount rate, we took the corporate free cash flow as the income amount, and took the weighted average cost of capital (WACC) as the discount rate.

$$\text{Formula: WACC} = K_e \times [E/(E + D)] + K_d \times (1 - T) \times [D/(E + D)]$$

Where, E: Equity market value

D: Debt market

Ke: Cost of equity capital

Kd: Cost of debt capital

T: Income tax rate on the subject entity

Cost of equity capital is arrived at based on the internationally accepted CAPM model:

$$\begin{aligned} \text{Formula: } K_e &= R_f + [E(R_m) - R_f] \times \beta + a \\ &= R_f + R_{pm} \times \beta + a \end{aligned}$$

Where, Rf: Risk-free return rate as at the reference date

E(Rm): Market expected earning rate

Rpm: Market risk premium

β: Systemic risk coefficient of equity

a: Enterprise-specific risk adjustment coefficient

8. $O = (E(R_m) - R_f) \times D$

Operating interest-bearing debts are determined based on the subject entity’s interest-bearing debts as at the reference date, including its short-term borrowings, long-term borrowings due within one year and long-term borrowings.

9. $N = E + D - O$

The valuation derived through income approach represents the value generated from operating assets, and does not include non-operating assets, overage assets and liabilities without contributing to income of the enterprise. Therefore, such amounts should be added back when determining the value of shareholders’ equity.

III. ALUATION ASSUMPTIONS

(I) P... ..

1. The business of the enterprise is and will be operating as a going concern; There will be no material change in its current scope of business as well as existing business activities and operations due to the changes in future industry policies;
2. The target assets will be continuously utilized in accordance with the current usage and use manner, scale, frequency, environment and other parameters; The enterprise will commit certain capital expenditures and maintenance costs each year to ensure normal use of the assets, and may continue as a going concern through continuous self compensations and updates;
3. The revenue generated in the future will basically be collected as scheduled without incurring any material bad debts; and the enterprise will be able to obtain adequate funding on a timely basis as and when the needs for financial supports arise in the future course of business;
4. There is no other material adverse impact arising from any unforeseeable factor or force majeure;
5. The inflation factor is not taken into consideration.

(II) General Assumptions

1. As of the valuation reference date, all examined and verified licences, use permits, letters of consent or other legal or administrative authorization documents issued by relevant local or national governments or organizations as required for the utilization of the assets, upon which this valuation is based, have been normally and legitimately used within their respective terms of validity as of the valuation reference date, and may be renewed or reissued (such as business licence) at any time upon expiry;
2. The enterprise has been in full compliance with the prevailing national and local laws and regulations; and the enterprise has responsibly fulfilled the duties as an asset owner and managed the assets in a competent and efficient manner;
3. Our valuation is based on the purchasing power of local currency as at 30 September 2012;
4. There will be no material change in political, economic and social environment, national industrial policies, interest rates, exchange rates and financial, fiscal and taxation policies in the regions where the parties to the Transaction are located;

I . VALUATION CONCLUSION

After implementing the aforesaid asset valuation procedures and methods and on the basis of continuing as a going concern, we set out the valuation of the entire

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Legal Representative of the Valuer:

Zhang Hongxin

Certified Public Appraiser:

Lei Chunyu

Certified Public Appraiser:

Huang Hongwei

China Appraisal Co., Ltd.

October 2012
Beijing, PRC



discounted future estimated cash flows so far as the calculations are concerned, have been properly compiled in accordance with the Assumptions. Our work does not constitute any valuation of Sichuan Dachuan and Sichuan Zhongneng.

Because the Valuation relates to discounted future estimated cash flows, no accounting policies of the Company have been adopted in its preparation. The Assumptions include hypothetical assumptions about future events and management actions which cannot be confirmed and verified in the same way as past results and these may or may not occur. Even if the events and actions anticipated do occur, actual results are still likely to be different from the Valuation and the variation may be material. Accordingly, we have not reviewed, considered or conducted any work on the reasonableness and the validity of the Assumptions and do not express any opinion whatsoever thereon.

OPINION

Based on the foregoing, in our opinion, the discounted future estimated cash flows, so far as the calculations are concerned, have been properly compiled, in all material respects, in accordance with the Assumptions.

D **T** **T**
C **P** **A**
Hong Kong

13 November 2012



Beijing Jinnan Clean Energy Power Co., Ltd.
北京 能清潔能源電力股份有限公司

(A limited liability company incorporated in the People's Republic of China)
(Stock Code: 00579)

13 November 2012

Listing Division
The Stock Exchange of Hong Kong Limited
11/F., One International Finance Centre
1 Harbour View Street
Central
Hong Kong

Dear Sirs,

**DISCLOSEABLE AND CONNECTED TRANSACTIONS
PROPOSED ACQUISITIONS OF 100% EQUITY INTERESTS IN
SICHUAN DACHUAN AND SICHUAN HONGNENG**

We refer to the valuation reports dated 31 October 2012 prepared by China Assets Appraisal in relation the valuations of Sichuan Dachuan and Sichuan Zhongneng, the valuation of which constitute profit forecasts under Rule 14.61 of the Listing Rules. Terms defined in the Circular shall have the same meanings in this letter unless the context otherwise requires.

We have reviewed the bases and assumptions based upon which the valuations of Sichuan Dachuan and Sichuan Zhongneng have been prepared and reviewed the valuations by China Assets Appraisal for which China Assets Appraisal is responsible. We have also considered the report from the reporting accountants of the Company, Deloitte Touche Tohmatsu, regarding whether the discounted future estimated cash flows of Sichuan Dachuan and Sichuan Zhongneng, so far as the calculations are concerned, have been properly complied, in all material respects, in accordance with their respective bases and assumptions.

On the basis of the foregoing, we are of the opinion that the valuations prepared by China Assets Appraisal have been made after due and careful enquiries.

Yours faithfully

For and on behalf of the Board of
BANK OF CHINA LIMITED
LU HONG
Chairman

1. RESPONSIBILIT STATEMENT

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

2. DIRECTORS' AND SUPER ISORS' INTERESTS

As at the Latest Practicable Date, none of the Directors, Supervisors and chief executive of the Company had any interest or short position in any shares, underlying shares of equity derivatives or debentures of the Company or its associated corporations (within the meaning of the SFO) (1) which were 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 were deemed or taken to have under the SFO) or (2) which were required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein or (3) which were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Companies to be notified to the Company and the Stock Exchange.

As at the Latest Practicable Date, none of the Directors or Supervisors had any interest, direct or indirect, in any asset which since 31 December 2011, the date to which the latest published audited financial statements of the Group were made up, have been acquired or disposed of by or leased to any member of the Group or are proposed to be acquired or disposed of by or leased to any member of the Group.

Save for Mr. LU Haijun, Mr. GUO Mingxing, Mr. XU Jingfu and Mr. LIU Guochen, concurrently serving as Directors and directors and/or management members of BEIH, as at the Latest Practicable Date, none of the Directors was a director or an employee of any shareholders of the Company or a company which has an interest or short position in shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO.

As at the Latest Practicable Date, none of the Directors or Supervisors was materially interested in any contract or arrangement to which any member of the Group was a party and which was significant to the business of the Group, apart from their service contracts.

BEIH, BDHG, BIEE and BSAMAC will abstain from voting at the EGM on the ordinary resolution approving the Proposed Acquisitions. BSAMAC, the holding entity of BEIH, is an associate of BEIH, BDHG and BIEE as defined in Chapter 1 of the Listing Rules. As at the Latest Practicable Date, BEIH, BDHG, BIEE and BSAMAC held, in the aggregate, 72.304% of the issued share capital of the Company with BEIH, BDHG, BIEE and BSAMAC, respectively, holding 67.958%, 0.261%, 0.437% and 3.648% of the issued share capital of the Company.

3. SER ICE CONTRACTS

As at the Latest Practicable Date, each of the Mr. LU Haijun, Mr. GUO Mingxing, Mr. XU Jingfu,

- (b) Each of the experts as referred to in the section headed “Qualification of Experts” in this appendix has given and has not withdrawn its written consents to the issue of this Circular with the inclusion of its advice, letters and references to their names and logos in the form and context in which it appears.
- (c) As at the Latest Practicable Date, each of the experts as referred to in the section headed “Qualification of Experts” in this appendix was not beneficially interested in the share capital of any member of the Group nor had any right, whether legally enforceable or not, to subscribe for or to nominate persons to subscribe for securities in any member of the Group and did not have any interest, either directly or indirectly, in any assets which have been, since 31 December 2011 (the date to which the latest published audited financial statements of the Company were made up), acquired or disposed of by or leased to or are proposed to be acquired or disposed of by or leased to any member of the Group.

8. GENERAL

- (a) Mr. KANG Jian and Ms. LEUNG Wai Han, Corinna are the joint company secretaries of the Company.
- (b) The Company’s registered office is at 1 Ziguang East Road, Room 118 Badaling Economic Development Zone Yanqing County, Beijing, the PRC and its principal place of business in Hong Kong is Level 28, Three Pacific Place, 1 Queen’s Road East, Hong Kong.
- (c) The Company’s H share registrar and transfer office of the Company in Hong Kong is Computershare Hong Kong Investor Services Limited, whose registered office is at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen’s Road East, Wanchai, Hong Kong.

9. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection at the office of the Company at Level 28, Three Pacific Place, 1 Queen’s Road East, Hong Kong during normal business hours from the date of this Circular up to and including the date of the EGM and at the EGM:

- (a) the ETA(1);
- (b) the ETA(2);
- (c) the ETA(3); and
- (d) the service contracts referred to in the section headed “Service Contracts” in this appendix.