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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 under the Companies Ordinance)

(Stock Code: 2380)

CONTINUING CONNECTED TRANSACTIONS

**COAL SUPPLY FRAMEWORK AGREEMENT
SIGNED WITH CHINA COAL ENERGY**

**Independent financial adviser to
the Independent Board Committee and the Shareholders**



SHENYIN WANGUO CAPITAL (H.K.) LIMITED

A letter from the Board is set out on pages 3 to 8 of this circular. A letter from the Independent Board Committee containing its recommendation to the Shareholders is set out on pages 9 to 10 of this circular. A letter from Shenyin Wanguo containing its advice to the Independent Board Committee and the Shareholders is set out on pages 11 to 17 of this circular.

7 June 2013

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DEFINITIONS

In this circular, unless the context otherwise requires, the following expressions shall have the meanings set out below:

“Board”	the board of Directors of the Company;
“China Coal Energy”	Ching Coal Energy Company Limited* (中國中煤能源股份有限公司), a joint stock company incorporated in the PRC with limited liability whose shares are listed on The Stock Exchange of Hong Kong Limited and Shanghai Stock Exchange;
“Coal Supply Framework Agreement”	the framework agreement for supply of the coal between the Company and China Coal Energy dated 16 May 2013;
“Company”	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;
“Continuing Connected Transactions”	the transactions contemplated under the Coal Supply Framework Agreement;
“CPDL”	China Power Development Limited, a company incorporated in British Virgin Islands with limited liability and a wholly-owned subsidiary of CPI Holding;
“CPI Group”	China Power Investment Corporation* (中國電力投資集團公司), a wholly State-owned enterprise established by the State Council of the PRC* (中華人民共和國國務院);
“CPI Holding”	China Power International Holding Limited, a company incorporated in Hong Kong and a wholly-owned subsidiary of CPI Group;
“CP Shentou”	China Power Shentou Power Generating Company Limited* (中電神頭發電有限責任公司), a company incorporated in the PRC and a 80%-owned subsidiary of the Company;
“Director(s)”	the director(s) of the Company;
“Group”	the Company and its subsidiaries from time to time;
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong;
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC;

DEFINITIONS

“Independent Board Committee”	an independent committee of the Board comprising all the independent non-executive Directors, namely Mr. KWONG Che Keung, Gordon, Mr. LI Fang and Mr. TSUI Yiu Wa, Alec;
“JV Agreement”	the agreement in relation to the formation of CP Shentou dated 2 November 2011 between the Company and China Coal Energy;
“Latest Practicable Date”	4 June 2013, being the latest practicable date prior to printing of this circular for ascertaining certain information in this circular;
“Listing Rules”	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited;
“PRC” or “China”	the People’s Republic of China. Geographical reference in this circular to the PRC or China excludes Hong Kong, Macau Special Administrative Region and Taiwan;
“Proposed Annual Caps”	the maximum amounts payable under the Coal Supply Framework Agreement for the three financial years ending 31 December 2013, 2014 and 2015;
“RMB”	Renminbi, the lawful currency of the PRC;
“SFO”	the Securities and Futures Ordinance (Cap. 571 of the Laws of Hong Kong);
“Shareholders”	persons whose names appear on the register of members as registered holders of the shares of the Company;
“Shenyin Wanguo”	Shenyin Wanguo Capital (H.K.) Limited, the independent financial adviser to the Independent Board Committee and the Shareholders in respect of the Coal Supply Framework Agreement, the Continuing Connected Transactions and the Proposed Annual Caps;
“Stock Exchange”	The Stock Exchange of Hong Kong Limited; and
“%”	per cent.

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

LETTER FROM THE BOARD



CHINA POWER INTERNATIONAL DEVELOPMENT LIMITED 中國電力國際發展有限公司

(incorporated in Hong Kong with limited liability under the Companies Ordinance)

(Stock Code: 2380)

Executive Directors:

Ms. LI Xiaolin (*Chairman and Chief Executive Officer*)

Mr. GU Dake (*President*)

Non-executive Directors:

Mr. GUAN Qihong

Mr. WANG Zichao

Independent Non-executive Directors:

Mr. KWONG Che Keung, Gordon

Mr. LI Fang

Mr. TSUI Yiu Wa, Alec

Registered Office:

Suite 6301, 63/F., Central Plaza

18 Harbour Road

Wanchai

Hong Kong

7 June 2013

To the Shareholders,

Dear Sir/Madam,

CONTINUING CONNECTED TRANSACTIONS

INTRODUCTION

Reference is made to the announcement of the Company dated 16 May 2013 where the Company announced that the Company and China Coal Energy entered into the Coal Supply Framework Agreement in relation to the supply of coal to CP Shentou.

The Company and China Coal Energy own 80% and 20% equity interests in CP Shentou respectively which was established in January 2012 under the JV Agreement dated 2 November 2011. As China Coal Energy is a substantial shareholder of CP Shentou, it therefore has become a connected person of the Company under the Listing Rules. Accordingly, the transactions contemplated under the Coal Supply Framework Agreement constitute continuing connected transactions of the Company under Chapter 14A of the Listing Rules.

CPI Holding and CPDL, which held 1,532,827,927 and 1,996,500,000 shares of the Company respectively (together representing approximately 62.17% of the total issued share capital of the

LETTER FROM THE BOARD

Company as at the Latest Practicable Date), have approved the Coal Supply Framework Agreement, the Continuing Connected Transactions and the Proposed Annual Caps in accordance with Rule 14A.43 of the Listing Rules. The purpose of this circular is to provide you with further information on the Coal Supply Framework Agreement, the Continuing Connected Transactions and the Proposed Annual Caps and other information required under the Listing Rules.

COAL SUPPLY FRAMEWORK AGREEMENT

Pursuant to the JV Agreement, it was agreed between the parties that upon the establishment of CP Shentou, China Coal Energy will ensure the supply of coal required by CP Shentou by way of long-term agreement, at a favourable price as compared to the prevailing coal prices supplied to the power plants of the five large national power generation groups in the same region. As the first two 600MW super-critical coal-fired power generating units of CP Shentou are expected to commence commercial operation in May and July this year, the Company entered into the Coal Supply Framework Agreement with China Coal Energy on 16 May 2013.

Date

16 May 2013

Parties

- (i) China Coal Energy (as the supplier); and
- (ii) the Company (as the purchaser).

Principal terms

Pursuant to the Coal Supply Framework Agreement, China Coal Energy will supply coal to CP Shentou. The term of the Coal Supply Framework Agreement will commence on the date when the Coal Supply Framework Agreement is signed and sealed and all the approvals and waivers required under the Listing Rules are obtained (if necessary) and expire on 31 December 2015 (both dates inclusive).

The parties agreed that the purchase price of coal shall be determined with reference to national industrial policy of The Central People's Government of the PRC as well as industry and market conditions in the PRC. It has also been agreed that the parties thereto will from time to time determine the price, quality, quantity and the transportation method of the coal to be supplied by China Coal Energy, and subject to the parties' discussion and negotiation at arm's length basis.

CP Shentou will settle the purchase of coal with China Coal Energy on a monthly basis or such other payment terms as both parties will agree from time to time in contracts.

LETTER FROM THE BOARD

Proposed Annual Caps and rationale

The aggregate annual amount of coal to be supplied by China Coal Energy is estimated to be up to (1) 2,500,000 tonnes for the financial year ending 31 December 2013, (2) 3,600,000 tonnes for the financial year ending 31 December 2014 and (3) 3,600,000 tonnes for the financial year ending 31 December 2015.

The Directors estimate that the Proposed Annual Caps for the three financial years ending 31 December 2013, 2014 and 2015 will not exceed RMB700,000,000, RMB1,080,000,000 and RMB1,116,000,000 (equivalent to approximately HK\$875,000,000, HK\$1,350,000,000 and HK\$1,395,000,000) respectively.

The Proposed Annual Caps have been determined by both parties to the Coal Supply Framework Agreement after arm's length negotiations with reference to the following factors:

- (1) the current market price of the local coal exchange or market in Shanxi Province or nearby provinces in the PRC;
- (2) the estimated increase in coal prices after taking into account the recent low coal prices, the effect of the possible increases in coal prices in the future;
- (3) the quality of the coal;
- (4) the estimated calorific value of coal to be supplied by China Coal Energy catering for the two 600MW super-critical coal-fired power generating units of CP Shentou;
- (5) the estimated transportation fees based on the distance between the relevant coal mines of China Coal Energy and CP Shentou;
- (6) the historical purchases of coal by the Group from independent third parties based on the then prevailing market prices, quality of coal, among others, calorific value, and the transportation method and cost involved;
- (7) the estimated increase in the demand for electricity based on the historical average growth rate in the past three years in China and the forecasts made by China Electricity Council; and
- (8) the estimated purchase of coal from China Coal Energy based on the estimated amount of electricity to be generated by the two 600MW super-critical coal-fired power generating units of CP Shentou for each of the three financial years of 2013, 2014 and 2015.

LETTER FROM THE BOARD

REASONS FOR AND BENEFITS OF THE CONTINUING CONNECTED TRANSACTIONS

The promotion of coal and electricity joint operation is beneficial in respect of ensuring fuel supply and dilution of operational risks of the Company. The entering into the Coal Supply Framework Agreement will help (i) obtaining continuous and stable coal supply, (ii) getting favourable prices by bulk purchases, and (iii) minimizing transportation costs as the relevant coal mines of China Coal Energy are located in the closest proximity of CP Shentou and thus maintaining its competitive advantage in terms of operational efficiency.

The Group will follow the terms set out in the Coal Supply Framework Agreement, the rationale for the Proposed Annual Caps and all the internal control procedures (including quotations from independent third parties) in order to maintain the fairness of the prices and terms of all coal purchases from China Coal Energy are no less favourable than those available from independent third parties.

INFORMATION ON CHINA COAL ENERGY

China Coal Energy is a joint stock company incorporated in the PRC with limited liability. Its shares are listed on both the Stock Exchange and the Shanghai Stock Exchange. It is the second largest coal enterprise and the largest manufacturer of coal mining equipment in China and is mainly engaged in coal production and trade, coal chemical, power generation and coal mining equipment manufacturing. Its ultimate holding company is China National Coal Group Corporation* (中國中煤能源集團公司) which was established in July 1982, is one of the key State-owned enterprises under the State-owned Assets Supervision and Administration Commission of the State Council of the PRC* (中華人民共和國國務院).

INFORMATION ON THE GROUP

The Company is the listed flagship company outside the PRC of the CPI Group. The CPI Group is one of the five national power generation groups in China, and operates power plants of CPI Group spread across 28 provinces, municipalities and autonomous regions in the PRC. CPI Holding is wholly-owned by CPI Group and owns and operates coal-fired and hydroelectric power plants in the PRC. As at the Latest Practicable Date, CPI Group, through CPI Holding and CPDL, owned approximately 62.17% of the total issued share capital of the Company.

The principal business of the Group is to develop, construct, own, operate and manage large power plants in the PRC. The Company owns and operates high-capacity coal-fired power plants and hydro-power plants. The Company also manages on behalf of its controlling shareholder two other power plants in the PRC.

COMPLIANCE WITH THE LISTING RULES

The Company and China Coal Energy own 80% and 20% equity interests in CP Shentou respectively which was established in January 2012. As China Coal Energy is a substantial shareholder of CP Shentou, it therefore has become a connected person of the Company under the Listing Rules. Accordingly, the transactions contemplated under the Coal Supply Framework Agreement constitute continuing connected transactions of the Company under Chapter 14A of the Listing Rules.

LETTER FROM THE BOARD

As the applicable percentage ratios as defined under Chapter 14 of the Listing Rules in respect of the Proposed Annual Caps of the Continuing Connected Transactions are more than 5%, they constitute non-exempt continuing connected transactions which are subject to the announcement, reporting and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

None of the Directors has a material interest in the Coal Supply Framework Agreement and none of them had abstained from voting on the relevant Board resolutions in this respect.

An Independent Board Committee (comprising all the independent non-executive Directors) has been established to advise the Shareholders in respect of the terms of the Coal Supply Framework Agreement, the Continuing Connected Transactions and the Proposed Annual Caps. Shenyin Wanguo has been appointed as the independent financial adviser to advise the Independent Board Committee and the Shareholders in this regard.

SHAREHOLDERS' APPROVAL

To the best knowledge, information and belief of the Directors, neither China Coal Energy nor any of its associates holds any shares of the Company and no Shareholder and its associates (as defined under the Listing Rules) is required to abstain from voting if the Company were to convene a general meeting for the approval of the Coal Supply Framework Agreement, the Continuing Connected Transactions and the Proposed Annual Caps.

The Company has obtained a joint written shareholders' approval from CPI Holding and CPDL, which held 1,532,827,927 and 1,996,500,000 shares of the Company respectively (together representing approximately 62.17% of the total issued share capital of the Company as at the Latest Practicable Date), approving the Coal Supply Framework Agreement, the Continuing Connected Transactions and the Proposed Annual Caps.

Accordingly, pursuant to Rule 14A.43 of the Listing Rules, the Company has made an application to the Stock Exchange for a shareholders' meeting waiver and the Stock Exchange has granted such waiver to the Company. The joint written shareholders' approval from CPI Holding and CPDL will therefore be relied on in lieu of holding a physical shareholders' meeting for approving the Coal Supply Framework Agreement, the Continuing Connected Transactions and the Proposed Annual Caps.

RECOMMENDATION

The Directors are of the view that the Coal Supply Framework Agreement was entered into in the ordinary course of the Company's business, on normal commercial terms, fair and reasonable and in the best interests of the Company and the Shareholders as a whole.

Your attention is drawn to the letter from the Independent Board Committee and the letter from Shenyin Wanguo set out in this circular for further information.

LETTER FROM THE BOARD

GENERAL INFORMATION

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

By order of the Board
China Power International Development Limited
LI Xiaolin
Chairman

LETTER FROM THE INDEPENDENT BOARD COMMITTEE



CHINA POWER INTERNATIONAL DEVELOPMENT LIMITED

中國電力國際發展有限公司

(incorporated in Hong Kong with limited liability under the Companies Ordinance)

(Stock Code: 2380)

Independent Board Committee

Mr. KWONG Che Keung, Gordon

Mr. LI Fang

Mr. TSUI Yiu Wa, Alec

7 June 2013

To the Shareholders,

Dear Sir/Madam,

CONTINUING CONNECTED TRANSACTIONS

We refer to the circular (the “**Circular**”) dated 7 June 2013 issued by the Company to its shareholders of which this letter forms part. Terms defined in the Circular shall have the same meanings when used in this letter, unless the context otherwise requires.

The Independent Board Committee, comprising all the independent non-executive Directors, has been established to advise the Shareholders as to whether, in its view, the Coal Supply Framework Agreement has been entered into in the ordinary course of the Company’s business and that the terms of the Coal Supply Framework Agreement, the Continuing Connected Transactions and the Proposed Annual Caps are on normal commercial terms, fair and reasonable and in the best interests of the Company and the Shareholders as a whole.

The terms and reasons for the Coal Supply Framework Agreement, the Continuing Connected Transactions and the Proposed Annual Caps are summarised in the letter from the Board set out on pages 3 to 8 of the Circular.

We also draw your attention to the letter from Shenyin Wanguo in the Circular containing its advice in respect of the Coal Supply Framework Agreement, the Continuing Connected Transactions and the Proposed Annual Caps.

LETTER FROM THE INDEPENDENT BOARD COMMITTEE

The Independent Board Committee, after reviewing the terms of the Coal Supply Framework Agreement as well as taking into account, among other things, the views of Shenyin Wanguo, the independent financial adviser to the Independent Board Committee and the Shareholders, considers that the Coal Supply Framework Agreement has been entered into in the ordinary course of the Company's business and that the terms of the Coal Supply Framework Agreement, the Continuing Connected Transactions and the Proposed Annual Caps are on normal commercial terms, fair and reasonable and in the best interests of the Company and the Shareholders as a whole.

Yours faithfully,

For and on behalf of the

Independent Board Committee

China Power International Development Limited

Mr. KWONG Che Keung, Gordon

Mr. LI Fang

Mr. TSUI Yiu Wa, Alec

LETTER FROM SHENYIN WANGUO

The following is the text of the letter of advice from the independent financial adviser to the Independent Board Committee and the Shareholders prepared for the purpose of incorporation in this circular.



Shenyin Wanguo Capital (H.K.) Limited

28th Floor, Citibank Tower
Citibank Plaza
3 Garden Road, Central
Hong Kong

7 June 2013

To: *The Independent Board Committee and the Shareholders of China Power International Development Limited*

Dear Sirs,

CONTINUING CONNECTED TRANSACTIONS

I. INTRODUCTION

We refer to our appointment as the independent financial adviser of the Company to advise the Independent Board Committee and the Shareholders in respect of the terms of the Continuing Connected Transactions contemplated under the Coal Supply Framework Agreement and the Proposed Annual Caps. Details of the Continuing Connected Transactions are set out in the letter from the Board in the circular of the Company dated 7 June 2013 (the “**Letter from the Board**”) to the Shareholders (the “**Circular**”), of which this letter forms part. Terms used in this letter shall have the same meanings as those defined in the Circular unless the context herein requires otherwise.

The Company entered into the Coal Supply Framework Agreement with China Coal Energy on 16 May 2013, pursuant to which China Coal Energy has agreed to supply coal to CP Shentou. The term of the Coal Supply Framework Agreement will commence on the date when the Coal Supply Framework Agreement is signed and sealed and all the approvals and waivers required under the Listing Rules are obtained (if necessary) and expire on 31 December 2015 (both dates inclusive).

CP Shentou was formed in January 2012 under the JV Agreement dated 2 November 2011, and is owned as to 80% and 20% by the Company and China Coal Energy respectively. As China Coal Energy is a substantial shareholder of CP Shentou, it therefore has become a connected person of the Company under the Listing Rules. As stated in the Letter from the Board, the Continuing Connected Transactions constitute non-exempt continuing connected transactions which are subject to the announcement, reporting and independent shareholders’ approval requirements under Chapter 14A of the Listing Rules.

LETTER FROM SHENYIN WANGUO

To the best knowledge, information and belief of the Directors, neither China Coal Energy nor any of its associates holds any shares of the Company and no Shareholder and its associates (as defined under the Listing Rules) is required to abstain from voting if the Company were to convene a general meeting for the approval of the Coal Supply Framework Agreement, the Continuing Connected Transactions and the Proposed Annual Caps.

The Company has obtained a joint written shareholders' approval from CPI Holding and CPDL, which held 1,532,827,927 and 1,996,500,000 shares of the Company respectively (together representing approximately 62.17% of the total issued share capital of the Company as at the Latest Practicable Date), approving the Coal Supply Framework Agreement, the Continuing Connected Transactions and the Proposed Annual Caps. Accordingly, pursuant to Rule 14A.43 of the Listing Rules, the Company has made an application to the Stock Exchange for a shareholders' meeting waiver and the Stock Exchange has granted such waiver to the Company. The joint written shareholders' approval from CPI Holding and CPDL will therefore be relied on in lieu of holding a physical shareholders' meeting for approving the Coal Supply Framework Agreement, the Continuing Connected Transactions and the Proposed Annual Caps.

The Independent Board Committee comprising all the independent non-executive Directors, namely Mr. Kwong Che Keung, Gordon, Mr. Li Fang and Mr. Tsui Yiu Wa, Alec, has been established to advise the Shareholders in respect of the terms of the Coal Supply Framework Agreement, the Continuing Connected Transactions and the Proposed Annual Caps. We have been appointed as the independent financial adviser to advise the Independent Board Committee and the Shareholders in this regard.

II. BASIS OF OPINION

In formulating our opinion, we have relied upon the information, facts and representations contained in the Circular and those supplied or made available to us by the Directors and management of the Company for which they are solely responsible, and to their information and knowledge, were true, accurate and complete in all respects at the time they were given or made and continue to be true, accurate and valid as at the date of the Circular and can be relied upon. We have assumed that all statements and information supplied, and the opinions and representations made or provided to us by the Directors and management of the Company and those contained in the Circular have been reasonably made after due and careful enquiry.

We consider that we have reviewed all available information and documents which are made available to us to enable us to reach an informed view and to justify our reliance on the information provided so as to provide a reasonable basis for our opinion. We have no reason to doubt the truth, accuracy and completeness of the statements, information, opinions and representations provided to us by the Company, the Directors and representatives of the Company to believe that material information has been withheld or omitted from the information provided to us or referred to in the available documents. We have not, however, conducted any independent verification of the information provided, nor have we conducted any independent investigation into the business and affairs of the Company or any of its subsidiaries or associates or future prospects of the Group.

LETTER FROM SHENYIN WANGUO

As stated in the Circular, the Directors having made all reasonable enquiries, confirm that to the best of their knowledge and belief the information contained in the Circular is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement in the Circular misleading.

III. PRINCIPAL FACTORS AND REASONS CONSIDERED

In arriving at our opinion in respect of the terms of the Continuing Connected Transactions and the Proposed Annual Caps, we have taken the following factors and reasons into consideration:

1. Principal business of the Group and China Coal Energy

The Group

The Company is the listed flagship company outside the PRC of the CPI Group. The CPI Group is one of the five national power generation groups in China, and operates power plants of CPI Group spread across 28 provinces, municipalities and autonomous regions in the PRC. The principal business of the Group is to develop, construct, own, operate and manage large power plants in the PRC. The Company owns and operates high-capacity coal-fired power plants and hydro-power plants. The Company also manages on behalf of its controlling shareholder two other power plants in the PRC.

China Coal Energy

China Coal Energy is a joint stock company incorporated in the PRC with limited liability. It is the second largest coal enterprise and the largest manufacturer of coal mining equipment in China and is mainly engaged in coal production and trade, coal chemical, power generation and coal mining equipment manufacturing.

2. Reasons for and the benefits of entering into the Coal Supply Framework Agreement

As set out in the Letter from the Board, the promotion of coal and electricity joint operation is beneficial in respect of ensuring fuel supply and dilution of operational risks of the Company. Pursuant to the JV Agreement, it was agreed between the parties that upon the establishment of CP Shentou, China Coal Energy will ensure the supply of coal required by CP Shentou by way of long-term agreement. As the first two 600MW super-critical coal-fired power generating units of CP Shentou are expected to commence commercial operation in May and July 2013, the Company entered into the Coal Supply Framework Agreement with China Coal Energy on 16 May 2013. The Company believes that entering into the Coal Supply Framework Agreement will help (i) obtaining continuous and stable coal supply, (ii) getting favourable prices by bulk purchases, and (iii) minimising transportation costs as the relevant coal mines of China Coal Energy are located in the closest proximity of CP Shentou and thus maintaining its competitive advantage in terms of operational efficiency.

Having considered the principal business of the Group and the nature of the transactions under the Coal Supply Framework Agreement, we are of the view that the Continuing Connected Transactions contemplated under the Coal Supply Framework Agreement fall within the ordinary and

LETTER FROM SHENYIN WANGUO

usual course of business of the Group. Moreover, we concur with the Directors that the entering into of the Coal Supply Framework Agreement will allow the Group to ensure a stable coal supply from China Coal Energy, being one of the largest coal enterprises in the PRC, required to support the operation of the coal-fired power generating units of CP Shentou while aiming to minimise transportation costs and is in the best interests of the Company and the Shareholders as a whole.

3. Principal terms of the Coal Supply Framework Agreement

Pursuant to the Coal Supply Framework Agreement, the aggregate annual amount of coal to be supplied by China Coal Energy to CP Shentou is estimated to be up to 2.5 million tonnes, 3.6 million tonnes and 3.6 million tonnes for each of three years ending 31 December 2013, 2014 and 2015 respectively. The term of the Coal Supply Framework Agreement will commence on the date when the Coal Supply Framework Agreement is signed and sealed and all the approvals and waivers required under the Listing Rules are obtained (if necessary) and expire on 31 December 2015 (both dates inclusive). The Company and China Coal Energy agreed that the purchase price of coal shall be determined with reference to national industrial policy of The Central People's Government of the PRC as well as industry and market conditions in the PRC. It has also been agreed that the Company and China Coal Energy will from time to time determine the price, quality, quantity and the transportation method of the coal to be supplied by China Coal Energy, and subject to the parties' discussion and negotiation on an arm's length basis.

According to 《國務院辦公廳關於深化電煤市場化改革的指導意見》 (Guidance opinions of the General Office of the State Council on deepening the market-based reform on thermal coal) and 《國家發展改革委關於貫徹落實國務院辦公廳關於深化電煤市場化改革的指導意見做好產運需銜接工作的通知》 (Notice of the National Development and Reform Commission on the transition works of thermal coal production, transportation and demand in relation to the implementation of the guidance opinions of the General Office of the State Council on deepening the market-based reform on thermal coal*) published by the General Office of the State Council of the PRC and the National Development and Reform Commission of the Central Government of the PRC respectively in December 2012, starting from 2013, all legally operating coal producing enterprises and electricity producing enterprises are allowed to determine the price of coal based on negotiations.

The Coal Supply Framework Agreement sets out a framework of the principal terms upon which future agreements for the supply and purchase of coal between the Company and China Coal Energy should adhere to during the term the Coal Supply Framework Agreement. Under the Coal Supply Framework Agreement, the price, quality, quantity and transportation method will be determined subject to the parties' negotiation on an arm's length basis. The Company has provided us with several coal purchase agreements in relation to historical purchases of coal by the Group from three of its major coal suppliers. As the Company has confirmed that (i) purchases from these three suppliers in aggregate accounted for approximately 62.6% of the Group's total coal purchases in 2012; and (ii) the coal purchase agreements provided by the Company are representative of the Group's coal purchases from independent third parties during the relevant period and the terms contained in such agreements are representative of the terms of the historical coal purchases of the Group, we concur with the Directors that the coal purchase agreements provided by the Company are representative samples. As advised by the Company, the coal purchase prices of such agreements were determined taking into account factors, including, among others, the prevailing market prices of coal which were based on

LETTER FROM SHENYIN WANGUO

the then local market price data of coal with similar calorific value published on the website 中國煤炭市場網 (www.cctd.com.cn) organised by 中國煤炭運銷協會 (China Coal Transportation & Sale Society*) and provided to us by the Company. Based on our review of the relevant coal purchase agreements and our discussion with the Company, we note that the principal terms of such agreements which included, among others, price, quality, quantity and transportation method, are basically in line with those of the Coal Supply Framework Agreement.

We further note from the Letter from the Board that the terms of all coal purchases from China Coal Energy will be no less favourable than those available from independent third parties. Based on the above, we are of the view that the principal terms of the Coal Supply Framework Agreement are on normal commercial terms and are fair and reasonable so far as the Company and the Shareholders are concerned.

4. Proposed Annual Caps

The Directors estimate the Proposed Annual Caps for the three years ending 31 December 2013, 2014 and 2015 are RMB700 million, RMB1,080 million and RMB1,116 million (equivalent to approximately HK\$875 million, HK\$1,350 million and HK\$1,395 million) respectively.

Based on our review of the factors in determining the Proposed Annual Caps as set out in the Letter from the Board, we have taken the following into account in assessing the fairness and reasonableness of the Proposed Annual Caps:

(i) Estimated coal purchase quantities

As set out in the letter from the Board, the aggregate annual amount of coal to be supplied by China Coal Energy is estimated to be up to 2.5 million tonnes, 3.6 million tonnes and 3.6 million tonnes for the three years ending 31 December 2013, 2014 and 2015 respectively. As advised by the Company, the quality, specification and calorific value of coal shall conform to the design and technical specification of CP Shentou's coal-fire power generating units. We have reviewed the information provided by the Company and note that the estimated amounts of coal to be purchased are determined based on the estimated calorific values of coal to be supplied by China Coal Energy catering for the two 600MW super-critical coal-fired power generating units of CP Shentou and the estimated amount of electricity to be generated by these two power generating units during each of the three years ending 31 December 2013, 2014 and 2015 respectively, taking into account the electricity production capacity and the estimated number of days of operation of the relevant power generating units during the aforesaid three-year period.

In view of the above, we consider that the Group's basis of estimating the quantity of coal required in the production of electricity by the two power generating units of CP Shentou during each of the three years ending 31 December 2013, 2014 and 2015 respectively is reasonable.

(ii) Current coal prices and estimated increase in coal prices

The Directors have considered current market prices of coal with similar calorific value in Shanxi Province or nearby provinces in the PRC as the coal to be supplied by China Coal Energy, and the estimated increase in coal prices after taking into account the recent low coal prices in determining the Proposed Annual Caps.

LETTER FROM SHENYIN WANGUO

According to available historical data of 環渤海動力煤價格指數 (Bohai-rim Steam-coal Price Index*), a benchmark coal price index which tracks power-station coal prices at six major coal ports along Bohai coast, we note that the prices of power-station coal had fluctuated significantly during the period from September 2010 to April 2013. During this period, the price index fluctuated from a low of RMB713 per tonne in September 2010 before reaching a peak of RMB853 per tonne in November 2011, then dropped to RMB626 per tonne in August 2012, followed by a slight increase and then a subsequent decrease to RMB613 per tonne in April 2013.

An average annual growth rate of approximately 5.6% for the three years ending 31 December 2015 in coal prices was estimated by the Company in its determination of the Proposed Annual Caps. After taking into account the fluctuation of historical coal prices during the aforesaid period and the recent low coal prices, we concur with the Directors that it is possible that prices of coal may continue to fluctuate and experience an upward trend from recent low levels during the next three years. We consider that it is reasonable that the Company takes into account the effect of the possible increases in coal prices in determining the Proposed Annual Caps for the three years ending 31 December 2015 to provide the Group with flexibility to continue purchasing coal from China Coal Energy in the event of increases in market price of coal during 2013 to 2015.

(iii) Estimated increase in the demand for electricity

As set out in the Letter from the Board, the estimated increase in the demand for electricity is based on the historical average growth rate in the past three years in China and the forecast made by China Electricity Council. According to the statistics on electricity consumption of the PRC published by the National Energy Administration of China, the national electrical power consumption in PRC grew at a compound annual growth rate (“CAGR”) of approximately 10.8% with an average growth rate of 10.6% during the three-year period between 2010 and 2012. We also note from the Company’s annual reports that the total gross power generated by the Group grew at a CAGR of approximately 8.7% and with an average growth rate of 12.4% during the three-year period between 2010 and 2012. Based on three articles available in the public domain, including a news article published on 22 May 2013 in 中國能源網 (www.cnenergy.org, a web portal organised by 中國能源報 (China Energy News*)), an article published on 21 February 2013 in 中國電力新聞網 (www.cpnn.com.cn, a web portal organised by 中國電力傳媒集團公司 (China Power Media Group*)), and a report titled 《2013年全國電力供需形勢分析預測報告》(Report on forecast supply and demand of electricity in the PRC for 2013*) published by 中國電力企業聯合會 (China Electricity Council), an electricity production industry organisation established under the permission of the State Council of the PRC in 1988, on its website (<http://www.cec.org.cn/>) on 28 February 2013, electrical power consumption in the PRC is estimated to increase by about 6.5% to 8.5% in 2013 as compared with that in 2012. As advised by the Company, its estimation of the increase in the demand for electricity is in line with the forecast made by China Electricity Council. Based on the above, we concur with the Directors that the Company’s estimation on the increase in demand for electricity for each of the three years ending 31 December 2013, 2014 and 2015 respectively is reasonable to justify the increase in the estimated amount of coal to be purchased to support the expected increase in electricity generated by the two power generating units of CP Shentou during the same period.

LETTER FROM SHENYIN WANGUO

(iv) Estimated transportation fees

The Directors have taken into account the estimated transportation fees based on the distance between the relevant coal mines of China Coal Energy and CP Shentou in determining the Proposed Annual Caps. We have reviewed several coal transportation agreements between the Group and independent third parties which are provided to us by the Company in connection with historical purchases of coal by the Group. As the Company has confirmed that the transportation fees in the coal transportation agreements provided by the Company are based on the distance between the relevant coal mines and the power generating units and are representative of the transportation fees involved in the purchase of coal by the Group, we concur with the Directors that the coal transportation agreements provided by the Company are representative samples. As stated in the Letter from the Board, the relevant coal mines of China Coal Energy are located in the closest proximity of CP Shentou. Based on our review of the sample transportation agreements provided by the Company, we note that the transportation cost estimated by the Company in determining the Proposed Annual Caps is lower than the transportation charges contained in the relevant agreements with independent third parties. In view of the above, we consider that the Company's basis of estimating the transportation fees during the three years ending 31 December 2013, 2014 and 2015 is reasonable.

Based on the above, we are of the view that the Proposed Annual Caps are reasonably determined so far as the Company and the Shareholders are concerned.

III. RECOMMENDATION

Having considered the above principal factors and reasons, we are of the opinion that (i) the Continuing Connected Transactions are carried out in the ordinary and usual course of business of the Group; (ii) the terms of the Continuing Connected Transactions contemplated under the Coal Supply Framework Agreement are on normal commercial terms, and are fair and reasonable so far as the Company and the Shareholders are concerned; (iii) the Continuing Connected Transactions are in the interests of the Company and the Shareholders as a whole; and (iv) the basis of determining the Proposed Annual Caps is fair and reasonable.

Yours faithfully,
For and on behalf of
Shenyin Wanguo Capital (H.K.) Limited
Tanny Chau
Executive Director

* *denotes English translation for illustrative purposes only*

1. RESPONSIBILITY STATEMENT

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

2. SUBSTANTIAL SHAREHOLDERS' INTERESTS IN SECURITIES

As at the Latest Practicable Date, so far as was known to the Directors and the chief executive of the Company and according to the register of interests required to be kept by the Company under Section 336 of the SFO, the parties (other than a Director or chief executive of the Company) which had interests or short positions in the shares, underlying shares and debentures 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, or who were, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meeting of any other member of the Group were as follows:

Name of Shareholder	Capacity	Number of shares in which interested other than under equity derivatives ⁽³⁾	Percentage of issued share capital of the Company (%)	Long/Short position
CPDL	Beneficial owner	1,996,500,000	35.17	Long
CPI Holding ⁽¹⁾	Interest of a controlled corporation	1,996,500,000	35.17	Long
CPI Group ⁽²⁾	Beneficial owner	1,532,827,927	27.00	Long
	Interest of controlled corporations	3,529,327,927	62.17	Long

Notes:

- (1) CPI Holding is the beneficial owner of CPDL and therefore CPI Holding is deemed to be interested in 1,996,500,000 shares of the Company owned by CPDL for the purposes of the SFO.
- (2) CPI Group is the beneficial owner of CPI Holding and therefore CPI Group is deemed to be interested in 1,532,827,927 shares and 1,996,500,000 shares of the Company owned by CPI Holding and CPDL respectively for the purposes of the SFO.
- (3) CPI Group, CPI Holding and CPDL do not have any interest in the equity derivatives of the Company.

Save as disclosed above, as at the Latest Practicable Date, the Directors were not aware of any other person (other than a Director or chief executive of the Company) who had any interest or short position in the shares, underlying shares and debentures of the Company which would fall to be disclosed under the provisions of Divisions 2 and 3 of Part XV of the SFO, or who were recorded in the register of interests required to be kept by the Company under Section 336 of the SFO, or who were, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meeting of any other member of the Group.

3. DIRECTORS' INTERESTS IN SECURITIES

As at the Latest Practicable Date, save as disclosed below, none of the Directors or chief executive of the Company had any interest or short position in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which has been 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 taken or deemed to have under such provisions of the SFO), or which were required pursuant to Section 352 of the SFO, to be entered in the register of interests referred to therein or which were required pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers to be notified to the Company and the Stock Exchange.

Name of Directors	Capacity	Name of company in which interests are held	Date of grant	Number of underlying shares interested under physically settled equity derivatives	Percentage of issued share capital of the Company (%)	Long/Short position
LI Xiaolin	Beneficial owner	the Company	18 September 2004, 4 April 2007 and 2 July 2008	4,386,500	0.077	Long
GU Dake	Beneficial owner	the Company	18 September 2004, 4 April 2007 and 2 July 2008	2,949,300	0.052	Long
GUAN Qihong	Beneficial owner	the Company	2 July 2008	400,000	0.0070	Long
WANG Zichao	Beneficial owner	the Company	18 September 2004, 4 April 2007 and 2 July 2008	2,044,000	0.036	Long

Notes:

- (1) The interests of the above Directors in the underlying shares of the Company represent the options granted to them under the pre-IPO share option scheme and the share option scheme by the Company.
- (2) None of the above Directors has interests in the securities of the Company (except for interests held under equity derivatives disclosed above).

4. DIRECTORS' INTERESTS IN CONTRACTS

The Directors confirmed that there is no contract or arrangement subsisting at the date of this circular in which any of them is materially interested and which is significant in relation to the business of the Group.

5. SERVICE CONTRACTS

As at the Latest Practicable Date, none of the Directors had entered into any service contract, nor was there any proposed service contract with any member of the Group (excluding contracts expiring or determinable by the employer within one year without payment of compensation (other than statutory compensation)).

6. COMPETING INTERESTS

As at the Latest Practicable Date, save as disclosed below, none of the Directors and their associates had any competing interests in a business which competes or is likely to compete, either directly or indirectly, with the business of the Group:

Name of Director	Position(s) with the Company	Other interests
LI Xiaolin	Chairman, Executive Director and Chief Executive Officer	Deputy general manager of CPI Group; chairman of CPI Holding; chairman of China Power New Energy Development Limited and director of Companhia de Electricidade de Macau
GU Dake	Executive Director and President	Executive director and general manager of CPI Holding
GUAN Qihong	Non-executive Director	Director of CPI Holding, director of China Power International Financial Co., Ltd.* (中電投財務有限公司) and supervisor of the Capital Market and Equity Management Department of CPI Group
WANG Zichao	Non-executive Director	General manager of the branch company of CPI Group in Hunan and the chairman of Wu Ling Power Corporation* (五凌電力有限公司), a 63%-owned subsidiary of the Company

Although the Directors mentioned above have competing interest in other companies by virtue of their respective common directorship, they will fulfil their fiduciary duties in order to ensure that they will act in the best interest of the Company and the Shareholders as a whole at all times. Hence, the Group is capable of carrying on its business independently of, and at arm's length from, the business of such companies.

7. EXPERT QUALIFICATION AND CONSENT

The following is the qualification of the expert who has given an opinion or advice contained in this circular:

Name	Qualification
Shenyin Wanguo	A corporation licensed under the SFO to engage in Type 1 (dealing in securities), Type 4 (advising on securities) and Type 6 (advising on corporate finance) of the regulated activities (as defined in the SFO)

As at the Latest Practicable Date, Shenyin Wanguo had given and had not withdrawn its written consent to the issue of this circular with the inclusion of its letter as set out in this circular and the references to its name in the form and context in which they are included.

As at the Latest Practicable Date, Shenyin Wanguo did not have any shareholding in any member of the Group or any rights (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group.

8. INTERESTS IN ASSETS

As at the Latest Practicable Date, none of the Directors or Shenyin Wanguo had any interest, direct or indirect, in any asset which had been or were proposed to be, acquired or disposed of by or leased to any member of the Group, since 31 December 2012, being the date to which the latest published audited financial statements of the Group were made up.

9. MATERIAL ADVERSE CHANGE

As at the Latest Practicable Date, the Directors were not aware of any material adverse change in the financial or trading position of the Group since 31 December 2012, being the date to which the latest published audited financial statements of the Group were made up.

10. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection at Suite 6301, 63F., Central Plaza, 18 Harbour Road, Wanchai, Hong Kong during normal business hours (Saturdays and public holidays excepted) from the date of this circular until 21 June 2013 (both dates inclusive):

- (a) the Coal Supply Framework Agreement;
- (b) the letter of recommendation from the Independent Board Committee dated 7 June 2013;
- (c) the letter of advice issued by Shenyin Wanguo to the Independent Board Committee and the Shareholders dated 7 June 2013;
- (d) the joint written shareholders' approval from CPI Holding and CPDL approving the Coal Supply Framework Agreement, the Continuing Connected Transactions and the Proposed Annual Caps; and
- (e) the written consent given by Shenyin Wanguo as referred to in the paragraph headed "EXPERT QUALIFICATION AND CONSENT" of this appendix.

11. GENERAL

This circular has been prepared in both English and Chinese. In the case of inconsistency, the English text of this circular will prevail over the Chinese text.