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China Power International Development Limited

中國電力國際發展有限公司

(incorporated in Hong Kong with limited liability)

(Stock Code: 2380)

CONNECTED TRANSACTION

Acquisition of 55% Equity Interest in CP Huayuan

On 31 August 2021, the Company entered into the Equity Transfer Agreement with CPI Holding, pursuant to which the Company has conditionally agreed to acquire, and CPI Holding has conditionally agreed to sell, 55% of the equity interest of CP Huayuan, at the consideration of RMB60,716,370 (equivalent to approximately HK\$73,152,300, which is subject to adjustments on Completion.

CPI Holding is the controlling shareholder of the Company, which is interested in approximately 56.04% of the issued share capital of the Company. Accordingly, CPI Holding is a connected person of the Company and the Acquisition constitutes a connected transaction of the Company under Chapter 14A of the Listing Rules.

As certain applicable percentage ratios (as defined under Rule 14.07 of the Listing Rules) in respect of the Acquisition exceed 0.1% but fall below 5%, the Acquisition is therefore subject to the announcement and reporting requirements but is exempt from the independent shareholders' approval requirement under Chapter 14A of the Listing Rules.

Completion is conditional upon the satisfaction or, if applicable, waiver of the conditions precedent under the Equity Transfer Agreement. As the Acquisition may or may not proceed, shareholders and potential investors are advised to exercise caution when dealing in the shares of the Company.

BACKGROUND

Under the “The 14th Five-Year Plan for National Economic and Social Development and the Outline of Long-term Goals for 2035 of the PRC (《中國國民經濟和社會發展第十四個五年規劃和二零三五年遠景目標綱要》)”, it is set to build a safe and effective modern energy system with main focus on clean and low-carbon energy sources, to construct multi-energy complementary clean energy bases, and to promote raising the proportion of non-fossil fuel energy in total energy consumption.

Along with the Company's strategic goal to accelerate energy transition and development by further optimizing its energy structure and industrial layout, it intends to develop diversified energy services of asset-light operation including high-end nuclear energy inspection and maintenance business. The Company believes nuclear power is a safe, clean, low-carbon, and high-energy-density strategic energy source which will have a promising room for development during the "14th Five-Year" plan period. The Acquisition allows the Company to directly obtain the high-technical qualification of inspection and maintenance for nuclear power plants and to establish a high-end electricity services market.

THE EQUITY TRANSFER AGREEMENT

Date

31 August 2021

Parties

- (i) CPI Holding (as the Transferor); and
- (ii) the Company (as the Transferee).

Assets to be acquired

Pursuant to the Equity Transfer Agreement, the Company has conditionally agreed to acquire, and CPI Holding has conditionally agreed to sell, 55% of the equity interest of CP Huayuan.

CP Huayuan is a nuclear engineering contracting enterprise which has obtained the qualification of nuclear engineering professional contracting (核工程專業承包資質) and the national high-tech enterprise certification (國家高新技術企業證書) in the PRC. It mainly undertakes technical inspection and maintenance services for nuclear power stations and integrated intelligent energy business. Details of CP Huayuan's shareholding structure and financial information are set forth in the section below headed "INFORMATION OF CP HUAYUAN".

Consideration, basis of determination and payment terms

The consideration for the Acquisition is RMB60,716,370 (equivalent to approximately HK\$73,152,300).

The consideration of the Acquisition was arrived at after arm's length negotiations between the Transferor and the Transferee with reference to various factors including,

- (i) the unaudited net asset value of CP Huayuan of RMB95,993,190 as of 31 July 2021;
- (ii) the assessed value of the net asset of CP Huayuan based on the Asset Appraisal Report prepared by the Independent Appraiser as at 31 December 2020 using the assets-based approach of RMB110,393,400;
- (iii) the operating conditions, financial position and performance of CP Huayuan, as well as its trademarks and patents;

- (iv) the future business prospect and value proposition of CP Huayuan; and
- (v) the additional construction costs estimated to be paid for an arbitration (for details please refer to the section below headed “ARBITRATION”).

According to the Asset Appraisal Report, the value of CP Huayuan as at 31 December 2020 was adjusted by approximately RMB15,059,700, representing an increase in value of 15.8%, among which, the tangible assets and intangible assets of CP Huayuan were adjusted to their relevant value marked to the market. Details are as follows.

CP Huayuan	RMB'000	RMB,000
Net asset value per audited report as at 31 December 2020		95,333.7
Adjustments:		
(i) Tangible assets		
- Property, plant and equipment	10,542.5	
- Other receivables	(200.0)	10,342.5
(ii) Intangible assets		
- Land-use right	3,129.3	
- Trademarks and patents	1,587.9	4,717.2
Adjusted valuation as at 31 December 2020		110,393.4

The Asset Appraisal Report using the asset-based approach have been used as the benchmark for the consideration of the Acquisition because (i) the valuation is recognized as valid and remains effective within one year from the base date of the Asset Appraisal Report (i.e. 31 December 2020) pursuant to the prevailing Interim Measures for the Administration of Assessment of State-owned Assets of Enterprises (企業國有資產評估管理暫行辦法) in the PRC, and more importantly (ii) the Company expects there will not be substantial changes in value of those tangible and intangible assets being evaluated from the base date of the Asset Appraisal Report to the date of Completion.

Pursuant to the Equity Transfer Agreement, the consideration of the Acquisition will be adjusted with the change in net asset value of CP Huayuan by reference to its finalized Audited Report for the Transitional Period. As the change in the net asset value during the Transitional Period will be closely equivalent to the amount of profit or loss of CP Huayuan during the Transitional Period which shall be borne by the Transferor according to its 55% equity interest, and thus the Company expects there shall not be any material change to the final consideration of the Acquisition.

The consideration of the Acquisition will be payable by the Transferee in a lump sum through bank remittance to a designated bank account of the Transferor within 20 working days after the conditions precedent of the Equity Transfer Agreement have been fulfilled or waived.

The Company will finance the consideration of the Acquisition by internal resources of the Group.

Conditions precedent

The Acquisition is conditional upon satisfaction (or waiver, where applicable) of the following conditions:

- (i) the completion of all necessary documentation and formalities for registration or filing in accordance with the requirements of the regulatory authorities in the PRC to effect the change of the 55% equity interest in CP Huayuan, including the change of industrial and commercial registration, the changes of directors, supervisors and managers of CP Huayuan;
- (ii) the list of assets, production equipment, materials, tools and spare parts, and the list of all contracts and contract-related settlement documents and all document files of CP Huayuan have been completed counting and inspection by both parties;
- (iii) the list of all the financial data and accounting records, all bank accounts, seals and licenses of CP Huayuan have been completed counting and inspection by both parties;
- (iv) the written resolutions from the board of directors of CP Huayuan confirming the approval of the Acquisition and the written consent from the Transferee for accepting the rights and responsibilities of a new joint venture contract (a new shareholders' agreement) have been obtained;
- (v) the registration of the property rights of State-funded enterprises (國家出資企業產權登記) of CP Huayuan has been completed;
- (vi) the Transferor shall procure CP Huayuan to sign supplementary labour contracts with its core employees with confidentiality obligations and anti-competition restrictions; and
- (vii) the representations and warranties made by the Transferor under the Equity Transfer Agreement are true and accurate and not misleading in any material aspects at the time of Completion.

Completion

Subject to the fulfilment of the above conditions precedent, Completion is deemed to be done when all the formalities of the 55% equity interest transfer and the corresponding changes to the articles of association of CP Huayuan in connection with the Acquisition have been completed and both parties shall execute a confirmation for transfer of the management rights. The last day on which all the conditions must be satisfied or waived, where applicable, is 180 working days after the Equity Transfer Agreement became effective (the “**Cut-off Date**”). In the event that the Completion is not done on or before the Cut-off Date, the Transferee shall have the right to terminate the Equity Transfer Agreement and shall bear no obligation or any liabilities to the Transferor whatsoever.

Upon Completion, CP Huayuan will become a subsidiary of the Company and its financial results will be consolidated to the accounts of the Group.

ARBITRATION

CP Huayuan has involved in an unsettled arbitration case with Shandong Xiantong Installation Co., Ltd.* (山東省顯通安裝有限公司, “**Shandong Xiantong**”, as the arbitration applicant) in relation to a dispute over a construction contract. In September 2016, CP Huayuan entered into a contracting agreement with Shandong Xiantong (being the contractor) for construction of a R&D center and a warehouse for CP Huayuan at the consideration of RMB23,904,525.75. In August 2018, Shandong Xiantong submitted an arbitration application to the Arbitration Commission of Yantai (“**Arbitration Commission**”) alleged and demanded CP Huayuan to pay an amount of RMB73,177,146.96 for the substantial increase in contracting fee for the delay in construction and applied to freeze its assets as property preservation simultaneously.

In December 2018, CP Huayuan engaged Shandong Tianyuan Engineering Cost Consulting Co., Ltd.* (山東天元工程造價諮詢有限公司), an independent third party, to prepare an analysis report on the completion cost of the disputed construction contract, and the assessed result was RMB26,183,128.76.

In May 2020, the Arbitration Commission appointed Shandong Tongyuan Engineering Cost Consulting Co., Ltd.* (山東通元工程造價諮詢事務所有限公司), an independent third party, to prepare a forensic appraisal report to assess the economic value of the completion cost for the disputed construction contract (the “**Forensic Appraisal Report**”). The final appraised result concluded that (i) the completion cost of work done within the specified scope of the construction contract and were verified and signed by both contracting parties was RMB26,413,250.69; and (ii) the aggregated cost of those items that were not within the specified scope of the construction contract and had not been approved or signed by CP Huayuan and/or the project supervisor was RMB10,313,464.91.

In May 2021, the Company appointed Shenzhen Dibo Enterprise Risk Management Technology Co., Ltd.* (深圳市迪博企業風險管理技術有限公司), an independent third party engaging in provision of internal control, risk management and risk assessment services, to conduct a risk assessment report for the purpose of the Acquisition (the “**Risk Assessment Report**”). According to the conclusion of the Risk Assessment Report, the risk level associated with the above arbitration is within a controllable and acceptable range based on its due diligence studies of CP Huayuan. In June 2021, the Company also engaged an independent law firm to conduct a legal due diligence to get a thorough understanding the legal status of CP Huayuan before proceeding the Acquisition.

As at the date of this announcement, the Arbitration Commission has not yet made an adjudication. Six property rights and bank deposits of RMB4,400,649.98 of CP Huayuan are being frozen and pending for final judgement.

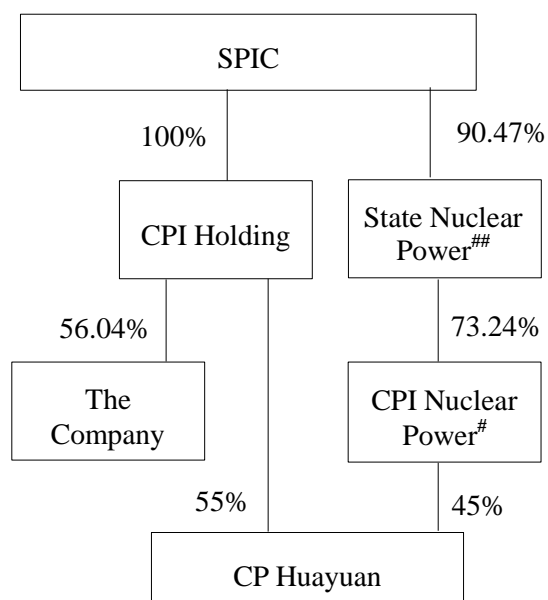
The Company expects that the Arbitration Committee will make a final adjudication based on the Forensic Appraisal Report and the evidence of this case in the near future. Based on the internal assessment, legal due diligence and the Risk Assessment Report, the Company had considered very carefully the specific risks of the above arbitration case and taken such risks in the accounts of the consideration for the Acquisition. The Board believes that the arbitration has no material adverse impact on the normal course of operation and financial position of the Group.

INFORMATION OF CP HUAYUAN

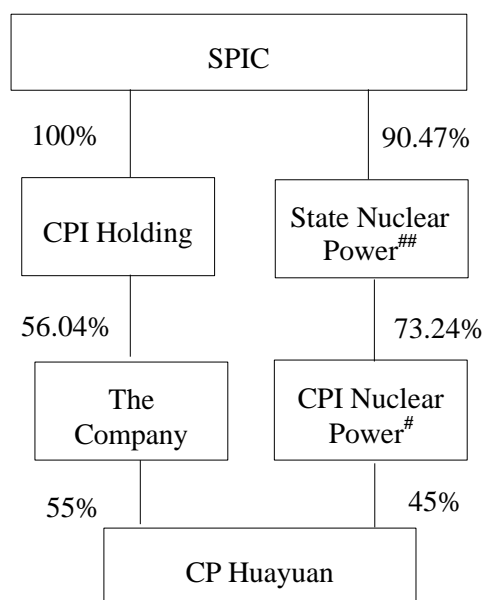
CP Huayuan is a limited liability company incorporated in the PRC in April 2010 with a registered and paid up capital of RMB100,000,000 and is owned as to 55% by CPI Holding and 45% by CPI Nuclear Power Co., Ltd.* (中電投核電有限公司, “**CPI Nuclear Power**”) respectively. It is principally engaged in commissioning, maintenance, inspection, testing, overhaul supervision, and refueling inspection and repair of nuclear island (the main nuclear reactor system), conventional island (the steam turbine generator circuit system), and other facilities in nuclear power plants; operation and maintenance of auxiliary equipment in nuclear power plants; provision of technical support and consulting services related to nuclear power plants; EPC contracting for nuclear power.

The following diagrams illustrate the shareholding structure of CP Huayuan as at the date of this announcement and immediately upon Completion:

Prior to Completion of the Equity Transfer



Upon Completion of the Equity Transfer



CPI Nuclear Power is a direct subsidiary of State Nuclear Power Technology Corporation Ltd.* (國家核電技術有限公司, “**State Nuclear Power**”) and an indirect subsidiary of SPIC. It is a limited liability company incorporated in the PRC in December 2004 and is principally engaged in investment and development of nuclear power projects, management and operation of nuclear power assets, construction, operation and maintenance of nuclear power plants, as well as technical consulting and support services.

State Nuclear Power is a direct subsidiary of SPIC. It is a limited liability company incorporated in the PRC in May 2007 and is principally engaged in engineering survey, engineering design, engineering management services, engineering supervision, engineering contracting, environmental assessment, radiological protection assessment and monitoring of radioactive pollution sources of the third generation of nuclear power, nuclear engineering and related field services, and provision of technical support and consulting services for the construction and operation of nuclear power plants.

Set out below is the financial information of CP Huayuan prepared in accordance with the prevailing generally accepted accounting principles in the PRC:

	For the year ended 31 December 2019 (RMB'000)	For the year ended 31 December 2020 (RMB'000)	For the seven months ended 31 July 2021 (RMB'000)
	<i>Audited</i>	<i>Audited</i>	<i>Unaudited</i>
Net profit before taxation	190	2,379	659
Net profit after taxation	190	2,379	659

	As at 31 December 2019 (RMB'000)	As at 31 December 2020 (RMB'000)	As at 31 July 2021 (RMB'000)
	<i>Audited</i>	<i>Audited</i>	<i>Unaudited</i>
Net assets	92,955	95,334	95,993

INFORMATION OF THE GROUP AND CPI HOLDING

The Company is a core subsidiary of SPIC for conventional energy business. SPIC (together with its subsidiaries) is one of the five major electricity generation groups and is the only one integrated energy group which simultaneously owns coal-fired power, hydropower, nuclear power and renewable energy resources in the PRC.

The Group is principally engaged in generation and sale of electricity in Mainland China, including investment, development, operation and management of hydropower, wind power, photovoltaic power and coal-fired power plants. Its businesses are located in the major power grid regions of China.

CPI Holding is the immediate holding company of the Company and a wholly-owned subsidiary of SPIC. It is principally an investment holding company. SPIC is the ultimate controlling shareholder of the Company and CPI Holding.

SPIC is principally engaged in investment holding, electricity generation and sales, and provision of various energy related services, including but not limited to EPC contracting, project planning, survey, design and consulting, trading and manufacturing of materials and equipment required by power plants, and their related operational management, research and development in the PRC and overseas countries.

REASONS FOR AND BENEFITS OF THE ACQUISITION

Under the national strategic goal of achieving “Carbon Peak and Carbon Neutrality” in the PRC, clean and low-carbon transformation process of China’s energy and power system will further accelerate. As a clean energy with near zero emissions, nuclear power will have a broader space for future development. The Acquisition allows the Company to take advantage of the resources of the other shareholder (CPI Nuclear Power) of CP Huayuan and its high-technical qualification to rapidly expand the electricity services for nuclear power market, build a high-end asset-light nuclear power overhaul operation and maintenance platform, and thus enhance the Company’s value in the long run.

Having considered all the above factors (including the basis of determining the consideration, the relevant reports and their assumptions, and the arbitration case) in relation to the Acquisition, the Directors (including the independent non-executive Directors) are of the view that, as far as the shareholders of the Company are concerned, the terms of the Equity Transfer Agreement has been conducted on normal commercial terms, fair and reasonable and in the interests of the Company and its shareholders as a whole.

None of the Directors has a material interest in the Equity Transfer Agreement or is required to abstain from voting on the relevant Board resolutions.

COMPLIANCE WITH THE LISTING RULES

As at the date of this announcement, CPI Holding is the controlling shareholder of the Company, which is interested in approximately 56.04% of the issued share capital of the Company. Accordingly, CPI Holding is a connected person of the Company and the Acquisition constitutes a connected transaction of the Company under Chapter 14A of the Listing Rules.

As certain applicable percentage ratios (as defined under Rule 14.07 of the Listing Rules) in respect of the Acquisition exceed 0.1% but fall below 5%, the Acquisition is therefore subject to the announcement and reporting requirements but is exempt from the independent shareholders' approval requirement under Chapter 14A of the Listing Rules.

DEFINITIONS

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

“Acquisition”	the proposed acquisition of 55% equity interest in CP Huayuan by the Company pursuant to the Equity Transfer Agreement
“Asset Appraisal Report”	the asset appraisal report with regard to the value of the equity interest of CP Huayuan as at 31 December 2020, prepared by the Independent Appraiser
“Audited Report for the Transitional Period”	an audited report to be prepared by an independent audit firm on CP Huayuan’s financial statements for the period from 1 January 2021 (i.e. subsequent to the Asset Appraisal Report) to the date of Completion (the “Transitional Period”) as agreed by the Transferor and the Transferee
“Board”	the board of Directors of the Company
“Company” or “Transferee”	China Power International Development Limited, a company incorporated in Hong Kong with limited liability whose shares are listed on the Main Board of the Stock Exchange

“Completion”	the transfer of the management rights of CP Huayuan after satisfaction or, if applicable, waiver of the conditions precedent under the Equity Transfer Agreement
“CP Huayuan”	CP Huayuan Nuclear Power Engineering Technical Co., Ltd.* (中電華元核電工程技術有限公司), a company incorporated in PRC with limited liability, a 55%-owned subsidiary of CPI Holding
“CPI Holding” or “Transferor”	China Power International Holding Limited, a company incorporated in Hong Kong with limited liability, the controlling shareholder of the Company and a wholly-owned subsidiary of SPIC
“Director(s)”	director(s) of the Company
“Equity Transfer”	the transfer of 55% equity interest of CP Huayuan by the Transferor to the Transferee pursuant to the Equity Transfer Agreement
“Equity Transfer Agreement”	the conditional sale and purchase agreement dated 31 August 2021 made between the Company and CPI Holding, relating to the Acquisition
“Group”	the Company and its subsidiaries from time to time
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“Hong Kong”	Hong Kong Special Administrative Region of the PRC
“Independent Appraiser”	China Enterprise Appraisals Co., Ltd.* (北京中企華資產評估有限責任公司)
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“PRC” or “China” or “State”	the People’s Republic of China, which for the purpose of this announcement, excludes Hong Kong, Macau Special Administrative Region of the PRC and Taiwan
“RMB”	Renminbi, the lawful currency of the PRC

“SPIC” State Power Investment Corporation Limited* (國家電力投資集團有限公司), the ultimate controlling shareholder of the Company, a wholly State-owned enterprise established by the approval of the State Council of the PRC* (中華人民共和國國務院)

“Stock Exchange” The Stock Exchange of Hong Kong Limited

* *English or Chinese translation, as the case may be, is for identification only*

This announcement contains translation between Renminbi and Hong Kong dollars at RMB0.83 to HK\$1.00. The translation shall not be taken as representation that the Renminbi could actually be converted into Hong Kong dollars at that rate, or at all.

By Order of the Board
China Power International Development Limited
HE Xi
Chairman

Hong Kong, 31 August 2021

As at the date of this announcement, the directors of the Company are: executive directors HE Xi and GAO Ping, non-executive directors WANG Xianchun and ZHOU Jie, and independent non-executive directors LI Fang, YAU Ka Chi and HUI Hon Chung, Stanley.