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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**

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



A letter from the Board is set out on pages 4 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 China Merchants Securities containing its advice to the Independent Board Committee and the Shareholders is set out on pages 11 to 18 of this circular.

16 August 2011

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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 Merchants Securities”	China Merchants Securities (HK) Co., 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
“Coal Supply Framework Agreement”	the coal supply framework agreement between the Company and Huainan Mining dated 26 July 2011
“Company”	China Power International Development Limited, a company incorporated in Hong Kong whose shares are listed on the Stock Exchange
“Continuing Connected Transactions”	the transactions contemplated under the Coal Supply Framework Agreement
“CPDL”	China Power Development Limited (中國電力發展有限公司*), a company incorporated in British Virgin Islands with limited liability and a wholly-owned subsidiary of CPI Holding
“CPI Group”	中國電力投資集團公司 (China Power Investment Corporation*), a wholly State-owned enterprise established by SASAC
“CPI Holding”	China Power International Holding Limited, a company incorporated in Hong Kong and a wholly-owned subsidiary of CPI Group
“Dabieshan Company” or “Dabieshan Power Plant”	黃岡大別山發電有限責任公司 (Huanggang Dabieshan Power Company Limited*)
“Dabieshan Disposal”	the disposal by the Company of 42% of the equity interests of Dabieshan Company pursuant to the Dabieshan Share Transfer Agreement
“Dabieshan Share Transfer Agreement”	the share transfer agreement between the Company and Huainan Mining in relation to the 42% equity interests of Dabieshan Company dated 26 July 2011
“Director(s)”	the director(s) of the Company
“Disposal”	the Dabieshan Disposal and the Pingwei Disposal

DEFINITIONS

“Group”	the Company and its subsidiaries from time to time
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Huainan Mining”	淮南礦業(集團)有限責任公司 (Huainan Mining Industry (Group) Company Limited*)
“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
“Latest Practicable Date”	11 August 2011, 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
“Pingwei Company II” or “Pingwei Power Plant II”	淮南平圩第二發電有限責任公司 (Huainan Pingwei No.2 Electric Power Generating Company Limited*)
“Pingwei Disposal”	the disposal by the Company of 25% of the equity interests of Pingwei Company II pursuant to the Pingwei Share Transfer Agreement
“Pingwei Power Plant I”	淮南平圩發電有限責任公司 (Huainan Pingwei Electric Power Generating Company Limited*)
“Pingwei Share Transfer Agreement”	the share transfer agreement between the Company and Huainan Mining in relation to the 25% equity interests of Pingwei Company II dated 26 July 2011
“PRC” or “China”	the People’s Republic of China (Geographical reference in this circular to the PRC or China excludes Hong Kong, the 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 2011, 2012 and 2013
“RMB”	Renminbi, the lawful currency of the PRC
“SASAC”	中華人民共和國國務院國有資產監督管理委員會 (State-owned Assets Supervision and Administration Commission of the State Council of the PRC*)
“SFO”	the Securities and Futures Ordinance (Cap. 571 of the Laws of Hong Kong)

DEFINITIONS

“Share Transfer Agreements”	the Dabieshan Share Transfer Agreement and the Pingwei Share Transfer Agreement
“Shareholders”	persons whose names appear on the register of members as registered holders of the shares of the Company
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“%”	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. GU Zhengxing

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

To the Shareholders,

Dear Sir/Madam,

16 August 2011

CONTINUING CONNECTED TRANSACTIONS

INTRODUCTION

Reference is made to the announcement of the Company dated 26 July 2011 where the Company announced that the Company and Huainan Mining entered into (1) the Share Transfer Agreements in relation to the proposed disposals by the Company of its 42% equity interests in Dabieshan Company and 25% equity interests in Pingwei Company II and (2) the Coal Supply Framework Agreement in relation to the supply of coal by Huainan Mining to Pingwei Power Plant I, Pingwei Power Plant II and Dabieshan Power Plant.

Upon completion of the Disposal, Dabieshan Company and Pingwei Company II will remain subsidiaries of the Company and Huainan Mining will own 42% and 25% equity interests in Dabieshan Company and Pingwei Company II respectively. As a result, Huainan Mining will become a substantial shareholder of the subsidiaries of the Company and therefore will 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.

LETTER FROM THE BOARD

CPI Holding and CPDL, which held 1,532,827,927 and 1,996,500,000 shares of the Company respectively (together representing approximately 69.11% of the total issued share capital of the 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

Huainan Mining has been one of the major coal suppliers of the Company. In order to better regulate the purchase of coal by the Company from Huainan Mining, the Company entered into the Coal Supply Framework Agreement with Huainan Mining on 26 July 2011.

Date

26 July 2011

Parties

- (i) The Company (as the purchaser)
- (ii) Huainan Mining (as the supplier)

Principal terms

Pursuant to the Coal Supply Framework Agreement, Huainan Mining will supply coal to Pingwei Power Plant I, Pingwei Power Plant II and Dabieshan Power Plant. 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 2013 (both dates inclusive).

The parties agreed that the purchase price of coal shall be determined with reference to national industrial policy as well as industry and market conditions. 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 Huainan Mining, and subject to the parties' discussion and negotiation.

Proposed Annual Caps and rationale

The aggregate annual amount of coal to be supplied by Huainan Mining is estimated to be up to (1) 8,500,000 tonnes for the financial year ending 31 December 2011, (2) 9,000,000 tonnes for the financial year ending 31 December 2012 and (3) 10,000,000 tonnes for the financial year ending 31 December 2013.

LETTER FROM THE BOARD

The Directors estimate that the Proposed Annual Caps for the three financial years ending 31 December 2011, 2012 and 2013 will not exceed RMB5,200,000,000, RMB6,400,000,000 and RMB7,300,000,000 respectively.

The Proposed Annual Caps have been determined with reference to the following factors:

- (1) historical figures of coal purchase from Huainan Mining. During the years ended 31 December 2009 and 2010 and the period from 1 January 2011 to 30 June 2011, the Company's purchase of coal from Huainan Mining amounted to approximately RMB3,500,000,000, RMB3,800,000,000 and RMB2,300,000,000 respectively;
- (2) estimated increase in coal prices;
- (3) estimated increase in the demand for electricity;
- (4) estimated transportation fees; and
- (5) estimated decrease in the calorific value of coal.

REASONS FOR AND BENEFITS OF THE CONTINUING CONNECTED TRANSACTIONS

Coal price has been increasing continuously as the rapid development of the domestic economy has resulted in a continuous increase in the demand for primary energy by all industries. Due to the present inflation forecast, it is difficult to rationalise the coal and electricity pricing system in the short run.

The Company's entry into the Coal Supply Framework Agreement will help Pingwei Power Plant I and Pingwei Power Plant II in obtaining continuous and stable coal supply at favourable prices and ensuring the profitability of their operating companies. It is also expected that due to the favourable coal prices, the volume of coal supply to Dabieshan Company will improve substantially, which will effectively alleviate its operational pressure.

INFORMATION ON HUAINAN MINING

Huainan Mining was formed in March 1998 upon the restructuring of 淮南礦務局 (Huainan Ministry of Mines*). It principally engages in coal mining and production and is among the 500 top group companies in the PRC (ranked 183rd in 2010) and one of the 17 key enterprises in Anhui Province.

Since 2002, Huainan Mining pursues the objective of "all for development and employees" and the development strategy of "building large mines, running huge electricity business and generating capital", and upholds the development mode of "developing advanced production, safety first, preserving resources and protecting environment". With Huainan Mining's achievements in various

LETTER FROM THE BOARD

industries such as coal, electricity, real estate, logistics and finance, it is ranked one of the 14 coal bases of 100-million-ton level and one of the six large coal-electricity bases in the PRC. Huainan Mining is also among the first batch of pilot enterprises under circular economy in the PRC, an environmental friendly enterprise, and an innovative pilot enterprise at state level.

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, owned approximately 69.11% 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 shareholders two other power plants which are situated in the PRC.

COMPLIANCE WITH THE LISTING RULES

Prior to the Disposal, to the best of the Directors' knowledge, information and belief after having made all reasonable enquiries, Huainan Mining is a state-owned enterprise independent of the Group and connected persons of the Group.

Upon completion of the Disposal, Dabieshan Company and Pingwei Company II will remain subsidiaries of the Company and Huainan Mining will own 42% and 25% equity interests in Dabieshan Company and Pingwei Company II respectively. As a result, Huainan Mining will become a substantial shareholder of the subsidiaries of the Company and therefore will 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.

As the applicable percentage ratios as defined under Chapter 14 of the Listing Rules in respect 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. China Merchants Securities has been appointed as the independent financial adviser to advise the Independent Board Committee and the Shareholders in this regard.

LETTER FROM THE BOARD

SHAREHOLDERS' APPROVAL

To the best knowledge, information and belief of the Directors, neither Huainan Mining 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 69.11% 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 China Merchants Securities set out in this circular for further information.

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

16 August 2011

To the Shareholders,

Dear Sir/Madam,

CONTINUING CONNECTED TRANSACTIONS

We refer to the circular (the “Circular”) dated 16 August 2011 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 4 to 8 of the Circular.

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

The Independent Board Committee, after taking into account, among other things, the views of China Merchants Securities, the independent financial adviser to the Independent Board Committee and the Shareholders, considers that the Coal Supply Framework Agreement has been entered into in

LETTER FROM THE INDEPENDENT BOARD COMMITTEE

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 CHINA MERCHANTS SECURITIES

The following is the text of a letter of advice from China Merchants Securities to the Independent Board Committee and the Shareholders in respect of the Continuing Connected Transactions, which has been prepared for the purpose of inclusion in this circular.



48th Floor
One Exchange Square
Central
Hong Kong

16 August 2011

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

Dear Sirs,

CONTINUING CONNECTED TRANSACTIONS

Coal Supply Framework Agreement

INTRODUCTION

We refer to our appointment to advise the Independent Board Committee and the Shareholders in respect of the terms of the Coal Supply Framework Agreement, the Continuing Connected Transactions and the Proposed Annual Caps, particulars of which are set out in the letter from the Board (the “**Letter from the Board**”) contained in this circular dated 16 August 2011 (the “**Circular**”) issued by the Company, of which this letter forms part. Capitalised terms used in this letter shall have the same meanings as those defined in the Circular unless otherwise defined.

As set out in the Letter from the Board, upon completion of the Disposal, Dabieshan Company and Pingwei Company II will remain subsidiaries of the Company and Huainan Mining will own 42% and 25% equity interests in Dabieshan Company and Pingwei Company II respectively. As Huainan Mining has been and will be one of the major coal suppliers of the Group, the Company entered into the Coal Supply Framework Agreement with Huainan Mining on 26 July 2011 to regulate the future purchase of coal by the Group from Huainan Mining.

Huainan Mining will become a substantial shareholder of the subsidiaries of the Company upon completion of the Disposal and therefore will 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. As the applicable percentage ratios as defined under Chapter 14 of the Listing Rules in respect of the Continuing Connected Transactions are more than 5%, they constitute non-exempt continuing connected transactions of the Company which are subject to the announcement, reporting and independent shareholders’ approval requirements under Chapter 14A of the Listing Rules.

LETTER FROM CHINA MERCHANTS SECURITIES

To the best knowledge, information and belief of the Directors, neither Huainan Mining nor any of its associates held any shares of the Company as at the Latest Practicable Date 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 69.11% 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. 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 three 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 relation to the terms of the Coal Supply Agreement, the Continuing Connected Transactions and the Proposed Annual Caps. We, China Merchants Securities, have been appointed to advise the Independent Board Committee and the Shareholders in this regard.

BASIS OF OUR OPINION

In formulating our advice and opinion, we have relied on the accuracy of the information and representations contained in the Circular, which have been considered to be complete and relevant, and the information obtained from the public domain. We have assumed that all statements, information and representations made or referred to in the Circular, for which the Directors are solely responsible for, were true, accurate and complete in all material respects at the time when they were made and will continue to be so as at the date of the Circular. We have also assumed that all statements of belief, opinion and intention made by the Directors in the Circular were reasonably made after due and careful enquiry and were based on honestly held opinions. We have no reason to doubt the truth, accuracy and completeness of the information and representations provided to us by the Directors and the management of the Company and we have also been advised by the Directors and the management of the Company that no material fact has been omitted from the information and representations provided, and referred to, in the Circular. We have no reason to suspect that any material information has been withheld by the Directors or the management of the Company. We have not, however, carried out any independent verification of the information provided to us by the Directors and the management of the Company and the information obtained from the public domain, nor have we conducted any independent investigation into the affairs, the business and financial position and the future prospects of each member of the Group, Huainan Mining and their respective shareholders, associates and business partners. Our opinion is based on the information and representations available to us as of the date of this letter. We have no obligation to update our advice and opinion to take into account circumstances and events occurring after the date of this letter.

LETTER FROM CHINA MERCHANTS SECURITIES

INFORMATION ON THE GROUP, DABIESHAN COMPANY, PINGWEI COMPANY II AND HUAINAN MINING

The Group

The Company is the listed flagship company outside the PRC of CPI Group. 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 shareholders two other power plants which are situated in the PRC.

Dabieshan Company

Dabieshan Company was incorporated on 17 December 2003 in the PRC with limited liability. Dabieshan Company is principally engaged in the generation and sale of electricity. It holds and operates Dabieshan Power Plant, a coal-fired power plant located in Huanggang city, Hubei Province.

Pingwei Company II

Pingwei Company II was incorporated on 17 November 2003 in the PRC with limited liability. Pingwei Company II is principally engaged in the generation and sale of electricity. It holds and operates Pingwei Power Plant II, a coal-fired power plant located in Huainan city, Anhui Province.

Huainan Mining

Huainan Mining was formed in March 1998 upon restructure of 淮南礦務局(Huainan Ministry of Mines*). It principally engages in coal mining and production and is among the 500 top group companies in the PRC (ranked 183rd in 2010) and one of the 17 key enterprises in Anhui Province.

Since 2002, Huainan Mining pursues the objective of “all for development and employees” and the development strategy of “building large mines, running huge electricity business and generating capital”, and upholds the development mode of “developing advanced production, safety first, preserving resources and protecting environment”. With Huainan Mining’s achievements in various industries such as coal, electricity, real estate, logistics and finance, it is ranked one of the 14 coal bases of 100-million-ton level and one of the six large coal-electricity bases in the PRC. Huainan Mining is also among the first batch of pilot enterprises under circular economy in the PRC, an environmental friendly enterprise, and an innovative pilot enterprise at state level.

LETTER FROM CHINA MERCHANTS SECURITIES

Please refer to the sections headed “Information on the Group” and “Information on Huainan Mining” in the Letter from the Board and the sections headed “Information on Dabieshan Company” and “Information on Pingwei Company II” in the announcement of the Company dated 26 July 2011 for further details of the companies.

PRINCIPAL FACTORS CONSIDERED

In formulating and giving our independent advice to the Independent Board Committee and the Shareholders, we have taken into consideration of the reasons for and benefits of the Coal Supply Framework Agreement, principal terms of the Coal Supply Framework Agreement and the rationale to derive the Proposed Annual Caps.

Reasons for and benefits of the Coal Supply Framework Agreement

As stated in the Letter from the Board, coal price has been increasing continuously as the rapid development of the domestic economy has resulted in a continuous increase in the demand for primary energy by all industries. Due to the present inflation forecast, it is difficult to rationalise the coal and electricity pricing system in the short run.

According to the information from the National Bureau of Statistics of China, the PRC economy recorded a growth rate of gross domestic production (“GDP”) of approximately 9.6%, 9.2% and 10.3% for each of the three years ended 31 December 2008, 2009 and 2010 respectively. Due to the recovery of the PRC power market, the national electricity consumption increased by an average growth rate of approximately 10.2% for the three years ended 31 December 2008, 2009 and 2010. According to the annual reports of the Group for each of the three years ended 31 December 2008, 2009 and 2010, the average growth rate of the net power generation of the Group reached approximately 16.5% for the three years ended 31 December 2008, 2009 and 2010. As the demand for electricity remains positive and coal is the major raw material of the Group for coal-fired power generation, we concur with the Directors’ view that it is crucial for the Group to ensure a stable coal supply for its coal-fired power plants by entering into the Coal Supply Framework Agreement.

As stated in Letter from the Board, Huainan Mining is one of the six largest coal-electricity bases in the PRC and one of the 14 coal bases of 100-million-ton level. Based on the information provided by the Group, we note that Huainan Mining has been supplying coal to the Group for over 10 years and has entered into a long term strategic framework agreement with the Group in relation to supply of coal in 2008. The management of the Group advised us that Huainan Mining was able to maintain a stable supply of coal to the Group and there was no supply interruption happened during each of the three years ended 31 December 2008, 2009 and 2010. They further advised us that the mines of Huainan Mining are one of the nearest mines to provide coal supply to the Pingwei Power Plant I, Pingwei Power Plant II and Dabieshan Power Plant. We concur with the Directors’ view that such proximity in location would enable the Group to maintain its competitive advantage in terms of operational efficiency, minimize transportation costs and increase the current and long term profitability of the Group’s power plants within the relevant regions.

LETTER FROM CHINA MERCHANTS SECURITIES

In addition, we understand from the Directors that the National Development and Reform Commission (the “NDRC”) encourages joint operation of coal and electricity enterprises so as to establish a stable demand and supply relationship, and achieve a reasonable allocation of benefits and sharing of market risks. According to 發改運行[2010]2880號《國家發展改革委關於做好2011年煤炭產運需銜接工作通知》(The Notice issued by the NDRC on improving the arrangement between production, transportation and supply of coal for 2011 on 6 December 2010, the Fa Gai Yun Xing [2010] No.2880 document) (the “Notice”), we note that the NDRC encourages power producers to enter into middle to long term coal supply agreements with coal suppliers, so as to maintain a stable supply of coal and electricity. Hence, the entering into of the Coal Supply Framework Agreement is in line with the policy contemplated under the Notice.

Having considered that (i) the increasing demand for electricity in the PRC; (ii) it is crucial for the Group to ensure a stable coal supply; (iii) Huainan Mining’s capability to maintain a stable supply of coal to the Group; (iv) the Group is able to maintain its competitive advantage in terms of operational efficiency and minimization of transportation costs; and (v) it is encouraged by the NDRC for power producers to enter into middle to long term coal supply agreements with coal suppliers, we concur with the Directors’ view that it is in the interests of the Company and Shareholders to enter into the Coal Supply Framework Agreement.

Principal terms

Pursuant to the Coal Supply Framework Agreement, Huainan Mining will supply coal to Pingwei Power Plant I, Pingwei Power Plant II and Dabieshan Power Plant. 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 2013 (both dates inclusive).

The parties agreed that the purchase price of coal shall be determined with reference to national industrial policy as well as industry and market conditions. 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 Huainan Mining, and subject to the parties’ discussion and negotiation.

As advised by the management of the Group, the purchase price of coal is determined with reference to (i) purchase price of coal under designated coal supply agreements entered in accordance with guidance issued by the NDRC; (ii) prevailing market price in local coal exchanges or markets; (iii) quality of coal; and (iv) transportation costs. We have reviewed certain coal supply agreements entered between the Group, Huainan Mining and other independent coal suppliers. We note that such pricing basis was adopted in setting the purchase price of coal under such agreements for each of the three years ended 31 December 2008, 2009 and 2010 and in line with those adopted by other independent coal suppliers.

As such, we concur with the Directors’ view that the basis for determining the purchase price of coal under the Coal Supply Framework Agreement is on normal commercial terms and fair and reasonable.

LETTER FROM CHINA MERCHANTS SECURITIES

Proposed Annual Caps

As stated in the Letter from the Board, the Directors estimate that the Proposed Annual Caps for each of the three financial years ending 31 December 2011, 2012 and 2013 will not exceed RMB5,200 million, RMB6,400 million and RMB7,300 million respectively.

The Proposed Annual Caps have been determined with reference to the following factors:

- (i) historical figures of coal purchases from Huainan Mining. During each of the two years ended 31 December 2009 and 2010 and the period from 1 January 2011 to 30 June 2011, the Group's purchase of coal from Huainan Mining amounted to approximately RMB3,500 million, RMB3,800 million and RMB2,300 million respectively;
- (ii) estimated increase in coal prices;
- (iii) estimated increase in the demand for electricity;
- (iv) estimated transportation fees; and
- (iv) estimated decrease in the calorific value of coal.

Based on the information provided by the Company, we note that the amount of coal supplied by Huainan Mining were approximately 7.1 million tonnes, 6.8 million tonnes and 4.0 million tonnes for each of the two years ended 31 December 2009 and 2010 and for the six months ended 30 June 2011 respectively. The annualized amount of coal supplied by Huainan Mining is estimated to be approximately 8.0 million tonnes for the year ending 31 December 2011 (the "Annualized Amount").

As stated in the Letter from the Board, the aggregate annual amount of coal to be supplied by Huainan Mining is estimated to be up to 8.5 million tonnes, 9.0 million tonnes and 10.0 million tonnes for each of the three years ending 31 December 2011, 2012 and 2013 respectively. Accordingly, the annual growth rate of aggregate annual amount of coal to be supplied by Huainan Mining for each of the three years ending 31 December 2011, 2012 and 2013 will be about 6.3% (which is based on the Annualized Amount), 5.9% and 11.1% respectively.

As discussed in the above section headed "Reasons for and benefits of the Coal Supply Framework Agreement", the national electricity consumption in the PRC and the net power generation of the Group recorded average annual growth rates of approximately 10.2% and 16.5% respectively for the three years ended 31 December 2008, 2009 and 2010. We have also reviewed information on estimated future coal consumption for each of the three years ending 31 December 2011, 2012 and 2013 in the PRC, in particular the demand of coal derived from coal-fired power generation, prepared by independent industry information providers, which forecasted positive growth trend ranged between approximately 5% and 6% for future coal consumption in the PRC. In consideration of the

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above, we agree with the Directors' view that the future demand for electricity and coal in the PRC will increase and the estimated increases in the aggregate annual amount of coal to be supplied by Huainan Mining for each of three years ending 31 December 2011, 2012 and 2013 are in line with the market condition and estimates.

Based on the information provided by the Group, we note that the average purchase cost of coal of the Group from Huainan Mining increased by approximately 12% and 6% for the year ended 31 December 2010 as compared to the average purchase cost for the year ended 31 December 2009 and for the six months ended 30 June 2011 as compared to the average purchase cost for the year ended 31 December 2010 respectively. We have also reviewed information on Qinhuangdao coal prices, which is one of the major benchmarks for market prices of coal in the PRC, as provided by the Group and note that the average annual growth rate in Qinhuangdao coal price was approximately 18% for the three years ended 31 December 2008, 2009 and 2010. The average annual growth rate of estimated purchase cost of coal as implied by the Proposed Annual Caps is approximately 9.5% for the three years ending 31 December 2011, 2012 and 2013. In light of the above, the Directors' are of the view that, and we concur, it is necessary for the Group to estimate the Proposed Annual Caps with reference to the expected increases in purchase costs and markets prices of the coal over the past few years.

In addition, as advised by the Group, there was a slight drop in the calorific value of coal supplied by Huainan Mining in 2010 and 2011 due to the expansion of its production capacity. Pursuant to the Coal Supply Framework Agreement, the purchase price of coal will be adjusted in case the quality of coal, including but not limited to calorific value requirement, could not meet the requirements as stipulated in the coal supply contract to be entered between the Company and Huainan Mining in accordance with the terms as set out in the Coal Supply Framework Agreement. The management of the Group expects such drop in calorific value of coal might possibly be continued in the coming years and has considered such potential drop when determining the Proposed Annual Caps.

Furthermore, as advised by the Group, the transportation costs are estimated based on the actual transportation costs paid under the current coal supply contracts entered between the Group and Huainan Mining and assume that the transportation costs will be remained unchanged for each of the three years ending 31 December 2011, 2012 and 2013 to derive the Proposed Annual Caps.

Taking into account of the above, in particular (i) the historical amount of coal supplied by Huainan Mining to the Group; (ii) the expected increase in the coal consumption for the PRC market and the Group; (iii) the expected increase in purchase cost of coal; (iv) the possible drop in calorific value of coal supplied by Huainan Mining and respective price adjustment terms; and (v) basis for estimating the transportation costs, we concur with the Directors' view that the Proposed Annual Caps have been fairly and reasonably determined.

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RECOMMENDATION

Taking into consideration of the above factors, we concur with the Directors' view that (i) the Continuing Connected Transactions are in the interests of the Company and Shareholders as a whole, in the ordinary and usual course of business of the Company, on normal commercial terms and fair and reasonable so far as the Company and the Shareholders as a whole are concerned; and (ii) the Proposed Annual Caps have been fairly and reasonably determined.

Yours faithfully,

For and on behalf of

China Merchants Securities (HK) Co., Limited

Christine AU

Executive Director

Investment Banking Department

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	39.09	Long
CPI Holding ⁽¹⁾	Interest of a controlled corporation	1,996,500,000	39.09	Long
	Beneficial owner	1,532,827,927	30.01	Long
CPI Group ⁽²⁾	Interest of a controlled corporation	3,529,327,927	69.11	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	0.086	Long
GU Dake	Beneficial owner	the Company	18 September 2004, 4 April 2007 and 2 July 2008	2,949,300	0.058	Long
GUAN Qihong	Beneficial owner	the Company	2 July 2008	400,000	0.0078	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; director of CPI Holding; chairman of China Power New Energy Development Limited and director of Companhia de Electricidade de Macau
GU Dake	President and Executive Director	Executive director and general manager of CPI Holding
GUAN Qihong	Non-executive Director	Director of CPI Holding, director of 中電投財務有限公司 (China Power International Financial Co., Ltd.*) and supervisor of the Capital Market and Equity Management Department of CPI Group
GU Zhengxing	Non-executive Director	Deputy general manager of the branch company of CPI Group in Hunan and the general manager of 五凌電力有限公司 (Wu Ling Power Corporation*), 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
China Merchants Securities	A corporation licensed under the SFO to engage in Type 1 (dealing in securities), Type 2 (dealing in future contracts), Type 4 (advising on securities), Type 6 (advising on corporate finance) and Type 9 (asset management) of the regulated activities (as defined in the SFO)

As at the Latest Practicable Date, China Merchants Securities 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, China Merchants Securities 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 China Merchants Securities 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 2010, being the date to which the latest published audited accounts 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 2010, being the date to which the latest published audited accounts 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 30 August 2011 (both dates inclusive):

- (a) the Coal Supply Framework Agreement;
- (b) the Dabieshan Share Transfer Agreement;
- (c) the Pingwei Share Transfer Agreement;
- (d) the letter of recommendation from the Independent Board Committee dated 16 August 2011;
- (e) the letter of advice issued by China Merchants Securities to the Independent Board Committee and the Shareholders dated 16 August 2011;
- (f) 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
- (g) the written consent given by China Merchants Securities 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.